

Staffing Waste: Identify it, measure it, reduce it

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INTRODUCTION

Recently I had a candid conversation with the president of a building materials company about ways to improve the results of hiring new sales representatives. When I asked him about the cost of on-boarding a new hire, he said confidently, “The length of the sales cycle and the learning curve takes a new rep about two years to get up to speed. So I budget about \$250,000 for each new hire.” “Unfortunately,” he added, “they all don’t work out. We make about 50 replacement hires per year.”

“Where else do you budget for waste in units of \$250,000?” I asked. After racking his brain for a brief and what appeared to be painful moment, the man replied that all of manufacturing at his company doesn’t waste that much in an entire year.

“However, I am getting better at firing new hires in the first year now,” he said with a bit of a chuckle, attempting to lighten the weight of his \$12,500,000 realization.

I’ve included the above anecdote to illustrate the critical—yet often overlooked—concept of staffing waste. One form of staffing waste is the investment of recruiting and on-boarding new employees who quit or are terminated before they achieve proficiency or minimum performance standards. And, while the cost of acquiring front-line performers at your company may be far less than, say \$250,000, early turnover at any organization can cause significant losses.

The purpose of this paper is to help HR professionals and others in your organization see staffing as a process with yields and understand the scope and impact of staffing waste. I will identify and explore four specific metrics that you can use to document staffing waste. And once I’ve armed you with several action steps to collect and explore this data, I’m confident you’ll be compelled to seek additional methods to improve your staffing process.

The hard truth is that you hired your best, and you hired your worst. And both outcomes came from the same hiring process. That’s why understanding how those decisions were made and how those candidates were evaluated is a critical component to reducing staffing waste.

FIRST, A CALL FOR ANALYTICAL LITERACY

The renowned mathematical physicist and engineer William Thomson, also known as Lord Kelvin, once stated, “If you can not measure it, you can not improve it.”¹ In other words, numbers matter. Numbers enable us to scrutinize, analyze and draw conclusions about a particular problem. Numbers provide us with a way to develop solutions based on quantifiable evidence. Numbers are the path by which we can achieve *analytical literacy*.

As your organization looks to achieve strategic success and sustain a competitive advantage, it is imperative that HR professionals bring a new level of analytical literacy to the job. Conventional metrics such as cost per hire, recruiting cycle time, cost per trainee and turnover percentages are insufficient at best for communicating the strategic value and contribution of recruiting departments and the positions they fill. Moreover, these numbers are rarely, if ever, related to workforce performance, a factor that contributes to overall organizational success.

If you’re thinking, “Wait a second, I’m an HR manager, not a statistician,” don’t abandon hope just yet. Analytical literacy can begin with asking two simple, pertinent questions—specifically, “What matters?” and, “How can I measure it?”²

Even in today’s technology-driven world, which makes collecting data cheaper and easier than ever, many well-intentioned, seasoned professionals still make assumptions about what matters. They still go with their gut. They still utilize opinion versus evidence.

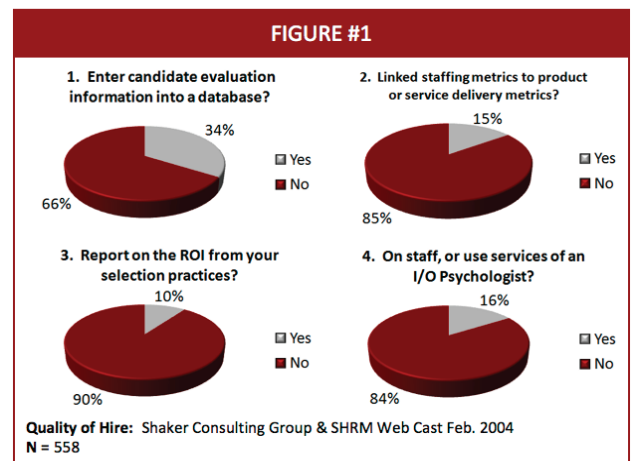
For example, one of our clients in beverage and food retailing had been placing importance on years of experience in hospitality and food service. Analysis of the evidence showed that this screening criteria actually had a negative or inverse relationship with achieving high performance. Another client had been placing value on previous experience in retail banking. This analysis showed this criterion had no relationship to on-the-job performance. You see, while the cost per hire is likely a number you know, the relationship between the candidate’s screening responses and actual job performance may not be as clear. Even with these two small examples, you can easily see the need to approach things differently.

With improved analytical literacy, you would think about the return on investment (ROI) of candidate evaluation as it relates to successful execution of the workforce's strategy. You would collect candidates' responses in the screening process as data that could later be analyzed for possible correlations to front-line goals such as increased sales, higher levels of productivity or better retention.

By employing analytical literacy throughout your staffing processes, then both the costs *and* benefits of your decisions will become clearer. Plus, by providing senior leaders at your organization with talent solutions based upon metrics and analytics, you'll be able to help them view the staffing process less as an operational expense, but more as a strategic investment. And you'll be able to increase your internal equity by transforming yourself from that of a traditional HR manager to a valued strategy manager.

STAFFING WASTE ITEM #1: CANDIDATE DATA

Not long ago, we at Shaker Consulting Group, along with the Society for Human Resources Management (SHRM), conducted a Quality of Hire Survey (see Fig. 1) that asked 558 HR professionals if they have candidate evaluation information in a database. Sixty-six percent of respondents said they did not.³ That's right, 66% with no candidate evaluation data (hence my call for analytical literacy in the previous section). But in addition to not collecting any data, another problem persists for many HR folks: collecting data that is insufficient or of little value.



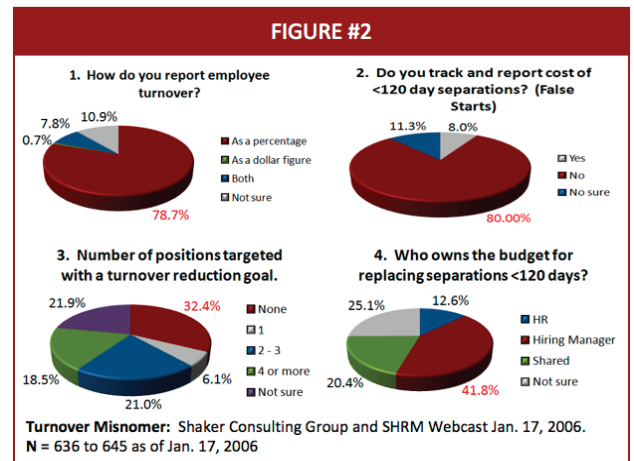
Without collecting adequate, quantifiable candidate data from your screening and evaluation processes, it will be virtually impossible for you to identify with any level of certainty the causes of staffing waste or to develop methods that reduce it. In other words, **No Data = No Analysis = No Learning.**

The good news is that candidate data can be obtained and stored in a manner that lends itself to analysis with just a few tweaks to your staffing process. You can better leverage your existing Applicant Tracking System (ATS) by building scorable, objective candidate questionnaires. These structured approaches offered by most ATSs are efficient mechanisms for collecting job-relevant work experiences (biodata). Interview ratings can often be entered into the candidate record as well.

If you're looking for an expert to advise and direct your efforts in this area, one suggestion is to meet with an Industrial-Organizational (I/O) Psychologist. Experts in the measurement of people at work, I/O Psychologists can help you explore a variety of methodologies for collecting candidate data. In essence, they're scientists who can help you address issues in human resources with, well, more scientific resources.

STAFFING WASTE ITEM #2: FALSE STARTS

New hires that terminate prior to achieving minimum performance standards are called false starts. Typically, these are people who separate from your organization for one reason or another within 90 to 120 days. And if you're anything like 78% of HR departments we've surveyed (see Fig. 2), your common practice is to report turnover as a percentage.⁴



The problem with reporting turnover as a percentage is that no one owns the waste. A percentage obscures the financial implications and when reported at the company level, it obscures accountability. This means no one owns the responsibility for properly managing and reducing false starts. Not you, not your department, not the managers of the department experiencing the highest rate of turnover.

For example, if you reported that during the last year your organization experienced 9% turnover, you might assume that things are in line with industry norms. But if you take a closer look at those false starts, perhaps you would discover that of the reported 9% company-wide turnover, 70% came from one department in the form of false starts, and separated in less than 60 days on the job. Each individual false start will mostly likely require a replacement. Plus, the loss in productivity, team and hiring manager frustration, and investment in recruiting and training for each replacement will cost the company thousands of dollars. Now that paints a very different picture than “9% turnover.” (See False Start Waste and Rework ROI Calculator on p. 6.)

Following are some action steps to help you reduce staffing waste from false starts, and to help you shift your paradigm from, “Turnover is a percentage that no one owns,” to, “False starts are a form of staffing waste that I’m accountable for reducing.”

First, you can identify the jobs with the highest level of false starts. Using the head count or turnover report in your human resource information system (HRIS), you can do a quick query of individuals with a tenure less than 120 days.

Next, start documenting the cost of on-boarding. If your company embraces Six Sigma, team up with a green belt or black belt on a project to address this. Form a cross-functional team with the hiring managers and the training department to understand the true financial implications—dollars invested—of on-boarding for the first 120 days. Once these figures are known, you could begin working directly with the CFO to identify the budget codes related to various on-boarding activities. Then you’ll be able to create reports that track and report the cost of on-boarding and document the waste from false starts.

By approaching the cost of on-boarding with greater analytical literacy and accountability as described here, you’ll be able to continuously monitor and report staffing waste to the executives within your organization. With someone now owning the responsibility for reducing staffing waste from false starts, improvements to the bottom line can be realized. And you may want to take credit for that.

STAFFING WASTE ITEM #3: REWORK

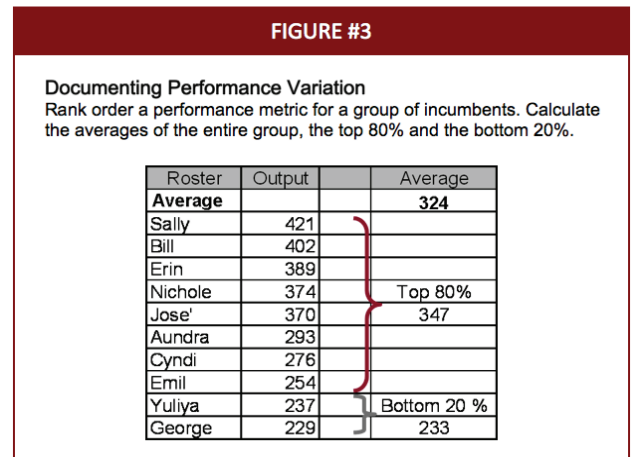
Every time your company experiences a false start, rework is required to recruit and train the replacement hire. Put another way, rework doubles the cost of on-boarding for each false start. The False Start Waste and Rework ROI Calculator (see p. 6) shows a hypothetical example of how this doubling-effect would look at a company with 100 false starts annually. Feel free to input your own data, too. The numbers may surprise you.

Note: In order for The False Start Waste and Rework ROI Calculator to appear and function properly on the following page, you must be viewing the document using Adobe Acrobat Reader. To download the latest free version, [click here](#). Or contact Shaker Consulting Group at 216-292-0202 for an alternative format of this paper.

As you can see, rework is a hard cost that's interrelated with false starts. So the recommendations discussed in the previous section, "Staffing Waste Item #2: False Starts," would also be applicable for developing ways to reduce staffing waste from rework.

STAFFING WASTE ITEM #4: PERFORMANCE VARIATION

No matter how similar candidates for a given job may appear on the surface, people are different. They are complex. They may behave in unpredictable ways once they're hired. And that's where the staffing waste problem known as performance variation comes in. You hired your best performer, and you hired your worst performer from the same hiring process. The range of productivity between these two extremes is a form of performance variation. See Fig. 3 for an example of how performance variation can be documented.



"If all employees perform at a very high level within a given role, then there is little opportunity for real strategic impact."⁵ But if differences persist, like they do in the majority of cases, it's time to start developing methods that better predict performance outcomes and close the performance gap. To use a manufacturing analogy, your goal is to reduce the number of faulty widgets coming off the assembly line. By implementing scientific methods you can more accurately hire people who perform like your top 80%, thereby reducing performance variation.

An essential tool for developing a staffing process aimed at reducing performance variation is pre-employment testing. These screening applications use multiple methods of candidate evaluation that provide a rich data set for analytical purposes, namely, validation analysis. A validation analysis is the method used to document which pre-employment data from candidate screening and evaluation actually adds value to how well the hiring decision predicts success on the job. For example, the outcome of a validation analysis can demonstrate the strength of relationships among variables such as work history and attendance, work style and time-to-proficiency, work samples and productivity, etc.

The result of approaching your staffing process with greater analytical literacy is the ability to reduce performance variation. This means fewer bad hires and a steady increase in your overall levels of productivity. By using this more calculated, data-centric approach, connecting pre-employment data to real, on-the-job performance metrics places the full weight of statistical evidence over “gut feelings” on how well your candidate evaluation process predicts better business outcomes.

**REDUCE STAFFING WASTE WITH SHAKER CONSULTING GROUP,
CREATORS OF THE VIRTUAL JOB TRYOUT®**

If you’ve read all this and you’re left wondering how on earth you’ll ever find the time to reduce false starts, rework and the negative impact of performance variation, you’re not alone. In fact, these very challenges are what led us at Shaker Consulting Group to find an innovative solution that improves the staffing process with an evidence-based, data-driven approach that directly connects candidate evaluation metrics to job performance.

We recently launched Virtual Job Tryout®, a game-changing, interactive pre-employment test for HR professionals and recruiters looking to increase the predictability of hiring more top performers and fewer bottom performers. What makes Virtual Job Tryout a one-of-a-kind candidate evaluation tool is that it combines a highly-customizable employment brand message, a realistic job preview and simulated work samples into one seamless “test drive” experience.

In addition, Virtual Job Tryout maximizes efficiencies of your staffing process by outsourcing data entry to candidates. As candidates complete Virtual Job Tryout their responses are captured, scored and presented to you in easy-to-understand reports. You can continuously monitor and use the data to make better, more reliable staffing decisions.

“We aren’t only hiring better candidates, but we are getting more and better information about all candidates,” said Gretchen Frampton, Starbucks’ program manager for assessments. Starbucks also says it has seen a significant improvement in business results by using Virtual Job Tryout to identify, and stop hiring, candidates that perform in the bottom 20%.⁶

Virtual Job Tryout is designed specifically for each company and for each position in order to reflect the realities an employee would actually experience on the job. Here are some other ways Shaker Consulting Group customizes Virtual Job Tryout:

- ◆ The look and feel of your brand is reflected graphically throughout the online assessment so the candidate experience is reflective of your organization's experience.
- ◆ The candidate is asked to respond to situations that occur every day in the lives of your current employees in that position.
- ◆ The assessment offers multiple opportunities to share specific information about your company culture and brand, employee testimonials, or your products and services, thus educating and conveying a compelling message.
- ◆ The metrics used to evaluate effectiveness of the assessment will be the same measures you use in evaluating your workforce strategy. The customized nature of Virtual Job Tryout allows us to achieve the strongest possible predictive power, and hence, the best returns.
- ◆ Reports are customized to meet your information needs—you choose the metrics, the level of detail, and the frequency of reporting.

Start reducing staffing waste today with Virtual Job Tryout, the fully-customizable candidate evaluation experience that's as comprehensive as the unique demands of your job, and designed to provide the analytical power you need to improve your hiring accuracy.

Shaker Consulting Group helps HR professionals build workforces that deliver superior business results. As developers of the Virtual Job Tryout® candidate evaluation process, we have provided the staffing and talent management disciplines with a best-in-class resource for achieving workforce differentiation. Organizations that have utilized a customized Virtual Job Tryout include notable brands such as CVS, Diebold, KeyBank, Marriott, Quest Diagnostics, SunTrust, Starbucks and Sherwin-Williams.

Contact me, Joe Murphy, at 216-292-0202, joe.murphy@shakercg.com or visit our website at www.shakercg.com to find out more about how Shaker Consulting Group can help you identify, measure and reduce staffing waste.

REFERENCES

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³ *Quality of hire survey*. Shaker Consulting Group & Society for Human Resources Management (SHRM), conducted via webcast Feb. 10, 2004.*

⁴ *Turnover misnomer survey*. Shaker Consulting Group & Society for Human Resources Management (SHRM), conducted via webcast January 17, 2006.*

⁵ Becker, B.E. Huselid, M.A. & Beatty, R.W. (2009). *The differentiated workforce: Transforming talent into strategic talent* (p. 61). Boston: Harvard Business Press.

⁶ Boyer, S. (2009). *Help wanted & help found: The insider's guide to recruiting and hiring hourly workers* (pp. 93-4).

*If you'd like to view the entire survey, contact [Shaker Consulting Group](#) for a copy.