

An Executive White Paper

**Winning Strategies for Recruiting and Retaining
Quality Employees**

People Drive Success

What drives the success of your company? Chances are, it's not your strategies or your products or your capital investments. It's your people. People are a company's primary source of competitive advantage. However, finding and keeping talented employees has become one of today's greatest business challenges, as these current trends reveal:

1. The pool of available labor is shrinking. Unemployment rates are hovering around 4.5%, the lowest since World War II. We are in the midst of an unprecedented post-war economic expansion and more people than ever are gainfully employed.
2. Even an economic slowdown may not alleviate the talent shortage. The economy is changing at a faster pace than ever before, forcing companies to hire people with different skill sets from one year to the next, regardless of the overall pace of economic growth.
3. Downsizing isn't the answer. Layoffs haven't decreased the unemployment rate. Studies show companies that downsize usually re-hire different people to fill those vacant posts and often end up paying more money to train the new hires. "When a company announces that it's cutting 40,000 managers, that doesn't mean it can operate with 40,000 fewer managers," says Peter Cappelli, director of the Center for Human Resource at the University of Pennsylvania's Wharton School. "All they're doing is churning the skill base. They're going out and hiring 40,000 managers who have different skills."
4. The war for talent is likely to intensify. A recent study by the McKinsey Group of 77 corporations and more than 6,000 executives concludes:
 - the demand for the best talent has not yet begun to peak,
 - the price of obtaining that talent will go up,
 - the best talent will be under constant pressure to defect.

Never has there been a greater urgency to improve recruiting and retention strategies.

Never has there been a greater urgency to improve recruiting and retention strategies. Companies that are winning this war for talent are doing so by investing more time, money and energy to attract the best candidates and keep valued employees happy for one simple reason: they realize the bottom-line benefits more than offset the cost of those investments.

What Today's Candidates Want

Today's candidates demand attractive compensation packages, including long-term deferred compensation and comprehensive health benefits. There is a continual increase in requests for performance-based compensation including bonuses and stock options. While up-front bonuses used to be relegated to the realm of upper management, offering a signing bonus to highly attractive candidates now often extends down, for example, to the staff accountant level.

While compensation used to be everything, these days your corporate culture is under greater scrutiny than ever by job hunters. A recent survey by Robert Half International looked at the line of questions by candidates and ranked those questions in terms of their overall importance to the candidate. The results showed that corporate culture rivaled compensation and benefits in terms of importance.

Candidates are evaluating companies on the basis of the length of the workday, weekend work, whether flexible hours are permitted, the opportunity to telecommute, style of management (participatory or dictatorial), educational opportunities, day care facilities and the availability of mentoring programs.

Job seekers also want their work to be challenging and stimulating. They are attracted to innovative, creative, rapid-growing organizations. “Prospective employees are searching for a workplace that allows them to be creative,” says D. Clark Havener, executive director at Russell Reynolds Associates, a search firm in Washington, D.C. “They’re looking for companies that are entering new markets or moving in a direction that’s intellectually stimulating to them.”

Companies that make the most of their human assets

How does your company stack up against the competition in offering the kind of corporate atmosphere that attracts highly qualified people and keeps them happy? Jac Fitz-enz, principal of the Saratoga Institute of Santa Clara, Ca., discovered that companies that excel both in profitability and customer retention all share these distinguishing characteristics:

1. A balanced focus on value – both human and financial
2. Long-term commitment to a core strategy
3. Close linkage between corporate culture and systems
4. Far-reaching two-way communication and information sharing
5. Effective partnerships with internal and external stakeholders
6. Mutual support and collaboration at all levels
7. The will to innovate and take risks
8. Competitive passion; never being satisfied with the status quo

Competing effectively for talent doesn’t always require throwing more money at a candidate than the next company. You can gain a recruiting edge by offering non-monetary benefits such as a potentially faster promotion track and greater job responsibilities.

Reduce Hiring Guesswork

The estimated cost of a bad hire ranges from two to three times that person's salary, according to Bill Trau, executive director of the IT practice at Christian & Timbers, a search firm headquartered in Cleveland, Ohio. "To replace a mid-level manager, there are costs associated with the down time that the job goes unfilled, hiring time, training time, and the time it takes to get the new person up to speed," says Trau. "An unfilled position may also adversely impact customer service and hurt business relationships."

More in-depth candidate screening

In a 1998 survey by Robert Half International, a staffing services firm specializing in finance, accounting and information technology, 1,400 chief financial officers (CFOs) were asked: "How has your firm's hiring process for accounting and finance professionals changed compared to five years ago?" CFOs responded:

Much more in-depth	23%
Somewhat more in-depth	31%
Same	40%
Somewhat less in-depth	1%
Much less in-depth	1%
Don't know/no answer	4%
	<u>100%</u>

More than half of all the respondents, 54%, felt that their hiring practices were more in-depth in 1998 than they were just five years earlier.

Consequently, about 70 percent of American companies have altered their hiring and selection process over the last 10 years to stem the tide of endless bulk recruitment. What's needed is a comprehensive system of hiring that encompasses these guidelines:

- *Look first at in-house talent.* Companies trying to hire in a record-low unemployment environment often overlook qualified people within their organization. Hiring from within also sends a message to employees that they too can be promoted.

State Farm Mutual Automobile Insurance Co., headquartered in Bloomington, Ill., boasts that the average insurance agent has been with the company for 15 years. The company has a strong promote-from-within policy. The only source the company uses for new State Farm agents is from the pool of State Farm employees who have been with the company for at least three years. Employees that apply and are accepted for agent positions go through a one-year training program before they become agents in the field. By then, they have a good understanding of the corporate culture.

- *Mine the Internet.* Newspaper ads alone are insufficient. Companies are posting job openings on Internet job sites or on their Web site. For example, www.joboptions.com charges \$2,500 a year for

unlimited access to its keyword-searchable resume bank. It currently includes approximately 67,000 resumes, and it will notify you when new resumes come in that fit your job description. Other resume databases include: www.monster.com, www.careercity.com, www.careermosaic.com, and www.new.careerpath.com.

- *Develop a more structured employee referral program.* At the 18,000-employee TRW Systems and Information Group headquartered in Reston, Va., a business unit of TRW, the employee referral program is the single largest recruiting tool. It accounts for 35% to 40% of all new hires, according to Bob Waters, the company's vice president of human resources.

"Employees don't refer people they don't want to work with, so the referral program serves as a pre-screening process for us," says Waters. "But to make it work, you need a financial incentive. When an employee refers someone we hire, they receive a bonus from \$500 to \$5,000 depending on the person's position and value. The referring employee's name also goes into a raffle for a chance to win additional cash prizes ranging from \$2,500 to \$20,000."

A lot of companies miss the cultural side of the applicant so the fit becomes wrong.

- *Focus on the culture fit.* Evaluating a candidate solely on education and experience is myopic. Find out what kind of organization they're coming from. "A lot of companies miss the cultural side of the applicant so the fit becomes wrong," says Chris Laubitz, partner with The Caldwell Partners, a search firm based in Toronto, Ont. "If you're a formal bureaucratic organization and the candidate comes from a free-wheeling, loosely structured environment, that person may have trouble adjusting."
- *Question perennial job-hoppers.* Tolerance for "short-tenure" candidates has increased in recent years. However, a person with a record of job-hopping is usually a negative signal, according to Havener. "A mid-level manager really needs to be at a company for at least five years to accomplish anything, otherwise, something went wrong," he says. "If there's a pattern of switching jobs, you need to question that person's decision-making process."
- *Read resumes in teams.* You'll find that different people will focus on different aspects of a resume, whether it's a gap in employment history or the fact that the candidate can speak more than one language. It's a good way of getting multiple perspectives on the same story, and it also enables you to get through more resumes quickly.
- *Demand a certain level of service from executive search firms.* A reputable search firm should meet with you to learn your corporate culture and provide a written document of the position. It should offer a timetable, explain fees, expenses and cancellation policy, report progress, interview prospective candidates, verify

credentials/experience, assess each candidate's strengths and weaknesses, check references, participate in the final negotiations, and assist in the candidate's adjustment to the new environment.

What to expect from an executive search firm

More and more companies claim to provide executive search consulting services, but not all of them adhere to the same service standards. The Association of Executive Search Consultants in New York City states that you should expect the following level of service from a search firm:

- Meetings with the client to develop an understanding of the organization and its needs
- Written documentation of the position description, general timetable and a statement of fees, expenses and cancellation policy
- Verbal and written reports on the progress of a search including scope of the search and feedback from the marketplace
- In-depth personal interviews by the consultant, verification of credentials/experience and an assessment of the person's strengths and weaknesses with respect to the position
- Comprehensive reference checking
- Active participation in the final negotiations
- Follow-up after the start date to assist in the candidate's adjustment to the new environment

- *Avoid decisions based on gut-feeling.* Most people hire out of desperation. The interviewer wants to eliminate the "pain" they're feeling about a business need not being satisfied. So they hire because they like the person's attitude in the interview.

"Interview behavior does not equal job performance," says Barry Shamis, principal of Selecting Winners, Inc., a recruitment and retention consulting firm in Mercer Island, Wash. "Believing how a person acts in an interview can lull you into thinking that's how they will act on the job. That kind of thinking can force you into a higher percentage of mistakes. The best predictor of how they will do when they come to work for you is to find out how they've done in past situations that most closely resemble your environment."

- *Don't ask open-ended questions.* If you ask, "So tell me about using technology to sell," the candidate can choose the direction and composition of the conversation. Instead, ask: "How did you use your technology system to shorten your sales cycle?" That type of focused, closed-ended question is a better way to get information you want.
- *Check references.* Call a reference during lunch when you're likely to reach their voice mail. Say "Sam [or Sally] Smith is a candidate for a position in our company. Your name has been given as a reference. Please call me back if you believe the candidate is outstanding." If nobody calls back, you've learned something.

Granted, accomplishing all those tasks can be exhausting. Fortunately, technology offers ways to reduce the amount of work required to recruit successfully. Today's human resources (HR) software packages offer enhanced capabilities such as:

1. Applicant tracking and resume-management modules
2. Online libraries of e-mail resumes
3. Self-service applications that allow candidates to learn more about your company
4. Tracking of recruiting expenses
5. Faster, more updated information on recruiting trends in your industry

Once a resume comes into the HR department, HR software applications can store it for future reference. Later, if a manager is looking for a specific set of skills, such as a tax expert with seven years' experience who speaks fluent Spanish and English, the software can search for candidates who meet that manager's criteria.

The Value of Employee Loyalty

Companies compromise their economic potential through human resources policies that lead to high employee turnover, in part because they fail to quantify the economics of retaining employees. They don't realize that employees who deal directly with customers day after day have a powerful effect on customer loyalty, or that long-term employees can almost always serve customers better than new ones can.

"Employee retention is key to customer retention, and customer retention can quickly offset higher salaries and other incentives designed to keep employees from leaving," says Frederick F. Reichheld, a director of Bain & Co., a strategy consulting firm headquartered in Boston, Mass. Reichheld has authored several books and articles on employee and customer retention strategies.

Reichheld has been studying employee loyalty and its relationship to company growth for the past 10 years. He says "We saw companies that were growing faster than they should have been able to, that were compensating their people well in excess of industry averages and yet were achieving low-cost positions in their respective markets. This just doesn't fit into the accounting paradigm, but what these companies had in common were very high levels of loyalty and retention, both in customers and employees."

Reichheld adds that companies re-engineer business processes, but fail to re-engineer career paths, job content and compensation so that employees will stay with the company long enough to learn those new business processes.

Staggered vesting, stock options and multi-year bonus programs for meeting performance goals shouldn't be reserved only for top-level managers.

Here are some of the most effective retention strategies in use today:

- *Extend orientation beyond the first week.* A new employee often discovers that after the first-week “honeymoon” is over, they’re left disillusioned about their new position, or don’t know where to turn for help. Offer continuing assistance to new hires through mentoring and follow-up meetings by human resources to check how they feel two or three weeks into the job.
- *Offer deferred bonus and stock option programs.* Provide bonuses that grow each year based on hitting performance targets. “Stock options which increase over time can improve retention as well,” says Reynolds. “You might offer 100 shares of company stock each year over five years, similar to a sort of vesting period. Staggered vesting, stock options and multi-year bonus programs for meeting performance goals are all proven retention tools that shouldn’t be reserved only for top-level managers.”

The importance of stock options as a retention tool

In a 1998 Robert Half International survey, 150 executives responded to the question: “How important are stock options in attracting and retaining American workers at all levels of a company?” Here are responses, compared to responses by executives who were asked the same question in 1991:

	1998	1991
Very important	37%	23%
Somewhat important	48%	57%
Somewhat unimportant	11%	12%
Not at all important	3%	7%
Don’t know/no answer	<u>1%</u>	<u>1%</u>
	100%	100%

In 1991, only 23% of the respondents felt stock options were “very important” in recruiting and retention. However, in 1998, 37% of the respondents, or about one-third more, felt stock options were “very important.”

- *Make flexible working hours, day-care, elder care and ongoing training standard benefits.* Those kinds of benefits demonstrate your strong commitment to meeting different employees’ needs.
- *Develop a floating assignment program,* in which employees spend time working in different departments or business units. But don’t let critical employees move too freely from one department to the next.

At Eli Lilly and Co., an Indianapolis, Ind.-based producer of pharmaceuticals, secretaries and administrative assistants routinely participate in job rotations, which helps them alleviate boredom and gain new work experience. The goal is to focus on how an experience within a different part of the company will broaden a

worker's knowledge and skills and make them more valuable to the company.

- *Generate positive word-of-mouth.* Investing in your people can help you attract qualified prospects through positive-word-of-mouth. “The better we do in terms of retention, the better we’re likely to do when it comes to recruiting, because the word will get out that this is a great place to work, not only locally but on the Internet as well,” says TRW’s Waters. “That kind of information spreads very quickly on the Internet.”

<i>High cost of employee turnover</i>	
Type of Cost	Average Amount
Termination: time and materials used in taking a person off payroll, retrieving keys, badges, etc.	\$1,000
Replacement: cost of hire and orientation	\$10,000-\$15,000
Vacancy: cost of lost production over cost of wages	\$20,000-\$25,000
Learning Curve Loss: cost of getting new hire up to speed	\$65,000-\$90,000
Total Loss:	\$96,000-\$131,000

Too often, the costs of replacing an employee are not fully understood or calculated. The largest single expenditure, the “learning curve loss,” is also frequently the one category that is underestimated most often when it comes to figuring the total cost of a re-hire. Source: Saratoga Institute

- *Make exit interviews more meaningful.* Use information from exit interviews to categorize defections into different groups. People who leave to join a competitor should be grouped separately from those who leave because a spouse landed a job in another city. Determine what caused each defection – lack of promotion opportunities, poor compensation, bad relationships with bosses, inadequate training. Use the results to target where you need the most improvement.
- *Offer retirement-age workers part-time employment.* Today, people over age 65 are more active than ever and more interested in doing part-time work such as consulting after they retire. Offer that opportunity to your retirees.
- *Calculate the value of employee retention.* It’s easier to gauge each employee’s productivity and contribution to revenue if your workforce is predominantly salespeople. Developing an employee retention measurement system for other employees takes time. Focus on areas such as the amount you spend on hiring and training, the amount of profits you fail to realize because of inexperienced employees, and the potential effects on profits that an increase in employee retention might generate. The goal isn’t to develop a sophisticated group of metrics, but rather to see where you’re losing money and where you can avoid those losses.

Here as well, today's technology can help you tackle your most challenging HR tasks and reduce the time and effort required to accomplish them by automating key human resource management activities:

- track data on each employee's hiring, reviews, promotions and terminations
- improve payroll processing and reporting to reduce errors
- post continuing education and training programs for employees online
- stay current with built-in standard reports and forms to help ensure government compliance
- maintain and report on an unlimited number of benefit plans

Conclusion

Ask any of the "Big Five" consulting firms which problem areas urgently need attention at most companies today, and invariably they'll tell you that high on the list is the need to find and keep qualified people. In meeting this critical need, several facts are clear:

1. Traditional recruiting and retention strategies considered satisfactory not too long ago are outmoded and insufficient in today's fierce employment environment.
2. More and more CEOs and CFOs are realizing that in order to grow their company, they need to make the kind of time and monetary investment capable of attracting and sustaining a competent, reliable work force.
3. Any senior manager who doubts the value of reducing turnover needs only to look at the cost of putting a comparable person in a position that opened up as a result of a defection.
4. Companies that fail to develop the latest thinking and technology to meet the urgent need for competent staffing will lose ground and market share to competitors willing to make such commitments.
5. A record of low turnover and high employee satisfaction ratings can be the most powerful recruiting tools your company can possess.

Most companies know what their employees cost, but not how much they are *worth*, or how much it costs to *replace* them. Ultimately, the solution to recruitment and retention problems boils down to awareness. Once you understand just how positively effective recruiting and retaining strategies can affect your company's bottom line in terms of greater productivity and customer profitability, the monetary requirements needed to implement those strategies will seem modest in comparison.

Most companies know what their employees cost, but not how much they are worth, or how much it costs to replace them.

About Best Software, Inc.

Founded in 1982, Best Software is the leading provider of corporate resource management solutions that allow organizations to better manage their people, fixed assets and planning processes. With more than 50,000 customers worldwide, Best Software is dedicated to delivering scalable solutions for growing businesses. By truly automating and streamlining the management of employees, assets and the ongoing planning process, companies are now able to make strategic long-term decisions based on solid data, giving them a competitive edge.

About Abra Suite®

Abra Suite from Best Software is the #1-market-leading corporate human resources information system in North America designed to meet the HR and payroll management needs of business of all sizes. Abra Suite is intended to help organizations:

- Hire, train and keep accomplished employees
- Cut the cost per hire
- Maximize their workforce's collective skills to achieve and maintain competitiveness
- Manage the cost of government compliance
- Gain greater control over payroll processing

Abra Suite is a registered trademark of Best Software. Best Software is a trademark of Best Software, Inc. All other product names referenced are believed to be the registered trademarks of their respective companies. © 1999 Best Software, Inc.

