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HCM LIFECYCLE

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RECRUIT ○

MANAGE ○

ENGAGE ○

DEVELOP ○

& RETAIN

**OFFBOARD**



Human Capital Management Report

## **Employee Offboarding: The New Landscape**



Today's multigenerational challenges are especially pertinent when it comes to **the final stage of the HCM lifecycle.**

## Introduction: A New Landscape in Human Capital Management

We're entering a landmark phase in the American workforce where five generations are working side by side — from people employed long past the traditional retirement age of 65 to recent college graduates and younger. With such a diverse workforce, human capital management (HCM) executives must develop innovative ways to manage all of these employees across the employee lifecycle in a way that addresses worker individuality while maximizing efficiency and managing costs.

Today's multigenerational challenges are especially pertinent when it comes to the final stage of the HCM lifecycle — offboarding employees from the organization. It's becoming increasingly important to ensure positive exit interactions with employees for a number of reasons. Offboarding errors can be costly to your organization and have a potentially adverse effect on your brand. Negative reviews by exiting employees on popular employer review sites such as Glassdoor could deter future employees from wanting to join your organization. Or you may want some former employees to return at some point, which a good offboarding experience would facilitate.

Today's shifting demographics — Millennials flooding the workforce while Baby Boomers start to retire — are substantively impacting the ability to create a smooth and productive offboarding experience for both employee and employer. Each employee generation — and each individual — has their own unique needs and expectations regarding the exiting experience. The employer requires a differentiated approach that accounts for the unique characteristics and requirements of each generation.

Fortunately, HCM technologies are available today that can help you optimize employee offboarding across all generations — Silent Generation, Baby Boomers, Gen X, Millennials (Gen Y), and Gen Z (Gen 2020).

These HCM tools and technologies can turn manual, error-prone, fragmented offboarding processes into automated, integrated, standardized ones that can still meet the needs of each generation. For many organizations, the use of HCM technology in the exiting process has delivered quantifiable bottom-line results: reduced delays, fewer inaccuracies, lower overall costs, and new access to shared employee data for collaborative use across the enterprise, including HR, operations, and finance.

Indeed, many organizations today are leveraging HCM technology as an integrated “information platform” for shared data, insight, and collaboration across the entire multigenerational workforce. This integrated approach encompasses employee offboarding as well as other key HCM functions.

## HOW LONG DOES A TYPICAL U.S. EMPLOYEE STAY AT A JOB?

### 4.6 YEARS, ACCORDING TO AN ECONOMIC NEWS RELEASE FROM THE U.S. BUREAU OF LABOR STATISTICS:

- Median tenure for workers ages 25-34 (Gen X and Millennials) — 3.2 years
- Median tenure for employees age 65 and over (Silent Gen, Baby Boomers) — 10.3 years
- Workers in management and professional occupations had the highest median tenure — 5.5 years
- Workers in service occupations had the lowest median tenure — 3.2 years

Source: Alison Doyle, *How Long Should An Employee Stay at a Job?* (accessed August 5, 2015), found at <http://jobsearch.about.com/od/careerdevelopment/qt/stay-at-a-job.htm>.

## It all starts with terminations ... who, when, and why

Eventually, there comes a time in every employee's career when he or she leaves the workforce, either voluntarily or involuntarily. When the decision is made to break that employment relationship, what does that mean to an organization? Is the exiting employee looking for the next bump in pay or rung on the ladder? Is the individual retiring? Or has the employee been terminated by the employer due to performance or other reasons? Does it reflect a generational component or is it a personal (individualized) dynamic?

Regardless of the reason, each day thousands of employees end their employment relationships — and HCM managers are left with the daunting task of offboarding those employees efficiently and with minimal impact on existing operations and costs.

- Forty percent of HR professionals cite loss of personnel as their top organizational challenge<sup>1</sup>
- As a typical example, a recent monthly report from the U.S. Bureau of Labor Statistics recorded a total of 4.9 million separations in the U.S. workforce, representing a 3.3 percent separations rate<sup>2</sup>

According to the Society of Human Resources Management (SHRM), it's estimated that between 2010 and 2020, there will be 54.8 million total job openings in the U.S., with 61.6 percent from "replacement needs." These replacement positions will be due to workers retiring or otherwise permanently leaving an occupation. SHRM also states that, "in four out of five occupations, openings due to replacement needs will exceed the number due to growth."<sup>3</sup>

## Types and frequency of employee separations

There are two types of separations when an employee leaves an organization:

**Voluntary termination:** This is when the employee voluntarily decides to terminate the employment relationship with his or her employer. Typically, the employee will leave for reasons that can include resigning for a new job; better pay, promotion, or better work/life balance; or retiring.

If you're like most employers, you'll want to limit this type of turnover with your valued, productive employees. For example, as Baby Boomers (typically the most experienced employees) are ending their employment lifecycles, HCM executives will need to be prepared to replace those positions with qualified individuals.

<sup>1</sup> Society of Human Resource Management, SHRM/Globoforce Survey Reveals Employee Turnover is Top Workforce Challenge Facing HR Leaders, *Digital Journal* (June 22, 2015), found at <http://www.digitaljournal.com/pr/2590892#ixzz3eTG3rt9s>.

<sup>2</sup> U.S. Bureau of Labor Statistics, *Job Openings and Labor Turnover* (June 2015), found at <http://www.bls.gov/news.release/pdf/jolts.pdf>.

<sup>3</sup> Society of Human Resource Management, *SHRM Workplace Forecast: The Top Workplace Trends According to HR Professionals* (2013), at 14.

**31%** of workers have quit a job within the first 6 months

**81%** of those who leave early are in entry- or intermediate-level positions

Source: Bill Cushard, *These Employee Turnover Stats Should Scare You to Death*, Human Capitalist (August 21, 2014), found at <http://humancapitalist.com/these-employee-turnover-stats-should-scare-you-to-death>.

**Involuntary termination:** This is when the decision to separate is made by the employer and is not of the employee's choice. This can be related to:

- Economic considerations such as layoffs, downsizing, mergers and acquisitions, or other organizational dynamics
- Employee-related issues such as poor performance, attendance problems, or behavioral incidents

When an organization needs to terminate employees for economic or other business reasons, this is a planned event. While this is generally not a pleasant task, the organization does have the ability to manage the exit process on its own terms and ensure the smoothest possible transition and continued productivity at its own pace.

When an individual decides to leave, often the organization is NOT prepared for the departure. It's a surprise, requiring the organization to quickly adjust. Often, the employee is leaving with a valued skill set and knowledge base, affecting the productivity and output of the remaining workforce. The organization must be able to respond rapidly to the vacancy.

In either separation scenario — voluntary or involuntary — the event presents a disruption that must be managed with speed and precision and at minimal cost.

### Leveraging HCM technologies to optimize the exiting process

Today's proven HCM technologies can help executives combine the best of both worlds for the multigenerational workforce:

- Ability to provide tailored exit strategies for employees across all five generations in the workforce, taking into account each generation's unique needs and expectations
- Ability to "operationalize" offboarding with tools that standardize HCM strategies and enforce policies that promote consistency, predictability, and cost efficiency across all employees and locations

#### FIVE AREAS WHERE HCM TECHNOLOGY CAN IMPROVE EMPLOYEE OFFBOARDING:

1. Lower overall costs associated with offboarding and employee turnover
2. Higher productivity for managers responsible for these activities
3. Better experience for the exiting employee and better brand reputation for the employer
4. Triggering of talent acquisition process
5. Deep-dive analytics for a better understanding of what's working and what's not

**3X** — The cost of losing an employee in the first year is estimated at three times the salary

Source: Bill Cushard, *These Employee Turnover Stats Should Scare You to Death*.

**#1: Reducing costs**

The total cost of employee turnover — including replacement, offboarding, and other expenses — varies depending on the type of organization and the unique makeup of its workforce, but all enterprises seek to control and minimize their turnover costs as best as they can. Most have determined the hard costs attributed to the employee turnover and recruitment. But the soft cost that may often be overlooked is the loss of productivity that continues for several months after bringing on a new hire.

Here's an example of that cost. After a month of training, a new replacement employee functions at approximately 25 percent productivity, meaning that 75 percent of that employee's salary is what it's costing the employer in lost productivity. After 13 to 20 weeks, the employee is typically up to a 75 percent production rate, with the cost of lost productivity at 25 percent. It is only at around five months that an organization can expect 100 percent productivity from a new employee<sup>4</sup> — unless the employer can find a way to get them there more quickly. This loss in productivity should be captured and included in the total overall costs of employee turnover.

Knowing there is a ramp-up period for new employees, many organizations are looking to HCM technology for solutions to support their overall processes. HCM technology helps automate exiting tasks and creates a repeatable approach that can help standardize and simplify the process, whether the organization is a local business or a global conglomerate. The HCM tool set links HR, timekeeping, payroll, and other HCM functions in a single system that allows the offboarding process to flow automatically and predictably. For example, the HR employee record can automatically feed the termination date to both timekeeping and payroll so the manager doesn't have to. With an HCM system, the employee record becomes the single source of truth — the termination date can be entered into any application (timekeeping, payroll, etc.) and will *automatically* update all other HCM applications. This eliminates manual errors, lightens manager workloads, and reduces the administrative costs of the entire offboarding process.

An automated process doesn't just improve efficiency; it also reduces mistakes, such as a supervisor manually sending the employee the wrong final payout. The key benefits of automation include:

- Seamless information exchange between HR, timekeeping, payroll, and other HR-related systems — this eliminates the risk of overpayments or other mistakes in processing the final payments to the exiting employee
- Visibility into accruals/paid time off (PTO) on the books to help ensure a proper payout every time
- Timely payouts — the exiting employees are paid accurately the first time, on time
- Attendance data that's readily available to ensure the terminations are defensible (when applicable), reducing the potential liability and costs if/when there are termination conflicts

<sup>4</sup> Annie Mueller, *The Cost of Hiring a New Employee*, Investopedia (updated February 23, 2015), found at <http://www.investopedia.com/financial-edge/0711/the-cost-of-hiring-a-new-employee.aspx>.

## #2: Improving manager productivity

For workforce managers and HR executives, today's proven HCM technologies open a world of productivity that was previously unavailable to them. Rather than guesswork about the status of an exiting employee, today's managers have instant access to a rich, up-to-date HCM knowledge base that puts the information they need at their fingertips, when and where they need it. Managers spend less time on administrative duties in relation to the offboarding process, allowing more time for operations. This is creating a new dimension in the offboarding experience for both managers and employees.

- The HCM tool set captures all time and wages due to an employee when exiting so managers can see all relevant data together, in one place, to ensure accurate decision making
- No more rework, errors, or manual bottlenecks; technology puts comprehensive information at the managers' fingertips
- The HCM user interface is simple and easy to use — an important advantage in today's fast-moving business environments

## #3: Improving employee experience

When it comes to offboarding, there is an emotional and psychological component to the bond between employee and employer that should never be ignored. This emotional component is present throughout the lifecycle of the relationship and is perhaps never more vulnerable than at the end, when the two parties are saying farewell. A fast, accurate, and pleasant offboarding experience gives the employee the best opportunity to depart on the best possible terms with the employer, as both parties know exactly what the employee's final hours are, what is due, whether any PTO is still on the books, etc.

For the employer, a smooth offboarding process eliminates the “bumps in the road” that can inadvertently cause the final days to be more disruptive or unpleasant than they needed to be.

For the employee, it's a more pleasant departure (positive brand experience) that he or she may be happy to share with the world, telling others about the positive attributes of the employer. In other words, no more employee complaints about:

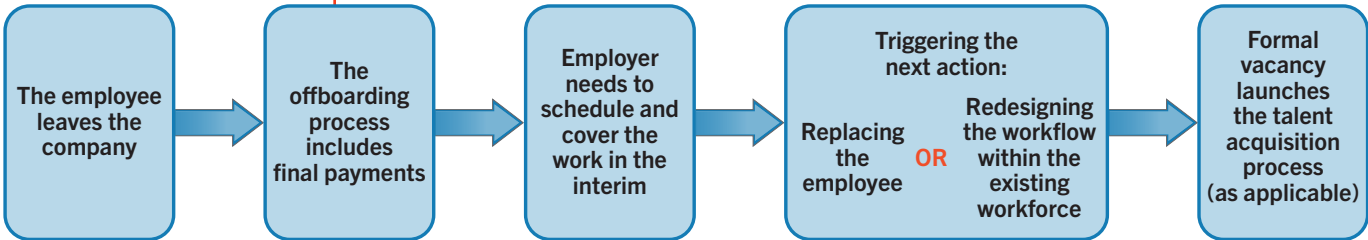
- **Inaccuracies** — wrong final PTO payout
- **Delays** — not paid the final check in a timely fashion based on termination date
- **Incompleteness** — payout did not include final hours

Instead, the employee is paid properly and on time, and may be ready to share his or her positive experience with potential employees.



#4: Triggering a vacancy automatically

In addition to accelerating the offboarding process, HCM technologies can also accelerate the talent acquisition process by linking the two together. Within the HCM platform, an exit can automatically trigger a new vacancy, such as the availability of a new shift in a frontline workforce. Supervisors can quickly source the new position with HCM talent acquisition and recruiting tools. The HCM platform creates a cycle:



#5: Analytics: the next frontier

To continuously improve the offboarding processes, HCM executives need to know what’s happening and why so they can decide what to do about it. Relying on traditional reports and spreadsheets cannot get the job done, as simply too many questions end up going unanswered.

For more and more organizations today, the answer is HCM analytics. Analytics can offer real-time visibility into the offboarding process with guided discovery that makes it easy to find outliers, patterns, and trends around the employee offboarding function. When problem areas are identified, executives can drill down into data to uncover root causes and take appropriate action.

*Where* are there persistent delays in payouts — which regions of the world? *Why* do exiting employees in one business unit tend to complain more than exiting workers in other units? HCM analytics can help the organization “peel back the onion” on the most important dynamics affecting the success of its offboarding activities.

## Conclusion

Offboarding is the last step in the employee lifecycle and one that needs careful attention in the new landscape of today's multigenerational workforce.

Leveraging today's proven HCM technologies and tool sets can help automate, streamline, and improve the offboarding process, linking it to HR, timekeeping, and payroll in a single technology platform. This can help organizations:

- Better align and automate their offboarding strategies according to the unique needs of the five generations in the workforce today
- Reduce the operational costs associated with offboarding — and more broadly, the total costs of employee turnover
- Ensure fast, accurate payouts so employees leave the organization knowing they were treated fairly and expediently
- Integrate offboarding with other key functions such as talent acquisition so the company can quickly move on its separations — whether they are voluntary or involuntary