

## HUMAN RESOURCES

# Master break-through hiring

Imagine for a minute that your late Uncle Lester left you a painting. It's an ugly painting, but out of respect for Uncle Lester you've kept it in your basement for the last 15 years. How would your feelings towards that painting change if you suddenly discovered that it was a Picasso worth close to a million dollars? Incredibly, there are similarities between that painting and your employees.

A recent survey of several companies in this area revealed unanimously that the number one hiring problem is the shallow pool of potential employees. There is no doubt that today's record low unemployment is causing hiring headaches. But a lack of employable people is not the problem—it's just a symptom of a greater problem.

### **Consider these two questions**

1. What are your employees worth?
2. Does your main competitor have a better company?

These questions are linked. Regardless of the type of business you're in, your success or failure depends almost entirely on the quality of your employees. Without a doubt, the company with the better employees will be more successful. The difference could be breakthrough hiring.

To understand breakthrough hiring, you must first understand the concept of companies as "teams." Everybody on the payroll is on the team. We do not know the particular makeup of the teams. One may be a mix of overachievers; another might have one superstar with the rest being mediocre. All the same, what we can determine is the overall effectiveness of each team. Keep in mind that companies are people. Nothing can be accomplished without a person being involved. That's the only input that counts, since everything a company is or does is

produced by its people. Forget what you learned in Accounting 101; it is not relevant to breakthrough hiring. Likewise, since we are comparing competitors, the only viable output is yearly sales. Profit figures have too many inherent problems to be the discerning variable.

The next step is to develop the concept called Intrinsic Value. Compare your company with as many of your direct competitors as you can. For each company, take its total yearly sales and divide it by the total number of its employees. The average dollar contribution per employee is Intrinsic Value. This assessment reflects your team's effectiveness in terms of your output (sales) in relation to the input (people you hired). For better or worse, it reveals your past success in hiring.

As a side note, this number is also an indication of what turnover costs a company. If a position is vacant, there is no employee contribution. The team is short one player.

The next phase is to compare the various Intrinsic Values of all the companies you included in your study. For the sake of clarity, let us use some examples. Your company's Intrinsic Value is \$200,000 per year per employee while Company A's is \$150,000 and Company B's is \$250,000. Therefore, on the average, you have better employees than Company A but not as good as Company B. The higher number indicates more output per employee.

From a practical standpoint, this means that if your hiring program improves and brings your average quality of employees up to the level of Company B, the potential return on investment is 25 percent ( $250 - 200$  divided by  $200$ ). Therefore, for annual sales of \$20 million, the economic incentive to improve a hiring program is \$5 million per year!

Amazingly, all that is needed to achieve that goal is to institute an active, organized, structured hiring system. The cost is minimal compared to the return.

Here is the scary part: Company B's hiring program may be better than yours, but it also has room for improvement: the 25 percent return is only a starting point. The actual potential is well beyond that.

To realize the likely impact, conduct a little confidential survey to develop the breakdown of talent at your company. Ask supervisors to evaluate only their direct-reporting employees. Have them to go down the list of subordinates and indicate their first reaction to this question: "If Employee A came in this afternoon and said he quits, how would you feel?" Would the supervisor feel Panic because the person is one of your better employees? Alternatively, would the supervisor Jump for Joy because the person was substandard? Lastly, would the supervisor just Shrug Shoulders because the employee is OK but nothing spectacular?

Do that for every employee to develop the numbers for the various categories: P for Panic (Eagles), JJ for Jump for Joy (Slugs), and SS for Shrug Shoulders (Maintainers).

Let us assume we collected these numbers for our \$20 million company with 100 employees, giving us an Intrinsic Value of \$200,000 per employee. We found 25 "eagles," 55 "maintainers," and 20 "slugs." (According to Bradford D. Smart, Ph.D., who has studied thousands of senior managers, these numbers are typical.)

Using the \$200,000 number for Intrinsic Value, the maintainers account for \$11 million of the output (55 times \$200,000). Now here is where you have to speculate. How much better are your eagles than your maintainers? (Although a good multiplier is four, use whatever number you feel is the best approximation.) Using four, the calculated eagle contribution is \$20 million (25 X \$200,000 X 4). The total, then, for maintainers and eagles is \$31 million, yet the company's annual sales are only \$20 million.

This means the 20 slugs are dragging down this corporation by \$11 million per year, or more than a half-million dollars each. If a modern hiring program is instituted to hire just maintainers that eventually replace the slugs, the incredible potential for improvement is 75 percent!

Your results will vary, but the numbers will probably overwhelm you. This simplistic but practical view will provide numbers that indicate the tremendous impact people have on an organization. Such information is a very powerful tool. Shouldn't the Picassos of a company be treated differently? In contrast, how about that slug? Will it be easier to terminate someone knowing that the company is better off paying the person to stay home every day? More importantly, knowing the economic impact of employee quality on the success of a company should provide a sense of urgency to improve a company's hiring program. That means instituting an active, organized, structured system.

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