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Building the winning organization through high-impact hiring

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ABSTRACT

Successful business strategy depends heavily on an effective organization composed of highly skilled employees who are committed and motivated to achieve the mission and vision of the organization. Although many organizations claim to hire the best employees, and may even make an attempt to, they might not actually do so. Kismet, a company that provides strategic hiring services cites a Bureau of Labor Statistics report indicating that 66 percent of employees in U.S. companies as unengaged (in other words, not working toward company goals and objectives)or disengaged, meaning those employees actively work against company goals and objectives (www.kismet-consulting.com/services/hire.html).

Despite many attempts to calculate the cost of bad hiring decisions, estimates vary considerably and range as high as ten times the annual salary of the employee. Tony Hsieh, CEO of Zappos, believes that bad hiring decisions cost his company $100 million, in part due to the domino effect of bad hires (http://www.businessinsider.com). In this paper, commonly used hiring techniques will be reviewed and recommendations offered to improve organizational hiring effectiveness and financial performance.

INTRODUCTION

Perhaps the greatest challenge facing managers could be that of selecting and hiring employees, not just any employees, but employees capable of helping the organization achieve its stated mission. Typically, the literature on strategic management tends to focus on the entrepreneurial team, or senior management and seldom addresses the importance of all employees hiring. Successful companies not only need effective leadership, they also need effective team members. Bad hiring decisions could not only negatively affect a company financially, but could also harm employee morale and possibly lead to even more bad hiring decisions.

How often do companies make bad hiring decisions? Lorenz (2012) reports a *CareerBuilder* study in which 69 percent of employers indicated that they were adversely affected by a bad hire in the current year. Companies should not be surprised at this however, as Kleiman (2007) found 75 percent of managers and business owners with hiring responsibilities possessed little or no training in hiring employees. In addition, the *Harvard Business Review* (cited in Yager, 2012) reported that as many as 80 percent of employee turnover can be attributed to bad hiring decisions.

TERMS

A-B-C level managers-C-level managers typically are at the corporate level and carry the title of Chief Executive officer, Chief Operation Officer, or other similar title. The B-level manager would be a middle manager and an A-level manager would be an entry-level manager.
First impression bias-although not a good predictor of future work performance, sometimes an applicant might be rejected based upon appearance, verbal or non-verbal behaviors.
High-impact hiring-selection of applicants who perform at exceptional levels in their work.
Human Capital Index-human capital is the combination of knowledge, competencies, creativity, cognitive ability, and personal attributes embodied in the ability to perform labor in order to produce economic value.

Myers-Briggs Personality Inventory-a test developed to identify a person's personality type, strengths and preferences, sometimes used by managers for team building.
Personality profile-a management tools used to identify employee values, personal attributes, and life skills.
short-skilled workforce-workforce (usually by geographic location or industry) that does not possess the necessary work skills needed to perform available employment.
Wonderlic Personnel Test-intelligence test sometimes used as a pre-employment test.
yield model-a mathematical model developed to help produce the highest or best possible result.

The hiring imperative

Company bottom line could be considered the primary importance for most executives and certainly, hiring impacts company profitability. The Watson Wyatt study (cited in Sangeetha, 2010) utilized the Human Capital Index to measure company practices including recruitment excellence and retention and found those measures connected to firm productivity and a rise of 90 percent in company shareholder value.

According to Joel Peterson (Peterson, 2013), Chairman of JetBlue Airways and who serves as the Robert L. Joss Consulting Professor of Management at the Stanford Graduate School of Business, “Nothing is more important than hiring. Nothing.” Peterson argues convincingly that hiring decisions impact everything done in a company from the company vision and values, to the extent a company will become able to innovate and adapt in a highly competitive marketplace.

Other Chief Executive Officer’s (CEO’s) agree. Kevin Ryan (Ryan, 2012), founder of Gilt Groupe believes that the best use of time for CEO’s of companies with more than 50 employees would be to hire the very best people, do a good job managing them, and make sure the company builds and maintains a team of high performing employees. This approach requires executives to let go of day-today operating decisions, which could be very difficult for some hands-on CEO’s.

Making good hiring decisions a priority also puts pressure on top management to evaluate and make decisions that might categorize employees as A, B, or C level. Les Wexner (cited in Axelrod, Handfield-Jones, and Michaels, 2002) struggled with this concept but rationalized that he had 175,000 employees whose jobs depended upon the leaders at The Limited. Many executives tolerate average, or C-level employees due to the potentiality of lawsuits. Axelrod, Handfield-Jones, and Michaels (2002) found only 19 percent of senior managers removed low performing employees quickly and effectively.

The study Axelrod, Handfield-Jones, and Michaels (2002) conducted over a five-year period examined 27 companies known to employ highly talented workers and surveyed 13,000 managers from 112 different companies. Results of their study include finding high-performing companies 33 percent more likely to act upon average employees than their peer companies. Managers of winning organizations understand the strategic importance of hiring decisions and the need for high-impact hiring in order to help improve overall corporate performance.

Effective strategy execution requires employees with the skills, abilities, and organizational commitment commensurate with the mission and vision of the organization. Fernandez-Arroz, Groysberg, and Nohria (2009) report recessions to be a boon for recruiting. Yet a recent Aquent/American Marketing Association study found more than half (54%) of marketing executives believe their teams do not possess the people and skills necessary to meet the objectives of their organization and manage new technologies and trends (*Marketing News*, 2013). A short-skilled workforce compounds the problem as Robert Half International (cited in Yager, 2012) reported that 36 percent of executives surveyed indicated poor skills match as the leading factor in bad hiring decisions, followed closely by unclear performance objectives (30%).

Fernandez-Arroz, Groysberg, and Nohria (2009) surveyed 50 Chief Executive Officers of global companies in addition to executive search consultants representing approximately 500 firms and found hiring practices “disturbingly vague.” In fact, many of their findings could be considered disturbing. The CEO’s reported in generalities with regard to their strategic human resource needs but only a few of CEO’s had actually developed a hiring plan which took into consideration the human resource talent that would be needed to achieve organizational objectives.

Seemingly conflicting results from research studies complicate the hiring process. This disconnect could be due to the many differences in job type and authority level. In a study of credit union executives, Yancey (2000) found that different hiring techniques proved more effective, depending on the level of management employee being hired.

DISCUSSION

Perils and pitfalls in hiring decisions

In some cases, bad hiring decisions can be the result from poor cultural fit. Woerling (2010) states organizations will sometimes hire individuals who they think might produce preferred changes in the organizations' culture. Peterson (2013) says the biggest mistake a manager can make would be to hire someone just like you. First of all, you might discriminate against someone on the basis of race or gender. Second, you should be looking for people with different experiences and abilities to bring to the company. Finally, hiring persons with the same opinions and point of view could limit your ability to identify potential business opportunities.

When companies engage in hiring new employees there are three possible outcomes. Ideally, the company will make a good hiring decision and hire the best suited and most capable person to fill the position. Another possibility is that the company could make a poor hiring decision and suffer the effects of that decision that include not only costs associated with that particular employee, but the domino effect of that person also making poor hiring decisions. The outcome least addressed could be that of hiring a satisfactory employee, though not the best suited for the position. In this case, the employee meets all the requirements of the job and performs well, but the best candidate could have been "selected out" at some point in the process.

Costs of poor hiring decisions fall under two categories: tangible costs and intangible costs. Tangible costs include those associated with hiring and include advertising, interview expenses (that might also include travel, hotel, meals, and other expenses), employment testing and background checks, relocation, and possibly litigation for wrongful termination, outplacement expenses, and salary (Hinkin and Tracey, 2000). In addition to these, the company will likely have incurred the additional costs of spending considerable human resource and management time in developing the job description and advertisement, screening resumes, applicant testing and performing background checks, as well as interviewing candidates.

Fernandez-Arroz, Groysberg, and Nohria (2009) calculated that for a company with a market value of $100 million, "a 10 percent improvement in the quality of candidate assessments would have an expected return of almost $2 million in additional profits per year and mean an increase in market value of $30 million to $40 million." Certainly, this should motivate management to develop better hiring processes.

Intangible costs

Many types of costs can be difficult to quantify and can include lost sales, lost customers, lower product quality, and reduced production. Additional costs can be incurred resulting from customer dissatisfaction and lower worker morale. Consider also the impact of C level top managers. If each C level manager hires ten managers who then hire twenty employees, that senior manager now impacts 200 employees. Without the corporate vision, shared values, and overall high performance, that manager could seriously impact corporate performance.

A flawed system

An early stage in the hiring process centers on screening resumes for potential interviews. However, many resumes contain errors or inaccurate information. A survey conducted by ResumeDoctors.com (cited in Steenwyk, 2008) found 42.7 percent of resumes included mistakes or misrepresented information with regard to education, job titles, and/or dates of employment. In addition, many companies and organizations do not respond to inquiries regarding job performance or behaviors. More and more companies now only verify dates of employment and in some instances, job titles (Steenwyk, 2008).

Yager (2012) cites a University of Michigan study on job performance predictors which found that the typical job interview only increased the likelihood of selecting the right job candidate by less than 2 percent. In fact, Fernandez-Arroz, Groysberg, and Nohria (2009) stated "The worst interviewers may very well recommend a candidate who's less qualified than one hired at random." In some cases, the job interviewers lack the skills and training to make effective hiring decisions.

Several potential problems can taint the interview process. First, impressive educational credentials and experience listed on the resume does not necessarily mean that the applicant actually performed well in their previous company. Second, Fernandez-Arroz, Groysberg, and Nohria (2009) suggest first-impression bias can within minutes (or less) cause the interviewer to form an opinion, positively or negatively, about an applicant. In addition, the interviewer could already have a preferred candidate they wish to hire, perhaps a friend or relative, or friend or relative of someone else within the company.

Many organizations utilize various forms of testing as part of their screening process. Different tests measure different things and different jobs call for certain technical skills and certain personality types. Yancey (2000) reports that in the 1990's, the Army found cognitive ability tests to be best at predicting whether a soldier acquired the necessary job knowledge and technical proficiency to meet or exceed job standards. Despite the importance of these findings, perhaps even more importantly, the Army researchers also found personality measures to be the best predictors with regard to motivation. The personality measures examined conscientiousness and dependability as they would impact physical fitness, personal discipline, and leadership.

Some companies, even smaller firms use the Myers-Briggs Personality Inventory. Margaret Starner (cited in Steenwyk, 2008) leads a six-employee firm and uses the Myers-Briggs to assign the right person to the right job, while Accredited Investors, Inc., uses the Kolbe A Index to measure applicant aptitude in four key areas. Other organizations, such as the National Football League (NFL), use standardized intelligence tests such as the Wonderlic Personnel Test. Steenwyk (2008) reports that among NFL players, quarterbacks typically score much higher than most other positions. A couple notable exceptions include Terry Bradshaw and Dan Marino, who despite low scores on the Wonderlic test, led their team to the Superbowl became members of the NFL Hall of Fame.

Other companies use personality profile tests which can be useful in trying to predict an applicant's behavior after hiring. Different jobs not only call for different skill sets, but also persons with certain personality traits. Personality traits that make for a good salesperson might be considerably different from personality traits needed to be a quality control inspector. Hoover (2000) suggests that because personality testing should not be considered 100 percent accurate, employers should consider personality testing as only 25 percent of the hiring equation.

The ticking time bomb

Poorly performing managers and employees can be compared to ticking time bombs as often it can take months or years before the impact of their substandard work comes to light. When assembly line workers make a mistake, the problem can more likely be resolved on the spot or during the final inspection process. However, when a CEO makes a mistake, the results may take years to unfold and cost millions or billions of dollars or even cause the company to shut down.

WEAKNESSES

Resumes often contain errors or misrepresentations and most applicants know well enough to use a recognized format. Several studies, including one by Qureshi and Kay (1986), question the validity of resumes. In their study, the researchers found that applicant characteristics, most notably attractiveness affected resume evaluation.

Interviews in many cases are conducted poorly due to lack of interviewer training. Also, many poorly qualified applicants might be able to present a good appearance and speak well at the interview. In addition, many persons responsible for hiring employees do not have the necessary skills to effectively carry out an interview and may lack the knowledge of what questions can be asked during an employment interview. Despite being one of the most commonly used hiring methods, Macan (2009) points to these and other issues that suggest interviews are often less than perfect.

Poor integration and acclimation of new hires. Employee turnover reduces corporate knowledge, can lead to reduced employee morale, and adversely affect business profitability. In a study of the hospitality industry by Hinkin and Tracey (2000), costs associated with replacing employees at nearly $8,000 in direct costs in addition to costs associated with peer and supervisor disruption.

Personality profiles might not be 100 percent accurate. According to Psychometric Success, a company that assists applicants to prepare for job selection testing, despite an annual industry growth rate of 10 percent, personality profile tests can easily be outwitted. The company even offers a book for sale on their web site to teach people how to beat the personality profile test. Psychometric Success also cites an American Psychological Association report that found "almost no evidence at all is available beyond assurances that evidence exists" regarding the accuracy of some of the approximately 2500 personality tests available on the market. http://www.psychometric-success.com/personality-tests/personality-tests-understanding-industry.htm

Fine-tuning the system

Despite the fact the system might be flawed, management can fine-tune what does work well in order to improve employee recruitment and selection. Fernandez-Arroz, Groysberg, and Nohria (2009) cite a study of middle managers at a Fortune 100 firm which used a peer-ranking system. They found 14 percent of middle managers ranked by their peers as among the top 30 percent with regard to perceived potential, eventually became corporate officers.

Networking, or word of mouth promotion, can be an effective hiring tool. Sangeetha (2010) points to information technology firms IBM, Wipro, and Cognizant Technology as examples of companies that rely upon employees' networks. Adam Robinson, CEO of Hireology (cited in Kane, 2010) believes the best source of job applicants to be referrals from your best employees. Kane (2010) also offers an example of a large regional bank that pays their financial advisors for new hire referrals.

Ryan (2012) also believes networking to be among the most effective ways to hire good employees. He argues that resumes only serve as means to verify basic job qualifications. Likewise, some people can speak well and present a good appearance. Because of today's litigious business environment, Ryan also does not put much value in reference checks. However, through networking, Ryan can call someone to get the inside scoop on a potential hire.

However, hiring managers should not be too quick in dismissing the use of reference checks. Sometimes although previous employers might be unwilling to provide detailed information regarding a job applicant's work history with their firm, they might be willing to answer whether they would rehire the person, or maybe offer some other insights into the applicant's work history. Employers may also request applicants to provide copies of work performance evaluations.

Once the company has made the hiring decision, managers need to be sure the new hire assimilates into the organization. Fernandez-Arroz, Grosyberg, and Nohria (2009) found that 40 percent of new hires for C-level positions who left within two years of their hiring date did so due to integration issues. A 2007 Novations Group survey (Fernandez-Arroz, Groysberg, and Nohria, 2009) of human resource and training executives reported that one-third of responding companies lost 10 to 25 percent of new hires within the first year.

Managers also need to be certain that their hires are top performers. Research provides a strong argument for doing so. Axelrod, Handfield-Jones, and Michaels (2002) refer to The Limited department store, SunTrust Banks, and PerkinElmer, a high-tech company which all credit their significant growth and financial performance in large part to aggressive efforts to replace average performers with high-performing employees.

Sullivan (2010) offers nineteen specific suggestions to improve the recruitment process, many of which can be found in other articles on the topic. But perhaps the most important advice Sullivan provides would be to develop a mapping process to help those involved in the recruitment process to see the big picture and prepare a yield model to identify what works and what doesn't work. The recommended process centers on a marketing approach whereby the recruiter works to better understand job the applicant, the recruiter then effectively targets those applicants with a demonstrated record of success.

CONCLUSION

The evidence could not be clearer. Recall the *CareerBuilder* study by Lorenz (2012) where 69 percent of employers reported their company had been adversely affected by a bad hire in the current year. Also recall Zappos' Tony Hsieh (Wei, 2010) claiming that poor hiring decisions cost his company $100 million. In addition , consider the study by Fernandez-Arroz et al. in 2009, where they calculated that a 10 percent increase in the quality of job applicant assessments could generate almost $2 million in added profitability on an annual basis and potentially increase company market value between thirty and forty million dollars. These are just some of the examples that point to the need for better hiring decisions.

Success of a company, even its very survival, can depend upon good hiring decisions. None of the techniques commonly used in the hiring process could be considered perfect, but sound management can use the means at their disposal to improve the system. This important first step begins with effective recruitment practices, from developing accurate job descriptions to utilizing the best recruitment methods available. If your company or organization considers itself serious about hiring the best managers and employees for the firm, they also need to offer competitive salary and benefits packages.

Second, you need to instill a culture of excellence among all managers within the organization that recognizes and values quality employees. Instilling that culture will be the first step in retaining excellent employees. Motivational skills and quality of supervision will be essential qualities for the leadership team in order to maintain the desired level of excellence.

Third, managers must be willing to address problem employees. In some cases, with effective leadership, average workers can be brought up to higher performance levels. In other instances managers might also need to be replaced. These steps can help an organization leverage use of human resource strategy, which could then result in a strategic advantage and improved financial performance.

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