

The Costs of Doing Nothing.

It's Time to
Digitalize HR!

Contents

Introduction

Imagine driving your car and hearing a strange noise from under the hood. You ignore it. A week later the same noise pops up but you still don't take it seriously. Finally, a week later, the engine fails.

What happened? What started as a small problem got a lot worse – and more expensive – because you did nothing. Failing to take action when problems appear rarely results in them disappearing on their own.

A similar scenario occurs in business: Companies and business leaders stick to familiar ways of working, and put off changes that would improve performance. Waiting to digitalize and continuing to work with manual processes or even spreadsheets is a prime example of this. However, doing nothing when the warning light goes on – i.e. low engagement, high turnover, slow recruiting – can lead to enormous costs to the company.

An HR function that spends too much time on administrative tasks can't focus on people and the strategic work that helps bring the company forward. For the company, this not only costs time and money, but also creates a significant opportunity cost. In this whitepaper, we will explore the costs and consequences of doing nothing that will help you drive digital transformation of HR in your company.



Why Doing Nothing is Expensive

A [Bain study](#) has shown that digital processes make HR up to 30% more efficient. A look at the current state of HR shows how sorely needed this is. According to [a study](#) by Bitkom Research and Personio, HR staff spend as much as 42% of their time on administrative tasks.

That's 3.4 hours per day that they could spend on strategic initiatives like improving employee engagement. Why does it matter? It's pretty simple: Engaged employees are more motivated and more productive, which increases revenue.

Employees are the driving force of successful corporate growth and thus represent a crucial competitive advantage. According to [Bain's study](#), digitalizing HR increases employee satisfaction and makes a company more attractive. Despite this, only [four out of ten](#) HR managers confirm that their companies are digitally mature.

A look at the [European SME survey 2019](#) shows that when it comes to digital transformation, small and medium-sized businesses understand the value to the business:

76%

76% of European SMEs consider digitalization a priority

2/3

Two thirds of European SMEs are at least partly digitalized.

57%

57% of SMEs think that digitalization will have a positive impact on their company's business over the next five years.

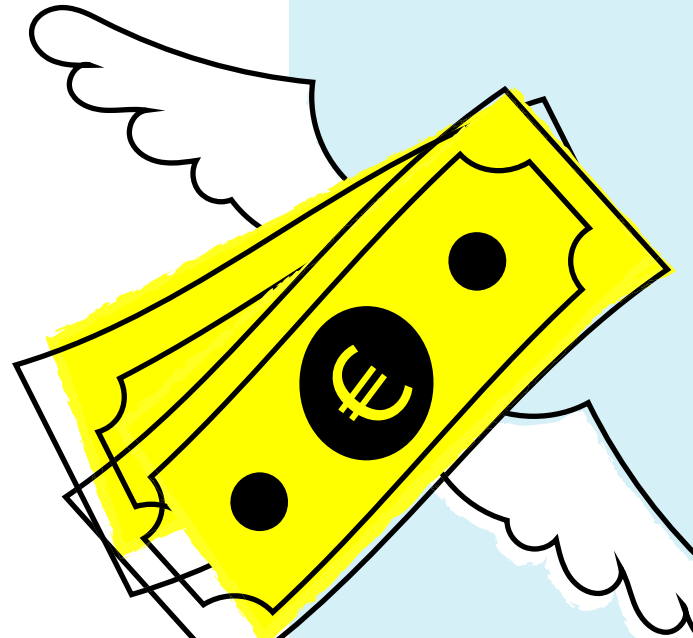
Successful digital transformation creates competitive value and starting with HR helps prepare the organization for new ways of working.

What happens to companies that wait too long to digitalize their processes and information? It becomes increasingly difficult to maintain the same level of performance because the expectations of the market and employees continue to increase. Companies that can't keep up with changing business demands will fall behind.

Top 5 Cost Drivers in HR

Delaying digitalization costs more than it seems because the costs are often hidden below the surface. Many companies aren't aware of how much money they are throwing away.

We've identified the Top 5 HR cost drivers for you. We'll show you, using concrete examples, how much money you will lose by doing nothing.



Slow or Incorrect Decision-Making

Definition:

A typical scenario in the recruitment process or in workforce planning: You incorrectly estimate how many employees you will need to complete a critical project, or how long filling a key role will take, and find yourself without the resources you need to achieve your business goals.

How did this happen? You made a decision based on your gut feeling rather than accurate data. Reliable information is essential for successful workforce planning.

Example:

A large order lands in your company's lap with a two month deadline. Unfortunately, the business development team is unaware that several employees from production are unavailable during that time period. As a result, you fail to meet the deadline and lose the business.

COST DRIVER #1



Data Protection Requirements Are Not Met

Definition:

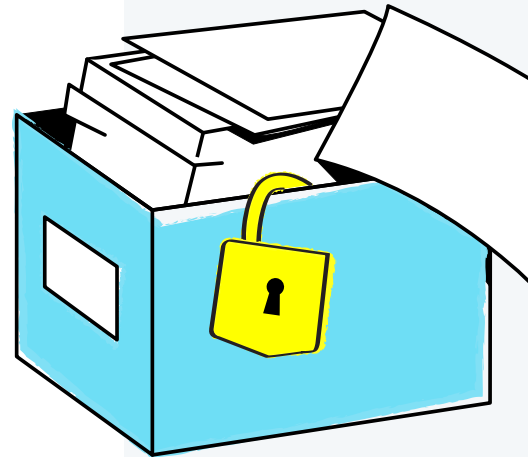
HR tracks sensitive and confidential applicant and employee data that needs to be managed appropriately. Otherwise, you risk more than just productivity losses, higher staff turnover and a bad image. A data protection violation can also cost you up to €20 million, or 4% of the company's turnover.

Example:

You reject an applicant and delete all of their data and documents after two months. However, you overlook the fact that applicant data is still saved on the hard drive of one of the employees involved. At this point, you have already violated the data protection guidelines and the damage has been done.

According to it governance, "By the end of 2019, European supervisory authorities had issued, or announced their intention to issue, at least 133 administrative fines, totalling approximately €400 million (£337 million)", including the cases of Marriott International and British Airways.

COST DRIVER #2



Vacancies Are Filled Too Slowly

Definition:

"If a position is unfilled it doesn't cost anything." This is how many recruiters and CEOs think. As logical as this may sound at first, it's not the case. Several different types of costs are associated with vacant positions.

For one thing, you may need to invest more in recruitment and employer branding initiatives, increasing the cost per hire. Secondly, your opportunity cost per vacancy also increases. This refers to all of the costs you pay for not filling a position, e.g. the loss of productivity and revenue.

Example for a data engineer:

The personnel service provider [Perspectivas](#) presents a calculation from a study by Harvard University. It assumes the following: Depending on the position, each employee contributes to company turnover by a factor of one to three. Each company specifies the factor for the respective position.

We can assume that a Data Engineer will earn €61,500 per year. In this example, they are assigned a factor of two. The recruiting time for Data Engineers is [approximately 154.5 days](#). The working days are set at 249 (this depends on your location and public holidays).

COST DRIVER #3



Cost of Vacancy (CoV) formula:

*(Annual salary: Ø working days per year) x
factor x Ø recruitment time = CoV*

$$€61,500 : 249 \text{ WD} = 247 \text{ €/day} * \text{factor}$$
$$2 = 494 \text{ €/day} * 154.5 \text{ working days} =$$
$$€76,323$$

If the position remains vacant for 7.5 months (so 154.5 working days), it costs the company €76,323 (added to this is the cost per hire).

High Turnover

Definition:

Every time an employee leaves, the total cost to company can range from tens of thousands to 1.5-2x annual salary, according to [Josh Bersin](#) of Deloitte. According to a [staff turnover study carried out by Deloitte](#), the most common reasons for leaving are dissatisfaction with managers, salary being too low and a lack of promotion opportunities.

These are all areas in which a strategic HR function can drive improved performance across the business.

However, in many companies employee retention and development initiatives lag due to capacity constraints, or because warning signs such as frequent sick days are not spotted early enough.

Example:

Following Josh Bersin's estimation, a Marketing manager with an annual salary of €60,000 will cost you at least €90,000 if he/she leaves the company. Now do the math for a whole year. If 12 employees leave your company each year, this can easily sum up to half a million Euros.

Alternatively, The HR Digest provides a more detailed calculation in their article [“Cost of Employee Turnover vs. Retention Proposition”](#).

COST DRIVER #4



Aha!

“Employee-centered HR services and optimized HR processes guarantee a positive employee experience. This makes them key factors for employee retention and motivation.”

Source:

[2019 Deloitte staff turnover study](#)

Reduced Employee Productivity

Definition:

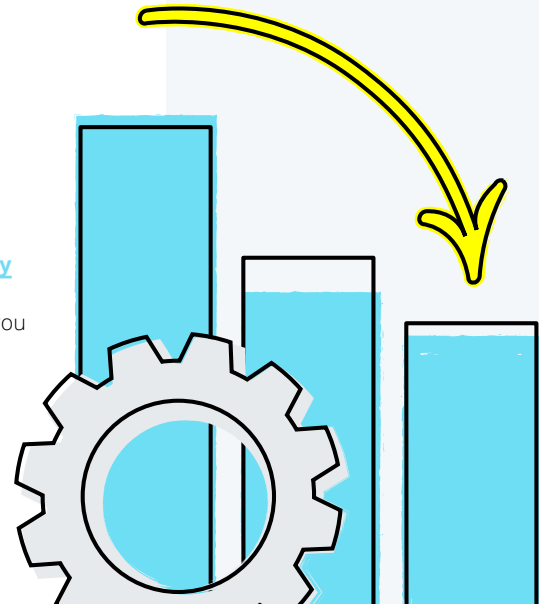
Issues such as poor onboarding or unsatisfactory leadership prevent employees from reaching their full potential. They become demotivated or disengaged, which in turn has a negative impact on their productivity and overall performance.

Example:

Employees who have become so disengaged from their work that they have mentally resigned can sometimes be even more expensive than those who are actually leaving. According to a [Gallup study](#), the overall financial cost of employee disengagement may amount to as much as \$450 billion to \$550 billion per year in the U.S. alone.

A sales employee may generate €150,000 per year. If they are demotivated or disengaged, they perform at only [66% of their capacity](#) and consequently only generate revenue of €99,000 per year, costing you €51,000.

COST DRIVER #5



How Digitalizing HR Saves Time and Money

"If you digitalize a crappy process, then you'll only get a crappy digital process," says Thorsten Dirks, former CEO of Telefónica Germany.

It would be hard to sum up the idea behind digital transformation any better. It's not just about digitalizing existing processes. The focus should be on optimizing processes at the same time and thus improving productivity and collaboration across the company.

Digitalizing all corporate processes at once can be overwhelming for everyone involved. By starting with HR, you create a foundation for excellence in people operations so HR can focus on what matters most: people.

In the list below, we explain how digitalizing HR can help you minimize the costs for each cost driver.



Aha!

Digital transformation is not limited to digital technologies. Aspects such as corporate culture should also be part of a successful transformation.



How Digitalizing HR Saves Time and Money

COST **DRIVER #1**

Slow or incorrect decision-making

- Working digitally enables better data collection and analysis. The benefit here is that workforce investment decisions can be made based on reliable information.
- By using appropriate communication and collaboration tools you are able to decide quicker, and making the business more responsive to new opportunities.

COST **DRIVER #2**

Data protection requirements are not met

- With the right solution, personal data can be saved in a legally secure manner, documented and deleted again after the legally prescribed time period.
- Your obligation to provide information to your employees is ensured because they can view their digital HR files at any time.

COST **DRIVER #3**

Vacancies are filled too slowly

- Digital processes makes you faster and more efficient when it comes to hiring. For example: data can help you identify the recruiting channels that works best for you and make better use of them.
- Digital tools shorten your internal communication channels and speed up decision-making on candidates.

How Digitalizing HR Saves Time and Money

COST DRIVER #4

High turnover

- Many recurring HR tasks can be automated, allowing HR workloads to be reduced. This gives HR time to concentrate on retention initiatives such as employee development, corporate culture and employer branding.
- A [Bain study](#) proves that digital processes can improve HR efficiency by 20% to 30%, leaving more time for strategic HR initiatives that move the business forward.



Aha!

Personnel costs are usually a company's largest cost item (up to 80%), and this needs to be taken into account. Companies that invest in HR get the most out of it. Yet, studies show that 50% of all organizations globally have difficulty retaining their employees.

COST DRIVER #5

Reduced employee productivity

- Digital processes make it easier for employees to work together because communication is made easier with automation and workflow. HR tasks, such as vacation requests, can also be completed with just a few clicks, making employees more productive.
- HR can help preventing employee burnout because data and analyses enable better workforce planning and spotlight problem areas such as high absenteeism.



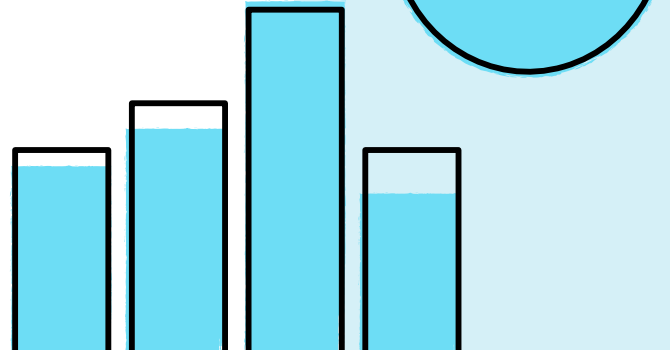
The HR Guide to Digital Transformation

The digital transformation of HR may initially appear to be a mammoth undertaking but don't worry! Here at Personio, we've already helped more than 2,000 customers digitalize HR, and we've shared our experience in this guide. [Download Our Guide Here.](#)

Making the Case for Digital Transformation

How can you help your colleagues understand the need for HR transformation? The basic rule here is: Be precise, provide figures and base your arguments on concrete examples. Make it clear how HR transformation will help the company achieve its goals.

We've put together a few examples based on cost drivers described above.



Making the Case for Digital Transformation

SLOW OR INCORRECT DECISIONS

Problem

We lack resources in sales because absenteeism has increased recently and this coincides with employees' vacations. That jeopardizes our sales targets.

Solution

If we track all employee absences, e.g. vacation and sickness, in a single solution, we can identify staffing needs early and react accordingly.

DATA PROTECTION ISSUES

Problem

Our processes aren't data protection compliant. For example, we can't guarantee all applicant data will be deleted everywhere in the company (including all emails) after the prescribed time.

Solution

If we control our recruitment processes and applicant management using a single tool, we can avoid these data protection gaps because the software will automatically delete applicant data.

SLOW HIRING

Problem

A lot of applicants withdraw their applications because they've already signed a contract elsewhere. It takes us too long to give candidates feedback (e.g. an invitation to interview or an offer) because internal decisions are made too slowly.

Solution

If feedback from all parties is collected digitally via a central tool, we can better understand strengths and weaknesses, make faster, well-substantiated HR decisions and also respond to applicants more quickly.

Making the Case for Digital Transformation

HIGH TURNOVER RATE

Problem

X employees left us in the last quarter and total staff turnover is about x% per month. Our high turnover rate prevents us from achieving our corporate goals because we lack the people – plus each employee who leaves costs us [€40,069](#).

Solution

With the right HR solution, the HR department would have an extra two additional hours per day to focus on employee retention. In addition, digital HR processes would improve the overall employee experience, which would have a positive effect on staff turnover.

EMPLOYEE PRODUCTIVITY

Problem

Inefficient HR processes, for example paper-based vacation requests, have a negative impact on employee experience and productivity.

Solution

Solution: If we digitalize our basic HR processes, both employees and managers would save time and managers would have more time for coaching and recruiting.



Can you afford doing nothing?

HR software plays an important role in digital transformation. With this guide, you can arm yourself with the best possible arguments to convince your colleagues it's time to digitalize HR.

[Download our guide here](#)

Personio Supports You Digitalizing Your HR

We've already helped over 2,000 customers digitalize and transform their HR processes. We can help your HR department work more strategically and achieve their full potential.



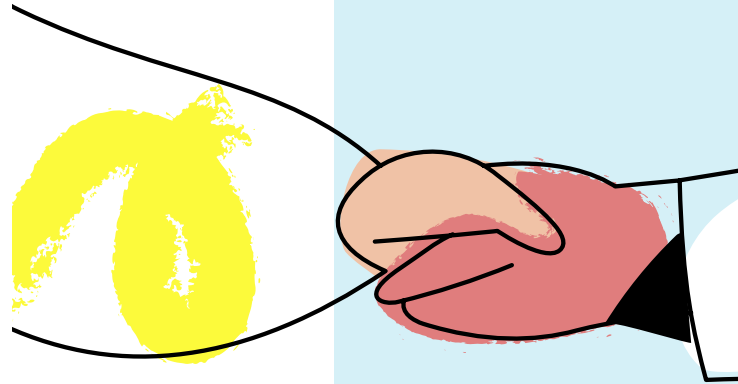
Because all of our processes run seamlessly, i can concentrate on the important things at the right time."

Catherine Schabert, HR Manager at Getsafe



Get in touch with us at info@personio.de or try out Personio for yourself.

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Fluktuation, Fluktuationskosten: Heimliche Gewinnvernichtung

The logo for Personio, featuring the word "Personio" in a black, cursive script font. A solid black horizontal line is positioned directly beneath the text.

Personio

The HR Operating System