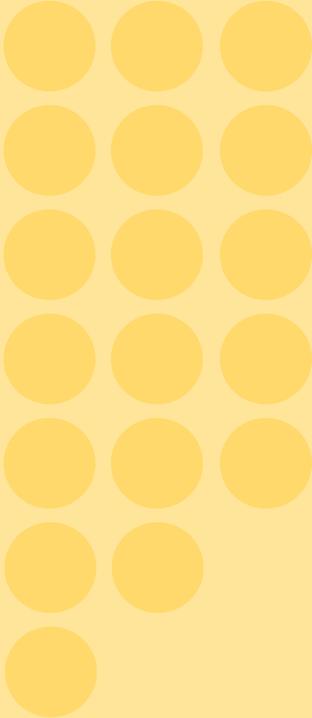




THE JOUTA
PERFORMANCE GROUP

**HR steps to save you
thou\$and\$**



The Jouta Performance Group

301 – 1040 Hamilton Street, Vancouver

cori@jouta.com | 604 488 8885



Culture
+ Protection
+ Productivity

= Organizational
Performance

THE **JOUTA**
PERFORMANCE GROUP



Have you ever wondered how much it costs if your organization and employees are not protected from legislative threats? Or how much it costs if your organization lacks internal systems or if your employees aren't aligned with your culture?

Do you know how much low productivity affects the overall performance of your organization?

Introduction

At **Jouta** we see ourselves as HR Thought Leaders, and through this lens we help you create positive change such as increased revenues, greater efficiencies and reduced expenses for you and your organization.

This **guide** will highlight the areas you need to be concerned about as the leader of your organization.

The **Jouta** Team

*PS. To further support your HR success, contact us to request a **free HR assessment**. It's a great way for you to get to know us...and us to know you. For more information or to schedule a visit, contact us at 604 488 8885 or email **Cori Maedel** at cori@jouta.com.*

*At Jouta we believe that Human Resources can be represented by three simple words: **Culture, Protection and Productivity.***

Culture

If you can't define it, it will define you!

Culture can be defined in many ways. For example, a group of people intentionally brought together with a similar set of values, beliefs and aspirations to realize the goals of an organization and its people.

Workplace culture includes vision, mission, purpose, values, roles and responsibilities, work environment and symbolism, all of which must align to create the ideal structure. A successful organizational structure needs clear direction and the right people in the right roles, along with a clear vision of the future roles needed.

Every organization's culture is different, so define yours and align everything to it. Culture reflects in everything from recruitment to termination, and everything in between.

Protection

In business there are undoubtedly threats such as the economy that are out of your control. There are also threats (detailed below) that are within your control, and it's these that HR can help protect you and your employees against.

You invest time and money protecting your organization from external threats such as competitors. You purchase certain types of insurance, back up your computers and alarm your office. However, even in highly regulated industries, many organizations do not protect themselves and their employees from legislative threats related to the employment of people.

Did you know there are seven regulatory areas that govern employment in the private sector? These are: Canada Revenue Agency, Privacy Legislation, the Employment Standards Act, Federal or Provincial Labour Codes, Common Law, Human Rights and WorkSafe / Workers' Compensation.

What about the systems you have in place that measure or support your overall HR costs?

For example, HR is responsible for, among many other things, increasing productivity, reducing absenteeism and creating efficiencies throughout the organization. Are you measuring and protecting your investment in HR?

Productivity

Performance is the goal!

If an organization is not profitable, they cease to exist. HR's role is to put systems in place that increase productivity and enhance overall performance. This is only possible when the right structure (i.e. an organization's culture and protective practices) is in place and that everything done within the organization aligns with it. Only then can true sustainable performance occur.

Don't be fooled by success without foundation. Without a true foundation of protection and culture, true productivity will be stunted and, most importantly, continually threatened.

Productivity is threatened by things within your control.

HR steps to save you \$\$ thousands

The cost of

- Turnover
- Low productivity
- Mistakes
- Absenteeism
- Low morale

The cost of turnover

When an employee earning \$40,000 leaves an organization, the lost knowledge that walks out the door with them, coupled with the cost of hiring and training someone new and waiting for them to get up to speed can cost a company conservatively \$27,000.

According to the BC Human Resources Management Association:

Annual median turnover rates Canada	2010	2011
All sectors	8.5%	9.8%
Public sectors only	6.3%	7.2%
Private sectors only	12.0%	11.8%

Turnover is measured by the number of employees who left the organization, either voluntarily or involuntarily, as a percentage of headcount (i.e. your total number of employees).

Do you know what your turnover rate is and the costs associated with it?

How to calculate the cost of turnover

- a) Direct and indirect costs of losing an employee (conservative)
- Lost brain trust, knowledge of your business (three months' wages) = \$10,000
 - Reduced productivity prior to last day (operating at 50% for three months) = \$5,000
- b) Direct and indirect cost of hiring an employee (conservative)
- Job posting, resume screening, interviewing, testing, meetings = \$2,000
 - Training costs: coaching, reduced productivity (three months' wages) = \$10,000

Total cost = A + B

\$15,000 + \$12,000

= \$27,000 per employee who needs to be replaced

PLUS: have we missed any costs that should be included for your organization?

Scenario

Imagine you are an employer with 25 employees who have an average annual salary of \$40,000.

- 25 employees at \$40,000 average salary
 - Five of these employees left this year
 - These five need to be replaced

Given that five out of your 25 employees have left, your turnover rate is 20%

How to calculate turnover rate

$$\begin{aligned} & \text{Turnover rate \%} \\ & = \text{Terminated employees/all current employees} \times 100 \\ & \quad 5/25 \times 100 \\ & \quad = 20\% \end{aligned}$$

*At 20% turnover, this amounts to a total turnover cost of **\$135,000** (five employees x \$27,000 per employee) that may have been avoided.*

Although a certain amount of turnover may be healthy for an organization, it is important to measure and track it so that you know what it's costing you, how you can prevent it when you want to, and how you can minimize costs when the turnover is positive.

It is also important to keep in mind that each organization's cost of losing people will be different based on individual factors. In an organization with highly skilled, specialized employees, it may take up to five years for new hires in certain positions to be fully productive, and the hiring process may take anywhere from six months to one year.

All of these factors have costs associated with them. What costs do you incur that may or may not be noted above?

For example, BCjobs® states: a large hotel chain calculated that a 10% decrease in annual employee turnover led to a decrease in lost customers of between 1% and 3%. That translated to an annual revenue increase of between \$50 and \$100 million. (In this case, not only did they save money on turnover costs, they also improved their bottom line by having longer-term employees.)

When is turnover a good thing?

Reduced productivity is an enormous drain on organizations, particularly when you aren't aware it is occurring. When you are aware of reduced productivity and are actively working to increase it, you may find that improvement is not possible because either an employee is unwilling or unable to improve, or perhaps they are simply no longer a fit for the organization.

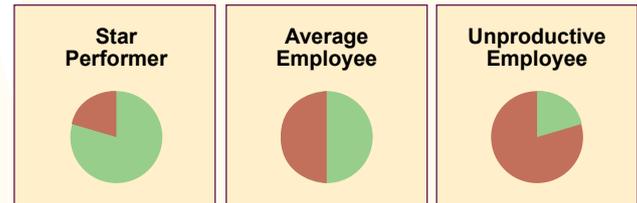
How you manage this ties in with your organization's overall philosophy on performance improvement and termination, and ultimately knowing when turnover is an opportunity.

Unfortunately, if you are not paying attention, you may not even notice.

Cost of low productivity

It is unrealistic to expect that all of your employees are 100% focused, and therefore 100% productive, at all times. Although many strive to be 100% focussed, human beings naturally ebb and flow in their ability to do so, and are impacted by life's events outside of work.

Statistics show that even star performers (who are, more often than not, going above and beyond) only operate at an 80% productivity rate. In contrast, an average employee is working closer to 50% and those with low productivity may only be focused 20% of the time.



Scenario

- 25 employees at \$40,000 average salary
 - Total salary costs = \$1,000,000
 - Average productivity rating = 50%
- = **\$500,000 cost in unproductive time**

How to calculate the cost of low productivity

- Average productivity rate is calculated by adding together each employee's productivity rate and dividing it by the total number of employees
- In this scenario, there are five star performers at 80%, 15 average employees at 50% and five fairly unproductive employees at 20%

$$\begin{aligned}\text{Average productivity rate} &= 1250 / 25 \times 100 \\ &= 50\%\end{aligned}$$

$$\begin{aligned}\text{Cost of low productivity} \\ &= 50\% \text{ of the total salary costs} \\ &= \mathbf{\$500,000}\end{aligned}$$

Whether or not you agree with this productivity rating for star, average and unproductive employees the bottom line is you are definitely losing money by paying for unproductive time. Do you know how much?

Additional things to consider

Imagine two elastic bands



Star performers have enough tension (illustrated by the first photograph) to ensure they are operating at a highly functional level. Expectations and deadlines are clear and they have sufficient work to remain creative and productive. Too much tension and productivity drops.

The second photograph illustrates a less productive scenario. These employees may have extra time in the day. Expectations are not as clear to them and deadlines are not followed. This is often the direct result of inefficient or non-existent HR practices.

Examples

- a) When conducting organizational effectiveness assessments, we ask employees to answer a series of questions. If the answers vary greatly between employees (which they often do), there is a lack of understanding of the organization's processes, resulting in lost productivity.
- b) Managers often fail to address employees' issues. For example, we often hear managers complaining about their staff being on social media sites, yet they rarely speak with the employee directly or ensure the employee has received clear expectations when it comes to social media.
- c) Employees may spend time on the wrong things because it's not clear what the right things are. When employees do not have organizational clarity (do not understand the big picture), you force them to work smaller than what they are capable of.

- d) Often, we see companies hiring extra employees without first ensuring the effectiveness of the current roles and the overall needs of the company. Do you have more employees than you actually need?

Scenario

To date, the latest figures show:

- WestJet has 80 employees per aircraft
- Air Canada has 130 employees per aircraft

You could argue that one airline is more bureaucratic than the other; one is more efficient than the other; one is better to fly with than the other. Whatever your belief, which bottom line would you prefer to be working with?

Cost of mistakes

To err is human; however, the more errors your organization can avoid, the greater the savings.

It is estimated that organizations lose an average of 10% of revenue from mistakes, plus another 5% or more in additional administrative work because of these mistakes.

Each organization's needs are different. The key here is to understand where your organization is vulnerable when it comes to mistakes. Not all mistakes are created equal, and thus it's important that you put in the right safeguards.

For example, when auditing the payroll register for one of our clients, we determined that the bookkeeper had been stealing.

When leaders (and employees) are clear about the culture they are working together to create, the resulting HR practices and policies can help prevent dishonesty.

Tip | Did you know, you can set up your online banking so that your bookkeeper only has the rights you assign them, rather than allowing them free rein to your online account. For example, they can only pay vendors you have set up for them to pay. This protects both parties and is simply good business practice.

Then there are the day-to-day mistakes. One such example is employees not understanding how to use company tools like relationship management software. Without training and, more importantly, follow-up to ensure employees are really utilizing the software as expected, mistakes will be made and productivity will go down.

Absenteeism

Vacations are generally seen positively as they typically benefit both the employee and organization, and any negative effects are often easily absorbed because they are planned absences.

Leaves of absence that are unscheduled, avoidable or habitual are considered absenteeism and can be quite costly to an organization. They put pressure on co-workers, unexpectedly taking them away from their regular duties, which lowers office morale and costs the organization money directly in lost productivity and in the expense of someone else doing the work.

Let's say the salary of each of your 25 employees is \$40,000 (\$153.85/day in a 37.5 hour day) and each employee was absent, on average, for 9.3 days (the Canadian average from the Labour Force Survey, 2011).

This means, on average, each employee costs the employer \$1,430.81 per year in salary costs owing to absenteeism.

Annual cost

= Daily salary x days absent x number of employees

$\$153.85 \times 9.3 \times 25$

= \$35,770.13

Cost of poor tracking

- Do you know at a moment's glance how many vacation days your employees are entitled to and how many they have used?
- Do you know how many sick days each employee has taken and if there is a pattern? (For example, they are sick every Monday)

Attendance tracking may seem like a big job but, if you are on top of it, it doesn't take long and can save you thousands of dollars. To make your tracking as accurate, secure and easy-to-use as possible, try web-based leave tracking software such as Jouta Leave Manager.

Attendance tracking includes the following:

- Entitled vacation days
- Vacation days taken
- Sick days
- Overtime hours (if applicable)
- Accrued paid time off
- Any other leave of absence
- Pattern tracking
- Statutory holidays (especially important in retail)

What happens if you don't keep track of employee attendance?

By not tracking employee attendance, you run the risk of having to pay your employees for vacation or sick days they have already taken or have not yet earned.

Example #1

- Employee earning \$40,000 per year
- Entitled to three weeks (or 15 days) of vacation per year
- Resigns after two years of employment
- Claims she hasn't taken a single day of vacation
- You have no records to confirm or deny this
- Your vacation pay-out would be 6% per year to cover her 30 days of vacation, totaling \$4,800.00

Example #2

- Employee earning \$40,000 per year
- Entitled to five paid sick days per year
- Takes five sick days in January and an additional five days in November, therefore the additional five days should be unpaid

- You have no records to confirm or deny the five sick days taken in January
- You have to pay for the employee's additional sick days = \$769.00 in direct costs, plus lost productivity
- On top of this, you may have an indication of an issue of high absenteeism

Example #3

- Employee seems to be sick every Tuesday after a long weekend
- You want to talk to your employee about his absences
- Employee claims that he isn't "always away on Tuesdays after long weekends"
- You haven't been keeping track, so you aren't able to produce a list of actual days the employee has called in sick
- You can't prove that there is a pattern you could draw on for disciplinary reasons

Summary

Everything discussed in this guide are factors that contribute to low morale – one of **the most toxic issues you can have within an organization**.

Low morale is a fierce contributor to high turnover, lost productivity and unnecessary, costly mistakes, which often lead to more absences from work. It affects your bottom line both directly and indirectly and can cost your organization thousands of dollars.

The key is to focus on effective HR. If your organization were to implement only three suggestions, we would advise the following:

- **Culture:** cultural and organizational understanding and alignment
- **Protection:** ensuring all the right practices / safeguards are in place
- **Productivity:** an engaged, fully-aligned workforce going in the same direction at the same time

Recommended next steps

- Hire an HR Thought Leader/s to set your foundation of culture and protection, and stimulate productivity to achieve high performance
- Establish the appropriate HR Foundation for your organization

The Jouta Performance Group helps you create positive change such as increased revenues, greater efficiencies and reduced expenses for you and your organization.

Please visit our website (www.jouta.com) to find out the type of services we offer from our HR Hotline, to HR Projects, Full-service HR and our Jouta Leave Manager for that important leave tracking. We have created services / products that we believe will meet you wherever you are, whatever your size.

If you're not sure how to implement effective HR for your organization, request a free HR assessment by calling us at 604 488 8885 or emailing cori@jouta.com.

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After visiting your organization we'll produce a report detailing your HR risks, and recommend areas for improvement. We provide this information to you at no cost. It's a great way for you to get to know us... and us to know you.

We hope this guide has stimulated your thinking and that you have a better sense of the positive impact that HR can have on an organization.

If you are ever in need of some HR support, I hope you will consider giving us a call.

Sincerely,

Cori Maedel

CEO Jouta Performance Group

www.jouta.com

cori@jouta.com

604 488 8885



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