

THE FINANCIAL PAYOFF FOR HIRING RIGHT

During the current economic boom, many areas across the country have become full employment markets. With few exceptions, everyone who wants a job has one. Recruitment and hiring of new workers is extremely difficult, simply because there are more job openings than there are qualified people to fill them. As a result, many companies are tempted to relax their hiring standards. Some are reverting to the “warm body” method of hiring.

At PSP, we have great sympathy for companies who have trouble finding qualified employees. We face this problem in our own organization in Pittsburgh. Nevertheless, our customers and our research tell us that hiring warm bodies causes two major financial problems. One is the direct cost associated with sub-par workers. The other is the losses a company experiences from not hiring above-average workers. Each of these financial impacts is worthy of elaboration.

Sub-Par Workers = Higher Costs

With the warm body method of hiring, you hire sub-par workers. Such workers are very expensive overhead. Studies show that sub-par workers produce only half the output of 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 turnover of middle managers in organizations costs 2½ times the annual salary of the departing managers. For non-managerial professional positions, replacement costs average \$35,000. Government statistics indicate that turnover of non-

professional office staff costs \$5,000 per person. Departing semi-skilled hourly workers cost companies between \$500 and \$1500 for replacement. 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.

Do you have the right people working on the right things to achieve superior results for your organization? If you have not taken an inventory of your existing talent and aligned your succession planning with your business strategy, there is a good chance that you do not. When organizations do succession planning, they usually focus on job titles. That is a focus on the past, not on a strategy for the future. Focusing on the requirements for specific jobs misses the big picture. Greater flexibility is required to refocus business strategies to deal with rapidly changing conditions. Succession planning should concentrate on competencies needed for the business to accomplish its competitive goals.

Organizations Must Become Future-Oriented

Driving this new way of looking at succession planning is the pace of change brought about by the increased use of technology and the globalization of the economy. Increased competitiveness, with increasing demands for quality and value-added products and services, requires organizations to become future-oriented and flexible. Throw in the scarcity of talent and the shortage of labor, and we face a chaotic, dynamic economic environment in which to practice succession planning.

While many companies have given up on traditional succession planning, a successful business must identify and develop the right people with the right skills for the organization to compete effectively. Succession planning requires us to review our business strategy as goals change in order to pinpoint the skills and competencies required of our employees. It should not focus on specific jobs, but rather on the actions and strategies necessary to reach the goals. These actions and strategies then become the basis for developing a leadership competency model.



Developing a Competency Model for the Future

What skills and competencies are needed for the future? Obviously, organizations need bright and flexible employees who are comfortable with technology and change. These employees must have an entrepreneurial bent and global awareness, as well as the ability to partner and to build business alliances. In addition, new leadership approaches are required, with emphasis on the abilities to facilitate rather than direct and to work with diverse individuals and organizations. Because the talent pool is shallow, leaders must be able to develop others and to have strong critical thinking and problem-solving skills.

A competency model provides the right criteria for determining which of your managerial and professional staff exhibit the right qualities or show the promise of developing those qualities in time to help you achieve your business goals. Only after you have articulated the strategic objectives for your company and identified the important competencies required to achieve these objectives should you begin the process of sorting out and marshalling your talent pool. PSP's assessment services allow companies to inventory their existing talent as well as to identify their developmental needs. With an assessment of your talent, you can learn if your employees have the necessary skills and competencies or, if not, what they need to develop. Thus you can plan your career development programs for maximum return on your investment of time and money. You will also learn when to seek talent from the outside to meet critical strategic needs.



Don't Wait to Begin Succession Planning

Unfortunately, most organizations wait too long to do succession planning, acting only when there are obvious problems or after top-notch talent has left. Use of a competency model moves succession planning away from job titles and traditional experience and focuses on the qualities necessary to lead the organization. Often a person with the right competencies currently works in a different functional area than expected. Recently, for example, companies have been successful moving people from human resources and accounting into operations and line management. What these employees lacked in traditional job experience they made up for with the right skills and leadership competencies.

Relying on what we have done in the past seldom assures success in the future. Putting off or ignoring succession planning will have severe consequences when the existing talent pool lacks the right skills and competencies to drive the business. Companies who focus on strategic initiatives without assessing the capabilities of their staff often find, to their distress, that progress is not being realized and targets are not being met.

Succession planning must change because jobs are changing. The key skills and competencies required to adapt to a changing marketplace are driven, not by traditional precedent, but by strategic requirements. Planning succession based on competencies, not job titles, will provide the flexibility necessary to have the right people in the right places doing the right things at the right time to reach the right goals.

ENERGY, DRIVE AND WORK MOTIVATION: THE KEYS TO PRODUCTIVITY IN THE NEW MILLENNIUM

The world of work is changing. Under pressure to best the competition, increase earnings, and surpass investors' expectations, most organizations are placing demands on their employees to be more productive, to take on additional duties, and in many cases, to

work longer hours. In factories, banks, hospitals, law firms and offices, longer workweeks and overtime are becoming the norm. Even bankers no longer keep "bankers' hours." Sales quotas, billable hours and production goals must be maintained, and every organization is seeking more efficiency and



higher productivity. However, while higher productivity is sought through more efficient and effective work systems, it is more often gained through heavier workloads and more hours spent on the job.

Dynamic, high-energy people seem to take those extra hours and heavier workloads in stride. They not only work quickly and tolerate heavy workloads better, but they also have staying power: the ability to tolerate extra long shifts and extra evenings/weekends with few negative effects. If increased productivity is the goal, other things being equal, the challenge for human resource managers is to identify and hire dynamic and energetic people and avoid those who are slow or lethargic.

Identifying High-Energy Employees

Some hint of a job candidate's energy and drive may be gained through traditional interviews, but this is certainly not to the level of accuracy needed for making employment decisions. Also, high-energy, dynamic people are often perceived as

nervous and "jumpy," while very low energy job candidates are often mistakenly described as calm and self-assured. However, while more traditional HR techniques may give us inaccurate or inadequate assessment of a candidate's energy and work motivation, these same qualities can be measured quite accurately by PSP's paper and pencil Work Behaviors test. PSP's first Director of Research, Frederick Herzberg, was a world famous pioneer in the measurement of work motivation. PSP's HTQ test measures not only pure physical energy and drive but also the proportion of energy and drive that is directed toward productive work — what we refer to as work motivation.

Far from being just a theoretical concept, a job candidate's energy, drive and work motivation amount to a significant contribution to corporate success. Not only are energy and drive major components in the success of top managers and outside sales representatives, but our recent validation studies have shown that energy and drive levels are significant factors in predicting the success of lawyers, system operators, bank tellers and laboratory technicians — all jobs that we consider sedentary. PSP's new research indicates that plant start-ups and major expansion projects which have focused on hiring candidates with high energy, drive and work motivation have been able to identify new employees who can work at significantly higher levels of productivity per person than comparable plants in the same organizations.

Managing High-Energy Employees

High-energy employees not only produce more but also seem to do it more easily. Apparently, it is much easier for management to channel the available energy of the high-energy group into productive work than to coerce lower energy people into meeting higher production standards. Contrary to the ancient Aesop's fable, the hare rather than the tortoise may be the winner in the productivity race of the new millennium.

***The hare rather than
the tortoise may be the
eventual winner in the
new millennium.***



WHAT'S
NEW
@
PSP

- ❖ Cut turnover 50% in a 500-employee manufacturing plant on a year-to-year basis through pre-employment screening.
- ❖ Designed and implemented a plant startup recruitment and selection program for a US division of a leading German textile manufacturing company.
- ❖ Completed validation studies at a major tire manufacturing plant, demonstrating employment testing accuracy rates of 83 to 88 percent.
- ❖ Added over 100 sites to PSP's customer-managed testing programs in the past 12 months.
- ❖ Translated PSP assessment instruments into French and German to serve the needs of our international customers.
- ❖ Assisted in the reorganization and career development of staff in four manufacturing facilities in the UK and Belgium.
- ❖ Corroborated research by a specialty steel producer showing a strong correlation between PSP testing and the prediction of safety violations.
- ❖ Completed a large-scale overseas plant start-up project that not only met recruitment deadlines, but also yielded quick-learning, highly-motivated, team-oriented workers in quantities well beyond customer expectations.
- ❖ Confirmed, by independent cost analysis, that two sales representatives hired (against PSP assessment recommendations) and fired after 2 and 8 months cost the employer an unnecessary \$35,000.



HUMAN RESOURCE DEVELOPMENT

THE UNION TRUST BUILDING
SUITE 470
PITTSBURGH, PA 15219

PHONE 412.261.1333
FAX 412.261.5014
WWW.PSP-HRD.COM

TRAINING RESOURCES ON CONFLICT MANAGEMENT

Healthy conflict can quickly turn negative. A good article on handling disagreement at the management level is, "How Management Teams Can Have a Good Fight," by Kathleen M. Eisenhardt *et al*, in the July-August 1997 issue of **Harvard Business Review**.



For dealing with difficult people, we have enjoyed listening to the audiocassette program **How to Deal with Difficult People** by Rick Brinkman and Rick Kirschner, an entertaining and educational set of tapes which can be played in 40-minute segments. **Dealing With People You Can't Stand: How to Bring Out the Best in People at Their Worst**, by the same authors, is also highly recommended.



For managers who want to provide self-study materials on conflict to team members, we recommend **Managing Workplace Conflict** by Dr. Jean Lebedun. This interactive paperback volume is concise, easy to use, and practical in transferring training from textbook to everyday life.



Another great audiocassette on conflict management is Helga Rhode's **Dealing with Conflict and Confrontation**. This tape underscores the inevitability of conflict, how to see it coming, and the best ways to deal with "dirty tactics."



Winning With Difficult People, by Arthur H. Bell and Dayle M. Smith, presents profiles of ten difficult personality types, explaining how to recognize them and how to gain some understanding of the various emotions and motives that trigger their conduct.



For recommendations on training resources on any management topic, contact PSP directly via telephone or fax.
For further information visit our website:
www.psp-hrd.com