

Values Based Recruitment

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The Cost and Effect of Bad Hiring Decisions

“One subpar employee can throw an entire department into disarray. Team members end up investing their own time into training someone who has no future with the company.”

So said CEO of HootSuite, Ryan Holmes.

A quick assessment of the statistics available all over the Internet regarding the cost of bad hiring decisions, paints a pretty bleak picture of how significantly this issue effects businesses.

1. The cost to replace 1 employee is estimated to be 50% to 200% of their annual salary (depending on experience and level of responsibility).
2. For a mid sized company of 500 people with just 10% annual turnover, an average salary of \$80,000 and a conservative cost to replace of just 75% of their annual salary, your company could be losing at least \$3,000,000 per year.
3. Candidates are becoming increasingly difficult to replace due to the critical skills shortage. A bad hire now could be an expensive mistake further down the road.
4. According to the most recent CareerBuilder Survey, nearly 25% of US employers reported a bad hire cost them more than \$50,000.
5. The successful aren't immune, and they've had to learn from their mistakes. Zappos CEO, Tony Hsieh once estimated that his own bad hires have cost the company well over \$100 million.
6. As much as 80% of employee turnover is estimated to be the result of bad hiring decisions.
7. 75% of the demand to hire new employees is simply to replace workers who have left the company.

These general statistics in and of themselves are sobering enough, yet when you add these costs to the other effects of poor hiring decisions, the picture starts to look even more alarming.

According to the CareerBuilder 2013 Survey, the price of a bad hire adds up in a variety of other ways.

Other significant 'bad hire' impacts on business

- Decreased productivity (39%)
- Lost time to recruit and train another worker (39%)
- Cost to recruit and train another worker (35%)
- Employee morale negatively affected (33%)
- Negative impact on clients (19%)
- Fewer sales (11%)
- Legal issues (9%)

What constitutes a 'Bad Hire'

Several other behavioral and performance-related issues are commonly reported by employers:

- Employee didn't produce the proper quality of work (67%)
- Employee didn't work well with other employees (60%)
- Employee had a negative attitude (59%)

- Employee had immediate attendance problems (54%)
- Customers complained about the employee (44%)
- Employee didn't meet deadlines (44%)

Common issues that contribute to 'bad hiring' decisions

The most common reasons associated with bad hire decisions are - rushing the decision making process and a lack of adequate processes / measures to ensure talent hires align to business requirements. Two-in-five hiring managers attributed a bad hire to the pressure to fill a vacancy.

- Needed to fill the job quickly (3%)
- Insufficient talent intelligence (22%)
- Sourcing techniques need to be adjusted per open position (13%)
- Fewer recruiters due to the recession has made it difficult to go through applications (10%)
- Didn't check references (9%)
- Lack of strong employment brand (8%)

One-in-four employers (26%) of the CareerBuilder survey stated they weren't sure why they made a bad hire and said sometimes 'you just make a mistake.'

These are important statistics to keep in mind when the time comes to invest in HR, Recruitment and Talent Management. Ensuring HR and Recruitment Professionals have the right training and tools available to prevent bad hires is imperative. It also yields a powerful return on investment. The cost of poor hiring practices can be exponential, irrespective of the size of the Organisation.

The Talent Shortage is Already Upon Us

"As it is becoming clearer in the Human Age, securing access to the increasingly finite pool of individuals with in-demand skill sets will be fundamental to business success."

This statement is taken from the Manpower 2013 Australia and New Zealand Talent Shortage Survey. The truth is, it's just going to get harder to attract this pool of individuals!

Given this commentary in the Manpower survey results, it is obvious that The Human Era and the Talent Shortage are already upon us. This makes it even more essential to have leading-edge recruitment and retention processes in place if you want to attract and retain exceptional talent.

The statistics available regarding talent shortages are just as foreboding as those regarding the cost of bad hires:

1. The 2013 Manpower survey indicates that a total of 45% (Australia) and a staggering 51% (New Zealand) of employers respectively, report difficulty filling jobs due to not finding the talent they need.
2. The Manpower Survey also indicates that the percentage of employers who report that talent shortages impact their business outcomes at a high level climbed, from 11% in 2012 to 16% in 2013 for Australia, and from 8% to 13% for New Zealand.

3. The same Survey outlines that those who identify a medium impact, climbed from 36% to 42% for Australia, and from 34% to 35% for New Zealand, from 2012 to 2013.
4. Globally, McKinsey Global Research Institute estimates that by 2020 there will be 85 million jobs left unfilled.
5. By the year 2025 the Australian Bureau of Statistics estimates we will have 1.4 million jobs that can't be filled.
6. Baby Boomers are starting to retire and there are not enough Gen Y's (and beyond) on the planet to replace them or their skills and experience.
7. According to the Manpower survey, the most common people practice strategies employed to overcome talent shortages were to provide additional training and development to existing staff (21%), and a further 18% seek to utilise previously untried recruiting practices.

It is abundantly clear from the picture painted by the above statistics that poor hiring decisions don't just effect the bottom line. They also have a significant impact on morale, workload, employee engagement and the ability of businesses to service their customers at even basic standards, let alone at the level that will set them ahead of the rest in a customer driven marketplace. In addition to this, getting it wrong, and leaving gaps in the workforce, will become more and more difficult to remedy as the talent pool shrinks.

So, how do HR Professionals, particularly those responsible for the areas of Recruitment and Talent nurturing / retention, take their recruitment processes to the next level?

Best Practice Processes for Values Based Recruitment

'Values-Based Recruitment' seems to be one of the latest buzz phrases in the HR industry. It essentially means assessing to what extent an individual's approach, values, attitudes and motives align with the demands of the job, the values of the business and the culture of the working environment.

A review of the top performing companies in the fast evolving business landscape reveals that the Organisations emerging as leaders in The Human Era have the following characteristics:

1. They truly care for and about their customers and put them at the centre of everything they do.
2. They are trustworthy real and authentic, and all employees are empowered to live this at every point in the customer journey.
3. They have a personality that is vital and unique, and again, all employees are empowered to represent the Organisation in a way that reflects their individual personality and that of the Brand.

It is also self evident if you look at the way leading businesses operate, that the recruitment and selection process is gravitating towards hiring based on the alignment of core values (cultural fit, including the ones above) rather than just focusing on technical competencies. One of the reasons for this trend may be attributed to Gen Y entering the labour market. The other reason is that individuals are behaving more and more as citizens first and employees / consumers second. People don't want to just buy something, they want to buy into something that creates value for the greater whole. This applies to people looking for a job and people looking for a product or service. Businesses are being called on to transform themselves so as to meet these needs.

Gen Y typically stay at a job for about two years and prioritise meaningful work over pay, as well as working for a company that is aligned with their own values. This means that by clearly defining your own Organisational values and integrating them into the way your company operates, you are able to attract employees whose personal values are in alignment with yours. The Human Era ideal; that an individual's experience of your Organisation, again, from both the employee and from the customer perspective, becomes one of the most important measures of your success, is critical to the way Recruitment and Talent Managers approach the hiring process.

It is fair to say that attending to these factors as part of a selection process has always been important. Even if they don't call it 'Values-Based Recruitment,' most Organisations are probably attending to values during their selection processes. However, alignment of the values equation needs to become a more rigorous and integral part of the process.

Historically, there has been a tendency for one of two approaches to be given more weighting in the recruitment process. In the first, experience is given the most attention (i.e. Does an applicant's experience and qualifications indicate that they will be able to undertake this role successfully?). Some attention is paid to values, but it tends to be focused on ensuring that no obviously negative values are demonstrated (i.e. Was the applicant rude to the receptionist? Did they misinterpret one of our strategic objectives?) as opposed to actively trying to identify a set of aligned values (i.e. Did they demonstrate commitment to our corporate message? Do they keep up-to-date on the issues that our Organisation cares about?).

In competency-based recruitment, the focus is shifted to emphasise the importance of ensuring that an applicant has demonstrable evidence of performing behaviours at a certain level of competency (i.e. Can they describe a time when they have worked effectively with a team? Can they show evidence of working productively with others?). Again, values are probably attended to somewhere along the way but not proactively.

The 'Values based' recruitment approach integrates more of a 'both and approach,' ensuring that alignment of personal values, Organisational values and job description are aligned with experience and demonstrable competencies. Experience and qualifications still play their part for many roles, and it is useful to gather evidence of how someone has demonstrated different competencies in the past. However, the extent to which an applicant has the values which align with what your Organisation is trying to achieve and how it behaves in the world, is equally important. When you have more application forms than you can manage, all with top-notch qualifications and tons of experience, the values are the things which will differentiate between those that will do a good job and those that will do a great job, care about doing it right and have the motivation to stick at it.

It is also important to remember that 'Cognitive Capability' (the extent to which someone has the capacity or intellect to effectively undertake the tasks required of the role), is also just as important, and can often get lost in the mix of 'competency frameworks' and 'key eligibility criteria'.

The focus on core values may also naturally screen out non-cultural fit candidates who will not apply for positions since they do not share the same values. Hiring using core values is also crucial for start-up companies; since they usually lack brand recognition and longevity. By clearly communicating the core values and culture, start-up companies are able to share their visions and dreams to potential candidates. Again, you want people who believe in your product, vision, and values because these are the employees who will be intrinsically motivated to work at full capacity towards your goals objectives.

It is also important to consider that hiring based on core values can potentially create legal problems such as discrimination, and facilitate biased decision making on whom to hire because you may be asking candidates questions that tap into their private life.

It is interesting to note that according to Development Dimensions International (DDI), an international talent management company, 78% of respondents believe that Hiring Managers do not assess for culture fit because they do not know how to do this.

The following three recommendations are the basic best practices Recruitment Managers need to embed in their hiring process:

- 1. Describe the values in behavioral terms**, and use behavioral-based questions to assess suitability. You can also identify the competencies related to the core values, and ask interviewees to provide situations where they demonstrate these competencies. According to DDI, behavioral questions are the most commonly used tool to assess candidates' compatibility with the core values. For example, if one of your core values is passion, you may ask the candidates to provide a situation where they felt very strongly about a cause/issue/project, what steps they took to accomplish the objective and what was the end result. The premise of behavioral-based questions is that the past behaviors are a good predictor of future ones.
- 2. Ensure that hiring managers are adequately trained in recruitment practices and assessing core values compatibility.** Managers need to understand what they are looking for in a candidate, what the nature of the questions is, and more importantly how to interpret and evaluate the data. Managers should also be trained on avoiding biases during interviews. One bias that can hinder the recruitment process is the similar-to-me bias where the interviewer will tend to score a candidate higher if they share the same interests and background. It is important to train the managers to focus on the interviewee's compatibility to the core values of the Organisation, and not the values of the managers.
- 3. Use realistic job previews and/or "day in the life" profiles to help applicants have a better understanding on the culture and core values of your Organisation.** By having current employees describe their positions and their responsibilities, potential candidates can evaluate their suitability with your Organisation.

How to Create a Culture of Excellence and Retain Top Tier Talent

It is critical to add at this point, that commitment from the Executive team is essential to creating a workforce built on the alignment of values across multiple touch points. It is also crucial to understand that basic best practices are just a starting point for values based recruitment. If you want to stand head and shoulders above the rest, it's crucial to think outside the square and utilise previously untried recruiting practices.

There needs to be an authentic connection between how a company presents itself as an Organisation / employer and how it actually feels to work for them. This then also needs to flow to customer experience – there should be no separation or difference between the 'experience' of an Organisation no matter which side of the fence you're on (employee or customer).

An innovative and leading edge business model needs to ensure that the very best talent be sourced, engaged, developed and retained with buy from all areas of the business, not just HR.

Here is a selection of characteristics and behaviours that game-changing Organisations exhibit as part of their culture:

1. They involve leadership across the entire process of creating strategies to attract and retain talent. This level of engagement leads to greater buy in, understanding and ownership of the issues.
2. Line Managers are trained, developed and empowered to own employee engagement and ensure that employee experience is enhanced.
3. Leadership behaviours that matter are prioritised and promoted at all levels within the Organisation, from the most Senior Management down.
4. Leaders are assessed not only on technical performance, but on how well they live and teach the values of the Organisation.
5. Organisations that promote a collective sense of purpose whilst still valuing the individual are more cohesive and harmonious. Helping each other, and helping each other to excel is highly valued.
6. Leading Organisations spend significantly more time and energy on the development of employees at all levels. Managers are given the opportunity to be more effective coaches, delegators and drivers of high performance.
7. Networking and collaborative tools are made available to foster dialogue, promote collaboration, and boost innovation.
8. Their Recruiters and Talent Managers demand enthusiastic buy in to the business' core purpose. This purpose is clearly defined and articulated.
9. Trust is built by people being transparent and authentic with one another – feedback is honest and authenticity has a high currency.
10. Employees know where they stand. Managers tell the truth about performance. Employees feel safe to speak up when they see that someone isn't living the values, even if that someone is more senior than them.
11. Such Organisations only hire, reward and tolerate fully formed adults who are capable of exercising common sense and logic to do the right thing. Those who do not behave this way, are let go.
12. All employees are fully informed as to how the company makes money and what behaviours drive success.
13. The HR team thinks like business people – they strive to innovate, they know what's good for the company itself at that point in time, they ensure every employee knows what is meant by high performance.
14. The HR team is built on both the values of the Organisation and by individuals who are committed to implementing these values as the experience of the Organisation. This experience applies internally (for employees) and externally (for customers).

It is important to remember that the recruitment process experience itself, is a reflection of the values of the Organisation. HR needs to treat potential candidates the way they deserve to be treated. In addition, all recruitment advertising and marketing needs to take an authentic and transparent approach, so that once a candidate makes an application for a particular job, no matter at what level, the message is sustained.

It is possible to recruit around values just as effectively as it is around capabilities. But to be successful the process needs to be based, not just on conventional assessment tools, but on a very clear, consistent and simple message, which will motivate the right individuals and filter out those that do not fit with the business model.

A final word on best practices and business trends: at the end of the day, each individual Organisation needs to follow a process that works for them. An Organisation's fingerprint is just as unique as that of an individual. HR Professionals really have the opportunity to take the quality of their teams to new levels by being innovative in the way they source, engage, develop and retain employees. There is a wealth of information out there that HR Professionals can use really make their mark, and it doesn't necessarily mean doing things the same way they've always been done. In fact, most leaders and innovators have stepped outside the square they live to break rules and stretch boundaries. However, despite the differences in ways that each game-changing business achieves their recruitment and talent retention aims, at the core of each leading-edge Organisation is always a deeply engrained commitment to the values equation.

I hope that you have gained some valuable insight from reading this White Paper and can recognise the benefits of committing to a values based recruitment process.

Sincerely,
Mathew French
General Manager
Subscribe-HR

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