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Hire Smart, Grow Smart

by Tim Pearson

People matter. Ever wonder what a highly productive employee adds to your bottom line? Answer: at minimum 40% or more a year above their salary. That's $16,000 or more a year above their average salary -- if they are a superior employee at the 84th percentile of productivity and earn $40,000 per year. Such are the conclusions of noted labor economists Frank L. Schmidt of the University of Iowa and John E. Hunter of Michigan State University in a study published in the Psychological Bulletin.

Increased productivity also varies by job level according to Schmidt and Hunter. When employees are unskilled/semi-skilled workers, the increased productivity of employees at the 84% percentile is at least 19% of average salary. If they are skilled workers, the increased productivity of employees at the 84% percentile is at least 32% of average salary. And if they are managers and professionals, the increased productivity of employees at the 84% percentile is at least 48% of average salary. And why the focus on the 84th percentile? That's one standard deviation away from the norm. No wonder Microsoft goes to such efforts to hire the top three percent of its job applicants.

What else does this mean for you? An employee whose productivity is below average costs you lots of money. A below average employee at the 16th percentile of productivity costs at minimum 40% of their salary (on top of their salary). So if you pay them a $40,000 salary, the added cost is at minimum an extra $16,000. Ouch. And keep in mind the high, hidden, but real cost of replacing an employee. The replacement cost is two and a half times their annual salary if they're replaced in six months according to search consultant Dr. Pierre Mornell. That factors in your real direct and indirect costs. So the wrong person making a $40,000 a year salary costs $100,000 to replace -- if you're fast enough to make the change in six months. The challenge then is to identify and to hire people who are highly productive from the start.

But wait, there is a war on. A war for talent. You see, the Alaska and national labor markets have changed. For most of modern economic times, capital was tight and labor was plentiful. Now, in the 21st century, skilled labor is increasingly scarce and capital is relatively easy to find. And it looks like this labor/capital inversion is permanent.

The war rages the hottest at the executive levels where the talent to grow companies resides. A 1998 McKinsey & Company study found that executive demand is significantly outstripping supply. The number of executives has typically grown in line with GDP. That means that an economic growth rate of 2 percent for 15 years would increase demand by about a third. However on the supply side, the number of 35 to 44 year olds will decline by 15 percent between 2000 and 2015. Even worse for Alaskans, during the 1990's the trend has been for more people to move out of Alaska than to move in and the rate of natural increase has been dropping.

So how do you grow your company while facing these challenges?

First, give the best people compelling reasons to work for you. It's called your employee value proposition. What matters most to top employees? According to the surveys, it's no surprise: A great company -- that is, values and culture. A great job -- meaning freedom and autonomy. And compensation and lifestyle -- highly competitive compensation and especially, long-term wealth accumulation.

Second, source great talent. Option: get involved with the University of Alaska by sponsoring an event like an MBA business plan competition. Such an event could help you identify and attract the best graduates. Another option: recruit all the time, not just when you have openings. Create a job even if you don't have one. Talented people more than pay their own way.

Third, screen smart. Spend more time than you think you should in interviewing and doing background checks. If an executive is going to work for you for 50+ hours a week, 2600 hours a year, be willing to spend 10 hours interviewing, screening, and assessing him or her. Ask great questions. Ann Rhoades, VP of HR for JetBlue Airways and previously for Southwest Airlines and Doubletree Hotels, is considered to be one of the best interviewers in the country. Her favorite interview question: "What's the most you've ever done to go out of your way for someone in your last job?"

Fourth, listen well. People will tell you everything you need to know if you only ask. Really. In the new economy, you need team players who easily share information with others. Team players communicate and collaborate exceptionally well. And if someone doesn't share information easily in an interview or give evidence of collaborative skills, watch out. They probably won't share on the job either.

Fifth, take action. Quickly. Snap up great people when you have the chance. In today's economy you rarely get a second one.

The ultimate secret to business growth is people, people, people. You invest real money in every person you hire, so make sure that your people portfolio is loaded with winners. Only great people grow great companies.

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