WORKFORCE INSTITUTE

Hiring for Retention

Get It Right, Right Out of the Gate

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Unrelenting Hiring Pressures

Global workforces, maturing workforces, baby-boomer retirement waves … you don't have to look very far to get a flavor for the challenges of building a 21st century workforce. Additionally, price pressures from the global economy make it critical to put the right people in the right job at the right time to minimize costs and maximize customer service.

Employers continue to seek out the top ten percent of workers, and even in a recession the desire to hire the top tier does not abate. While economic slowdowns in the United States and Western Europe are driving creeping unemployment, prudent companies will continue to invest in attracting and retaining the best talent.

The pressure to hire is unrelenting. Leaving critical positions unfilled is the single largest driver of lost revenue in the economy[1]. Open head count costs companies money because valuable work is not being done and output is not generated. Open head count puts pressure on existing employees to fill the gap by working extra hours or doing tasks outside the scope of their normal responsibilities. This has a direct bearing on worker morale and can lead to higher turnover if the situation is not remedied.

However, the cure is not simply to ramp up hiring. Hiring the wrong person can be just as costly as leaving the position unfilled. It can alienate employees and customers, and can cause distractions for management. It also has potential legal pitfalls. The challenge is to hire the *right* person, and to conduct the hiring process with an eye toward retention.

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[1] United Stated Federal Reserve Board, Beige Book, April, 2008.

Costs Associated with Turnover

As we've discussed in other articles in our series, most managers underestimate the costs associated with turnover. Here is a partial list of costs associated with replacing an employee:

Sunk costs

- Training costs and time invested in the employee who is leaving
- Resource time conducting exit interviews
- Severance and benefits continuation

Replacement costs

- Cost of temporarily filling the vacant role
- Cost of job advertisements to fill position
- Administrative costs of handling, processing, and responding to hundreds or thousands of resumes
- Cost of recruiter time to identify, screen, and recruit candidates
- Cost of line manager to identify, screen, and recruit candidates (most common in non-exempt workforces)
- Cost and productivity impact of all interviewers interviewing multiple candidates
- Cost of background checks and other reference checks

On-boarding costs

- Cost of new hire orientation and training, including the cost of trainers and materials
- Cost of manager's time spent in orientation
- Cost of overall unrealized productivity until new hire is up to speed (typically 3-9 months for exempt positions and 10-12 weeks for non-exempt)

Other costs

Depending on the employee who is leaving, there could be other costs as well, such as:

- Cost impact of unemployment insurance premiums
- Lost revenue from customers who "follow" the employee
- Cost related to lowered employee morale, such as dips in departmental productivity and additional employee turnover
- Loss of sales productivity, leading to missed revenue goals
- Delays in getting a product to market, resulting in loss of competitive advantage
- Lost intellectual property and competitive advantages when the person leaving goes to a competitor

Assigning a cost to some of these factors may be difficult, but it's important to make an estimate. The average cost of replacing an employee ranges from 25% of annual pay for an hourly worker to 200% - 250% of annual salary for a managerial position.

These enormous costs and the demographic trends in the workplace behoove us to revamp the hiring process with an eye toward retention. In this environment, it's critical to "get it right, right out of the gate".

Start at the Beginning

Hiring for retention starts with good workforce planning. Workforce planning is an on-going exercise to forecast both workload demand and workforce requirements. It points to how many people will be needed, with what skill sets, when, and where in order to execute the organization's strategic plan. It's a process that considers the historical performance and demographics of the workforce to answer the "who, what, when, where, how, and why" of hiring to meet the company's goals. It enables forecasting, pro-active recruitment, and retention strategies that can be managed and budgeted for. In other words, it allows plans to be created in the context of realistic and manageable cost constraints.

Workforce planning must occur in the short-term (specifically around labor rostering) as well as in the mid-term and long-term. Armed with the information from the workforce planning process, and in the context of workforce supply and demand, you can now look at recruiting and retention activities.

An important part of the workforce planning process is the calculation of a turnover range that is healthy for your specific environment. From the largest Fortune 500 company to the smallest mom and pop business, turnover data exists. It might be in formal HRIS systems or it might be stored in peoples' heads as anecdotal evidence. What constitutes healthy turnover (bringing in "fresh blood" to stoke the innovation engine, driving lower labor costs, etc.) and what constitutes unhealthy turnover will vary greatly by industry. It's important to establish the target level so that management and HR can proactively make improvements to the hiring process to drive the turnover number into the healthy range.

Hiring for Retention

The purpose of this paper is not to explore workforce planning, but rather to position it as a backdrop for what comes next: hiring for retention. We'll turn our attention now to methods that you, individually, or collectively within your organization, can use to make better decisions on hiring new employees with an eye toward retention.

We recommend a methodology in which the hiring process is viewed in a systemic and holistic fashion. Metrics are developed, and execution is measured against meaningful targets.

Typical Hiring Process

To illustrate the contrast in methods, let's first describe what occurs in the typical hiring process. The need for a new hire is identified, usually by the hiring manager. This can occur through resignation of existing staff or as part of the annual budgeting cycle, but in either case the hiring manager is asked to define what is required in the new hire. This process is almost always focused on the competencies (knowledge, skills, and abilities) required to do the position, and often uses the departing individual as a baseline.

For example, the job requisition for a cashier in a supermarket might specify that two years of experience working as a cashier is required, and that hands-on experience with the specific type of cash register used by the store is preferred. The requisition might also specify that supermarket experience is preferred.

These are legitimate criteria; however, this limited scope doesn't take into account the culture of the company. Nor does it help the team to evaluate if the individual is a good long term fit for the company with potential for advancement to management.

Is There a Better Way?

A better process might be to conduct testing to determine whether an individual has the aptitude to learn and excel at the job, as well as role based assessment to determine a cultural fit to the company and the position. In a given role there are technical abilities which can, and should be tested to validate that the candidate has a given skill set. Examples of this can be from something as simple as a typing test for a legal secretary to knowledge of Oracle business applications for IT professionals. A variety of vendors provide solutions to measure any number of physical skills or intellectual knowledge.

Additionally, an entire field has emerged dedicated to what is loosely referred to as "role-based" assessment. While some of the older technologies such as Myers-Briggs type indicators are well known, three generations of research have further advanced this field.

These assessments look at the culture and the make up of an organization, a division, or even a given project team. They are based on the premise that for a given organization to succeed, it needs everything from Visionary Leaders to Conductors (managers) to Engineers (designers) to those who will do the "heavy lifting" necessary to complete the tasks.

In the broadest sense this isn't about an individual's job, it's about a team's aptitude and the players' ability to complement one another based on individual capabilities, preferences, and strengths. For example, when building a house an essential skill for a construction worker is the ability to nail boards together. However, when the roof is constructed, one worker may have a fear of heights while another may enjoy the adrenaline rush of being on the roof. Role based assessment would allow these differences to be identified, and work assigned within the team in a way that maximizes not only skills but desired activities.

Look at Wegmans, which is consistently rated by Fortune Magazine as one of the top 100 employers for which to work. Wegmans has managed to maintain a union-free environment, drive employee loyalty, and reduce turnover to rates that are well below industry norms.

One factor that contributes to its success is its hiring process. The process at Wegmans starts with a job application, but as part of the interview process store managers are given tools to assess an applicant's aptitude, attitude, and corporate fit. This part of the process takes a little longer, but Wegmans enjoys a higher offer-acceptance rate than its competitors and an average employee tenure of seven years versus the industry average of fourteen months.

Wegmans doesn't limit its hiring to people who have experience at other grocers; in fact, it has developed a mechanism to look outside of traditional labor pools. By extending the recruiting effort into non-traditional pools, Wegmans is able to fill positions faster at lower cost, and also instill a sense of loyalty in employees who feel they're being given a rare opportunity. While hard to quantify, this results in higher employee morale and greater productivity, which in turn translates into better customer service. It is this customer service that sets the company apart from its peers, and the reason that Wegmans is expanding its market share when many of its competitors are struggling.

Six Steps to Hiring for Retention

How does one hire for retention? We recommend that you have a clearly defined process and hold managers accountable for following it.

Defining mandatory and desirable traits makes it possible to easily rate candidates against one another, and allows more effective screening, thus reducing the time management must spend in job interviews. But, like Wegmans, you should make the effort to look at the complete picture and not just so-called mandatory criteria. In the definition of "mandatory criteria" the management team and Human Resources must determine if skills are truly mandatory or just desirable.

To avoid making poor hiring decisions based on just gut instinct, use this step by step process:

1. The management team writes a formal statement of what it wants to accomplish, e.g., "hire 3 new cashiers".
2. HR and the management team identify the competencies needed for someone to succeed in the *company*, regardless of position[2].
3. Conduct a discussion between the recruiter or line manager responsible for the requisition and the management team that will be involved in the hiring process to clearly outline priority order for objectives, what skills are required, what skills are desirable, and why. The "why" is the most important part of that discussion, and goes back to the workforce planning process, where we defined what workers are needed to meet the company's strategic objectives.
    a. The qualifications are divided into three categories: the need to have, nice to have, and the like to have. They are stated in a way such that candidates can be rated on a scale from one to ten so that candidates can be quantitatively compared to one another.
    b. "Need to have" means that without exception, a candidate must have these criteria in order to be considered.

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[2] Once this is defined, it should be revisited periodically, but this step is not necessary for every new position.

    c. Once the candidate has met the "need to have" requirements, then he/she can be evaluated on other factors. These should be in rank order of importance and are considered "nice to have".
    d. "Like to have" are factors that can help differentiate between two similar candidates once all other qualifications have been met.
4. Establish a time line which details management expectations for how quickly the requisition will be filled and what the interview process will be. The recruiter, who should be in a position to gauge the realities of the labor market and set realistic expectations for how quickly he or she can identify, screen, and present candidates, commits, along with the hiring manager, to following that process. They also agree upon the filtering criteria for the screening process and the interview process.
5. Establish a list of any assessments which will be conducted, and when in the interview process this "testing" will occur. In some cases, this will be dictated by regulatory requirements, and it is the job of the human resources organization to understand these constraints.
6. Determine who the interviewers will be, and what each interviewer will cover with the candidate.
7. Weigh both the qualitative and the quantitative information gathered from your assessments and interviews.

Benefits of a New Process

By following the steps above and weighing in role based assessments that evaluate fit, aptitude, and attitude as well as technical qualifications, the recruiter can respond faster, managers see only qualified and screened candidates, and jobs are ultimately filled more quickly. In addition, retention rates are increased, reducing costs due to turnover.

Invest in Technology

The recruitment process can be time consuming and carry regulatory requirements that will vary from state to state, site to site, and country to country. The tasks of capturing candidate data, tracking it effectively and efficiently, and screening resumes can all be simplified and automated using technology. The same can be said for position management and requisition tracking.

Not every business needs a large Enterprise Resource Planning (ERP) system, but a wide variety of Applicant Tracking Systems (ATS) technologies are available at relatively low cost. No better investment exists to speed the hiring process and gear it toward retention.

Finally, everyone who is involved in the hiring process should understand that while they are qualifying a candidate, they're also selling the company. Accountability to the business, to your employees, to your customers, and even to yourself requires that you make every possible effort to hire the right people. As you attract better, smarter, and more engaged workers, the existing workforce will either increase its performance to match that of the newcomers or be replaced by higher caliber employees.

Retention Starts with Hiring … Where Does It End?

If retention starts with hiring, where does it end? Quite simply, it doesn't! Management and HR must be held accountable to hiring the best "fit" for a position every time a position becomes available. They must pay close attention to exit survey data and implement proactive changes to help drive retention. They must take the time after each hire to ask what went right, what went wrong, and what they can do differently in the future.

The constant feedback loop will improve retention and help companies get hiring right, right out of the gate.

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