Building Competitive Companies Since 1946

The Financial Payoff for Hiring Right

Employees are expensive and talent is in short supply. These are the challenges that face companies today in hiring new workers at any level. It is no longer possible to guarantee an employee's capability based on their educational degrees and job experience. Too often employers are surprised by the lack of capabilities in recruits of all ages. Frequently, new employees lack good critical thinking skills for effective problem solving and decision-making, as well as time management and emotional intelligence for handling conflict and managing challenging interpersonal situations.

Inadequate capabilities require additional management time to supervise new employees in order to achieve an acceptable level of job performance. This results in much frustration for management who must take precious time away from growing their business to address employee execution problems.

Both our customers and our research tell us that hiring sub-par performers results in three major financial problems. One is the direct cost associated with the sub-par performance. The second is the costs of managing poor performers, and often the need to exit them from the company and hire replacements. Third is the loss that the company experiences from not hiring above average workers, who can increase productivity on average twofold over that of below average workers.

Moreover, poor performers have more accidents and cause more equipment breakdowns than average workers. Poor performers also require more initial training time and more retraining than average workers. The financial impact of lost production, increased accidents, equipment breakdowns, and excessive training time is substantial.

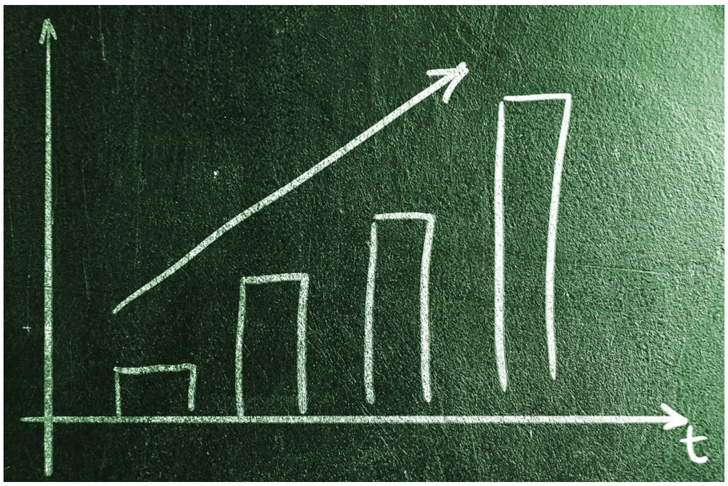
Sub-par workers also increase turnover. Studies show that 30–50% of managerial positions turn over because of poor job fit. The cost of such turnover can be enormous. Independent research reveals that the direct and indirect costs of replacing a middle or upper manager can be more than 2 times the annual salary of the departing manager. For non-managerial positions, just the direct costs alone of a replacement are at least 20% of the employee's annual salary. These costs may be invisible to companies because they do not write checks for turnover. Yet, these costs are real - and they are significant.

ABOVE-AVERAGE WORKERS = HIGHER PRODUCTION

There are a number of other losses a company sustains as a result of hiring people who are merely "average" — losses in efficiency and losses in opportunity, both of which can be quantified in financial terms. For example, studies show that above-average workers produce 50% more than average workers. Thus a company that does not hire above-average workers loses an opportunity to increase output.

There are other ways that companies lose profit by not hiring above-average workers. Average workers have to put in more overtime hours to produce the same output as above-average workers do with no overtime. Overtime hours increase costs and reduce margins substantially. Moreover, average workers make more mistakes than above-average workers, causing more scrap, waste, and rework, further reducing a company's efficiency. Finally, average workers require more supervision time and human resource time than above-average workers. In short, average workers are higher maintenance and more costly.

HIRING RIGHT = BETTER BOTTOM LINE



With all the talk today about employees being human capital for companies, it is important to remind ourselves that this "capital" has genuine financial impact on both sides of the ledger. Above-average workers make money for companies by increasing efficiencies in operations, while sub-par workers add costs in terms of turnover, lost production, and increased accidents and breakdowns. Both kinds of employees influence the bottom line of any business. Keep this in mind the next time you are tempted to relax your hiring standards in order to fill job openings.

PSP Metrics is a leading provider of pre-employment screening tools for the manufacturing, consumer products, utility and service industries. We adapt applicant screening tools to the information needs and budget of each customer and provide 24-hour turnaround of test results worldwide. We also design tools for employee retention, management development, and succession planning.