Corporate Recruiting Reports

Recruiting Effectiveness and Retention

Staffing.org
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Staffing

Effectiveness & Retention

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Why the 21st century staffing model values staffing effectiveness more than any other benchmark, and why that model is more appropriate for today’s business environment than the traditional, 20th century staffing model.
Objectives

Staffing.org reports focus on the relationship between recruiting and managing employees well and business advantage. From an HR perspective, that relationship is no longer solely about the core activities of 20th century corporate staffing model: filling seats, maintaining records, enforcing standards, morale building and compliance. Today’s enterprise staffing model, rebuilt for the 21st century, includes all those administrative tasks (increasingly outsourced) but also addresses directly the broader set of questions every business asks itself:

- What’s the relationship between people, profit and growth?
- What’s the most efficient way to manage human capital?
- How do people affect our competitive position?
- How does talent quality affect business performance?
- How can we create the most productive business culture?
Effectiveness Trumps Efficiency

Traditionally, staffing departments’ success has been measured by their efficiency: how fast hiring occurred and at what cost. Many businesses still evaluate them primarily on that basis.

But from a business standpoint, staffing efficiency, while important, is less consequential to financial success over the long term than whether the workers hired are able to perform their work to a high standard, and whether they stay with the organization long enough to maximize their contribution. Those two criteria, performance and retention, measure a staffing department’s effectiveness. Superior hiring efficiency means little if those hired are not also effective.

The shift in emphasis from efficiency to effectiveness is one of the most significant differences between the 20th and 21st century staffing models. It stems from the gradual evolution in management thinking away from staffing value defined by transactional excellence — processing requisitions — to staffing valued for its affects on growth, profitability and competitiveness. In other word: same work, different yardstick.

If staffing is all about transactions, then efficiency is paramount. If it’s about business impact, then effectiveness becomes much more important.

The Cost of Quality

Cost per hire is typically only 8%-12% of first year compensation.

The cost of poor retention, when fully itemized, can easily exceed 50% of first year compensation, and for a critical manager or professional can easily top 100%.

Poor performance is even more expensive. An underperforming sales or operations position can cost an employer hundreds of thousands of dollars over a multi-year term of employment. A poorly performing top executive in a large company can cost tens of millions.
Competitive Pressure

Why has the model changed? In a word, globalization. As the world has globalized, business has become more competitive. Even very small businesses can now expect to do business in a global marketplace. New, Internet-based, venture-backed companies are required to think in those terms from the first round of funding. Local markets, once shielded from competition by distance, have been opened to competition by the Internet and mobile communication. Even poor, isolated communities are now increasingly accessible to the international business community.

The effect of increased competition on human capital practice has been both obvious and subtle. Outsourcing and offshoring are two obvious trends. Finding and exploiting cheaper labor markets are now common business practices. So are downsizing and rightsizing. Competition has raised the bar for operating efficiency in every industry. Businesses have had to sustain growth and profits using fewer resources. Simultaneously they have also had to raise product and services levels. Companies that can’t manage both challenges, often simultaneously, can no longer compete.

Human capital management is subject to all these trends. What used to be primarily a cost focused activity has increasingly become a strategic business activity. Efficiency remains a universal management objective — a manager who can’t run an efficient operation doesn’t remain a manager for long — but it’s no longer the primary business objective.
The New Model

What is involved in changing from the 20th to the 21st century staffing model? How has the work of staffing an enterprise today fundamentally changed from what it was two or even ten decades ago?

A high altitude view would suggest that advertising job openings, contacting and vetting candidates, hiring the best ones, onboarding them, and providing orientation remain the basic tasks.

But at a lower elevation, it’s easy to see the changes. The evolution of the accounting profession offers a useful parallel. Once it was called bookkeeping and the bulk of the work was just that, keeping track of business by hand in large ledgers. But over time, as manufacturers required advanced cost accounting systems, and corporations required better public reporting for shareholders, bondholders and lenders, these more complex financial systems required advanced professional training and resulted in a professional certification known as the CPA.

In large enterprises today, the CPA (or multiple CPAs) reports to a CFO whose fluency in accounting is supported by additional fluency in law, investments, international exchange, risk management, investor relations, government regulation, and law.

Bookkeeping fundamentally remains bookkeeping, but the top echelons of the profession now require a much broader and more sophisticated knowledge of money and business. The complexities of enterprise level financial management today make the CFO’s job very different from his direct ancestor, the company clerk.
Personnel Director to CHRO

The evolution of staffing has followed a similar trajectory. The ancestor of today's staffing function was the personnel office, which was largely an administrative center. Hiring requests were processed, candidates were screened and scheduled, and files were set up for new hires.

But the world didn't stand still. Companies became larger, unions appeared, benefit plans developed and government regulation increased. The head of personnel needed additional credentials in forecasting, labor relations, financial management, training, and law. Professional certifications similar to the CPA followed: PHR, SPHR, and the Masters degree focused on what was becoming known as human resources.

Today's equivalent to the CFO is the CHRO, whose field of expertise has expanded still more to encompass marketing and brand management, technology, strategic planning and outsourcing, and data management. Where fully developed, the position supervises the human capital assets of the enterprise in much the same way that the CFO supervises the financial assets.

The old personnel office, staffed by generalists and managed by the most senior generalist, is becoming a collection of specialists in sourcing, candidate relationship management, compliance, learning and development, change management, assessments and interviewing, technology, and data management.

The manager of an old-style personnel office would be as ill equipped to fill today's CHRO position as an old style book keeper would be fill the shoes of today's CFO.

Performance and retention have always been human capital issues, but hiring managers and line managers were largely responsible for them. Staffing's job was to prepare good slates of candidates, take care of paperwork and organize training.
New Expectations

Clients with the most evolved staffing capability seldom discuss efficiency measurements such as cost per hire and time to fill at the C-level. If efficiency is a problem, the solution is delegated to the CHRO, as it is every other CEO/COO report. In senior management circles, the ability to deliver efficiency is assumed.

Improving workforce quality is where the big enterprise returns on good staffing are found. CEOs increasingly understand this. Therefore the staffing department that can improve quality in a measurable way will receive more attention and recognition from top management than one that cannot. Put bluntly, in the 21st century human capital model quality trumps cost. Were a staffing department to focus on a single objective above all others, it should be finding and selecting the best employees, not posting the best CPH and TTH numbers.

In the old model, staffing’s affect on quality was determined by the quality of the candidate slate. If performance and retention were poor, staffing was implicated through not having provided good candidates, even though other factors, poor management, poor job training or poor interviewing may have been the more relevant reasons.
## Changing Models

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<th>20th Century Staffing Model</th>
<th>21st Century Staffing Model</th>
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<tr>
<td><strong>Analytics</strong></td>
<td>Rudimentary. Mostly time and cost related. Most companies report &lt; 5 metrics</td>
<td>Efficiency metrics for every phase of the recruiting funnel plus marketing, sourcing, onboarding, candidate attitude, and new hire success metrics</td>
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<tr>
<td><strong>Candidate Relationship Management</strong></td>
<td>Generally neglected. “Black hole” recruiting is the norm</td>
<td>Very important. Key to positive social media and word of mouth, thus key to job market brand reputation, candidate flow and acceptance rates</td>
</tr>
<tr>
<td><strong>Compliance</strong></td>
<td>Focus on risk avoidance</td>
<td>Focus on business advantage</td>
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<tr>
<td><strong>Hiring Efficiency</strong></td>
<td>Primary success metrics are cost per hire and time to hire</td>
<td>Secondary to hiring effectiveness, or finding the most capable and productive hires</td>
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<tr>
<td><strong>Hiring Manager Relationship</strong></td>
<td>Service oriented. Focused on timely processing of job requisitions and accurate interpretation of job requirements</td>
<td>Consultative. Focused on understanding and helping solve the hiring manager's business challenges</td>
</tr>
<tr>
<td><strong>Hiring Quality</strong></td>
<td>Partial control, limited responsibility</td>
<td>Accountable, in partnership with the hiring manager</td>
</tr>
<tr>
<td><strong>Information Management</strong></td>
<td>Generally neglected. Text based. Not interactive. Job and company information is sketchy, bland, “corporate-speak” offering minimal value to job seekers</td>
<td>Provides deep, detailed, well designed job and employer information in interactive, multi media formats, that optimizes both opt-in and opt-out candidate decision-making</td>
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<td><strong>Marketing</strong></td>
<td>Focused on individual job postings at time of need. Little or no coordinated brand messaging</td>
<td>Emphasizes brand management, creating good word of mouth and pools of interested candidates ahead of actual need</td>
</tr>
<tr>
<td><strong>Operations</strong></td>
<td>Based on time-honored, manual recruiting processes, with some technology assistance</td>
<td>Optimized for the newest, integrated technology</td>
</tr>
<tr>
<td><strong>Outsourcing</strong></td>
<td>Tactical focus on seasonal and temp hiring and on occasional specialized searches (professional, executive)</td>
<td>Strategic focus based on “value-added” analysis (can third party free up internal resources for higher value activities (CRM and interviewing), versus lower value (sourcing and background checks). Favors long-term, ongoing partnerships</td>
</tr>
<tr>
<td><strong>Staffing personnel</strong></td>
<td>Mainly generalists working requisitions end to end</td>
<td>Mainly specialists in sourcing, marketing, administration, candidate relationship management, technology, testing, interviewing, L &amp; D and change management</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td>Siloed, limited functionality, mostly automates traditional manual processes. HR is an active user, but lacks ownership expertise or control</td>
<td>Integrated, up to date functionality. Considered essential for high staffing performance. HR cultivates expertise and partners with IT and finance in all tech related decisions, becoming owners instead of users</td>
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Defining Effectiveness

Staffing effectiveness has three parts:

- Candidate quality - Are the right people being recruited?
- Performance - Does new hire performance confirm those recruiting decisions?
- Retention - Is the company benefiting long term as well as short term?

In most companies, the candidate quality metric is familiar. Competent staffing has traditionally included interviews, skills testing, background checks, assessments, references, and trial periods to help separate small pools of desirable hires from larger pools of undesirable ones. But despite their familiarity and widespread use, these checks have produced inconsistent results. Why?

There are five reasons:

- **Design** — The screening mechanisms aren’t well designed, interviews being a prime example. In most companies, interviewing skills vary widely and formal training is absent. Many studies have shown the disconnect between interviewers’ opinions of their own expertise (mostly high) and objective measurements of staffing effectiveness (mostly low). Top executives are as guilty of overrating their selection skills as everyone else.

- **Consistency** — Quality checks and procedures aren’t consistently applied across the organization. Departments measure different things in different ways.

The recruiting measurement priorities of today’s HR organizations reflect the 20th century staffing model’s bias toward efficiency: six out of the ten most popular measurements. Three effectiveness measurements do appear, a positive sign, but rigor is often lacking.

Simplified quality ratings (satisfied, unsatisfied, qualified, unqualified, etc) don’t provide enough diagnostic information. What’s needed are comparisons of pre and post hire checklists of goals and competencies.
• **Evidence** — Quality vs. performance comparisons are subjective and anecdotal rather than empirical

• **Interpretation** - Data analysis is faulty. People read their own biases into the data or the data is ambiguous

• **Audience** — The data and the audience are mismatched. (see “death by metrics,” page 89)

Most companies continue to experience one of more of these issues, and this widespread lack of accountability related to quality has been one of the principal reasons HR developed its reputation as “soft” discipline in contrast to the “hard,” data grounded disciplines of supply chain management, manufacturing operations, or finance.

Our studies still show that fewer than half of all companies systematically and rigorously compare both

• New hire qualifications against job specifications
• And job specifications against performance

And where they do, they most often measure them occasionally or informally, or they measure one but not the other.

Bringing the right people into a company and keeping them loyal involves a long chain of events for which the staffing function will never be entirely responsible. Staffing can present magnificent slates of candidates, but if the rest of the company isn’t working toward the same quality and retention goals, results won’t ever be exceptional. Staffing effectiveness is ultimately a whole company affair.

**Quality oriented staffing questions**

“What would happen to our top line if all our sales hires were top quartile?”

“What would happen to our department performance if all the staff were like (top performer)?”

“What’s our true cost of vacancy and how would a 50% reduction in turnover affect our profitability?”

“How do we rank as an employer in the job marketplace? Are we attracting the best candidates?”

“On which skill sets does our future depend? How does our pipeline compare to our needs?”

How much would the organization suffer if (key employee) left and it took us 6 months to find a successor?
Quality and Performance
There is a growing body of research linking superior HR practice to superior business performance. Best practices in acquiring and retaining talent are not solely responsible, but they are indicative. Companies that have focused on improving the front end of the employee lifecycle, an historically under-appreciated area, are likely to have also paid attention to things like compensation, career tracks, employee development and succession planning.

There are many ways to measure the corporate benefits of the “right” hires, but a recruiting department that can demonstrate mastery of just three — candidate quality, new hire performance, and first year retention — will find itself in a better competitive position than the majority of its competitors.

60%
Percent of corporate performance depends on the right CEO and succession.
Ram Charan

40%
“The ‘leader effect’ accounts for up to 40 percent of the variance in performance or value (of a company)...Even a medium sized U.S. Company could increase its value by $1 billion through better people decisions at the top.” – What Really Works, Wasserman, Nohria & Anand

20% / 120% / 600%
A blue collar worker who is one standard deviation (superior) above the mean (average) is 20% more productive than the average worker. In a more complex job such as selling insurance, production increases to 120%. For a highly complex management job, one standard deviation increases performance by 600 percent.
Risk & Reward

Nowhere is the risk/reward equation of effective staffing better illustrated than in the hiring of CEOs.

- Outside searches are expensive, averaging $2 million \(^2\)
- Learning curves are long, 12-18 months in larger organizations
- The impact of the hire can account for up to 40\% of the variation in a company’s future valuation \(^3\) and up to 60\% of corporate performance.\(^4\)
- 50\% of outside CEO hires quit or are fired within 12-18 months \(^5\)

In other words, as expensive as hiring is at this level, the impact of recruiting effectiveness — getting the hire right — is far more consequential. The difference between a successful and an unsuccessful hire, both costing the same amount, can translate to a billion dollars in financial value for a medium sized U.S. company.\(^6\)

The onboarding period, or time to competence, for this job is defined the same as it is for all other hires: the amount of time required to experience every aspect of the job at least once. For CEOs who have to become familiar with dozens of major customers and suppliers, visit sales offices, division offices, regional offices, manufacturing plants and research facilities, meet hundreds of managers, and build effective executive teams, this period can easily last 12-18 months.

Risk/reward calculations can be applied to any position where there is a clear performance difference between poor, average and superior work. Researchers who have made those calculations for mid level manager, skilled professional, and blue collar levels have found productivity differences ranging from 20 to 60\%. 

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\(^1\) \$2,000,000

The average cost of hiring a new CEO from outside the company

\(^2\) 40\%

Percent of CEO vacancies in the United States currently being filled from outside the company

\(^3\) 40\%

Percent of CEO vacancies in the United States currently being filled from outside the company

\(^4\) 50\%

Chance that the new CEO will quit or be fired within 18 months.