

# You can pay a little now, or pay a lot more later

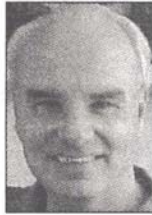
**I** read recently that the national unemployment rate is down to 5.6 percent, and not many net jobs are being created — but more than 1 million jobs change hands every month.

That's huge.

And, as the pool of good employees tightens, it becomes more imperative to get the right folks the first time.

The sorry fact is that many of those people leaving and entering jobs are ill-suited to their jobs. And, it's expensive for employers to employ someone, regardless of whether they're suited to the job or not.

## OUR VIEW



**John Heinrich**



**Kelvin Tomes**

**There are tools available that give hiring managers a good idea whether any employee is a good match for a job.**

So, my friend Kelvin Tomes, chief executive of Future Think Inc., and I are collaborating on this column, to help you reduce the churn in your own labor force.

Most small businesses, especially during good times, are just looking for a "body" to fill a slot, without much thought as to whether that body is the best fit for the job. Even for low-skill jobs, "fit" is important: Happy

employees breed happy customers.

McDonald's, are you listening?

Whole Foods, the organic food retailer, uses the methods outlined below for all their employees. As skill requirements increase, "fit" is increasingly important, as are the financial penalties for a bad hire.

The payoff from hiring smarter is huge. One of our CEO clients was a rapidly growing financial services firm that just got bodies in the door to fill positions. That resulted in relatively high turnover.

By asking more probing questions and profiling prospects, front-end costs went up about \$20,000 a year, but reduced turnover also reduced employment costs about \$250,000, a 10:1 return on investment.

These back-end costs of bad hires are common, but surprising to many business owners.

Brad Smart, author of "Topgrading," and Jack Welch's hiring chief at General Electric, states that the hiring success rate for organi-

zations using traditional methods is a dismal 50 percent.

Smart also states the cost of a single bad hire ranges from 14 to 24 times the annual salary. This back-end cost takes into consideration costs that most business owners don't factor in: lost time, wasted opportunities, additional training costs, negative effects on other employees, etc.

Why is the traditional hiring success rate only 50 percent? Quite simply, hiring managers are relying on traditional methods: résumés, interviews by unqualified personnel, reference checks. These methods don't really provide a complete picture of how well a candidate might perform.

If you snapshot what really determines job success (values, motivation, abilities, "soft" skills), the traditional process doesn't measure these.

All is not lost, however. There are tools available that give hiring managers a good idea whether any employee is a good match for a job. These tools cost money, but they're cheap in relation to the costs saved.

So, that's why we say in our Solutions Forum groups, you can pay a little now, or pay a lot later if you make hiring mistakes. The choice, to us, is simple: Like most things, do it right the first time.

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