

EssentialsLLC

The Problem

In an article published in the Harvard Management Update (<https://answers.google.com/answers/threadview?id=264572>) it was concluded that the cost of replacing an employee is likely to be a lot more than the widely accepted rule of thumb of about half of his or her annual compensation. The Harvard Business School publication said, “direct costs of recruiting, interviewing, training, etc. are the tip of the iceberg. When indirect costs, including the effects on workload, employee morale, customer satisfaction, and 'opportunity costs,' such as loss of intellectual capital are factored in, replacing an employee is likely to cost twice the departee's annual salary.”

Leadership IQ (<http://www.leadershipiq.com>) conducted a 3-year study of 5,247 hiring managers from 312 companies as they hired over 20,000 employees. Here's what the study disclosed: 46% of new hires *failed* in their first 18 months i.e.,

- Were terminated
- Left under pressure
- Received significantly negative performance reviews
- Received official disciplinary action
- Only 19% achieved unequivocal success
- Early failure is conclusive evidence that most of the fault was in the selection process.

Right Management (<http://www.right.com>), a global provider of integrated consulting and research solutions recently did a study of 444 companies, which revealed that replacing a bad hire can cost as much as five times the employee's annual salary in recruitment, training, severance and lost productivity.

- 42% of the firms studied said a hiring blunder cost them twice the employee's annual salary
- 26% said it cost them 3 times annual salary
- 11% said it cost 5 times annual salary to correct the blunder
- 15% reported that a poor hiring decision cost them as little as one times annual salary

Very conservative numbers from The U.S. Bureau of Labor Statistics estimates the average cost to replace a worker in private industry at \$13,996.

Salary.com (<http://salary.com>) in a meta-analysis of employee replacement costs cites the range from 29% of an employee's annual wages to several times his/her yearly salary

Jamie Herzlich in a recent article in The Miami Herald (<http://miamiherald.com>) asks the question: “Ever wonder what one bad hire can cost your company? As a rule of thumb, it will run you about one-third of a new hire's annual salary to replace him or her, labor experts say. So for an employee making \$30,000, we're talking about \$10,000. Certainly not chump change.”

Bad hires, according to Right Management's study of 444 companies determined that poor hires are detrimental to the financial picture all the way down the line.

- 54% of study participants identified lost customers or market share as a primary result of a bad hire
- 51% cited higher training costs
- 44% higher recruitment costs
- 40% higher severance costs.

The Society for Human Resource Management (SHRM) has reported findings by the Saratoga Institute in Santa Clara, California, (http://www.valuebasedmanagement.net/organizations_saratoga.html) that the average cost of replacing an employee is equal to their annual salary plus benefits.

The Causes

Why are so many new hires failing? What are companies missing? Leadership IQ reports, the top reasons for failure (and what recruiters and hiring managers were consistently missing) turn out to be lack of:

- Coachability (26%): ability to accept and implement feedback from bosses, colleagues, customers etc
- Emotional Intelligence (23%): ability to understand and manage one's emotions, and accurately assess others' emotions
- Motivation (17%): Sufficient drive to achieve one's full potential and excel in the job
- Temperament (15%): Attitude and personality suited to the particular job and work environment
- Technical Competence (11%): Functional or technical skills required to do the job

According to well-known author and investigator Doctor John Sullivan (<http://www.drjohnsullivan.com>), retention problems begin during the hiring process. "In most organizations the recruiting function is entirely separate from the retention effort, yet the design of the hiring process has a dramatic and direct impact on future turnover. I estimate more than one-third of the factors that drive future turnover have their roots in the recruiting, hiring, and on-boarding process."

In their book, *Now, Discover Your Strengths*, Marcus Buckingham and Donald Clifton report that many managers assume that "each person can learn to be competent in almost anything." GREAT managers assume that "each person's talents are enduring and unique."

Unrealistic expectations about their job and their new organization is a major reason why as many as one-fourth of new hires leave within the first year, says a survey of more than 2,000 HR and training executives conducted by The Society For Human Resource Management (www.sherm.org). Among the reasons the 2,046 senior HR and development executives gave for new hires leaving:

- Unrealistic expectations of the job and organizations, cited by 47.9 percent.
- Failure to grasp how things get done around the organization, 38.7 percent.
- Poor communications with immediate supervisor, 33.1 percent.
- Failure to develop a sense of belonging and purpose, 26.4 percent.
- Inadequate technical skills, 22.7 percent.
- Not understanding the link between the job and organizational goals, 20.9 percent.
- Failure to connect with key employees, 17.8 percent.
- Inability to quickly establish trust and credibility, 12.9 percent.
- Poor people skills, 12.9 percent.

According to a recent white paper from international consulting and research firm Kenexa (www.kenexa.com), “98 percent of public and private sector organizations use the interview to select people to fill job vacancies.” In many cases (+46%), using the interview method does not enable the right person to be chosen for a particular job. Biases and “gut feel” from interviews are about as accurate as a coin flip.

The Solution

Best Selling author Jim Collins, in his landmark bestseller, *Good to Great* (p.64), concludes that hiring the “right person has more to do with character traits and innate capabilities than with specific knowledge, background, or skills.”

Rodney B. Warrenfeltz, Ph.D. (www.hoganassessments.com) comments, “hiring practices vary almost as much as the people they are designed to screen. Given this perspective, what would be considered best practice? A best practice begins with a clear evaluation of the target job(s) for which the organization is hiring. Once the job requirements are defined, the organization can identify the hiring practices most appropriate to screen candidates. Use a well-developed personality test as an initial screening tool. The flexibility of a personality test allows an organization to screen candidates for quality and the likelihood that they will stick with the job.”

According to a recent comprehensive national study released by Spherion Corporation (NYSE:SFN), a leading recruiting, staffing and workforce solutions provider, “an increasing number of employers are turning to prescreening tools to “screen” potential candidates in or out, and assessment programs to help streamline the process and identify best-fit talent. In fact, 60 percent of companies have increased their use of assessments in the past five years, and about half (51 percent) increased their use of prescreening programs in the same time period.

Organizational development specialist Melinda Carlisle (www.right-hire.com) adds that “while you can't prevent someone from retiring or taking a better opportunity elsewhere, you can avoid hiring people who *should not* be hired. To do that you'll need to invest in better systems to evaluate someone's competency without simply asking them about it.

Just as we use computer modeling for assessing risk in lending, best practices in hiring are those that utilize technology to predict risk scientifically and objectively. Years from now we'll wonder how we did it any other way."

Mary Marcus of Right Management Consulting (www.right.com) confirms that "due to the rising cost of, and negative organizational impact from bad hiring and promotion decisions, more workplaces are turning to formal assessment processes...Formal assessment methods provide a broader picture of candidates under consideration, more consistency in management development, and people who are the best fit for the challenges of today and tomorrow."

Doug La Pasta in his fine article *Selection Matters*, heralds the good news that "the field of HR Metrics now gives us the ability to track, measure and monetize our activities and results, potentially transforming HR from a 'soft' staff function to a full business partner with line-of-business leaders. The key to making this work, however, is to actually **do it**, and then demonstrate positive results where it counts and that means at the bottom line."

Based in part on the research above and years in the field we at Essentials believe that valid and reliable assessments that are Internet based and affordable, are an integral part of a best practices approach to hiring.

For information on Essentials, please contact us at 505.890.5854 or visit us on the web at www.essentialslc.com.

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