Challenging the Status Quo

By Grant Cooperstein, Human Capital Management Institute

This article describes how a multinational company with 165,000 employees operating within five divisions across more than 50 countries utilized workforce analytics to not only save the company money but allowed the company to retain its top talent. The company is fictional, the challenges it faced and its analytical solution are not. Regardless of the size of your company, it is likely that the strategy implemented by the General Products company will work for you.

It was the end of the second quarter and each of General Products' (GP) five divisions was tasked with cutting costs before the end of the year. The target was a 15 percent reduction. Failure to achieve target would result in significant job losses.

John Hammond was frustrated. As director of recruiting for GP's Keller Consumer Products (KCG), he knew that because Keller was the largest of GP's five divisions, it would be the hardest hit. The bigger you are, the more opportunity for layoffs. Employees had been made aware of the need for cost cutting measures, but the potential for future layoffs was only communicated to senior management, such as Barbara Washington, senior VP of HR for KCG.

It was Barbara who brought John into the loop, "John, I know you have a lot of critical searches on your plate but with necessary cost reductions I am almost certain that some layoffs will happen. Layoffs, as you know, also include curtailing recruiting activities. I need you to be ahead of the game. Come up with some ideas to reduce costs; prioritize openings; keep us lean in the game."

So John tried to push some ideas through his weary brain. He took out the GP memo pad and listed what had already been done to make sure he had covered his bases.

John leaned back in his chair and stared at the ceiling for new answers. "So we are hamstrung with increasing special needs, fewer candidates, hiring restrictions and fewer postings to draw candidates in. Yup, I think we've just bricked ourselves into a nice corner. Well, I can suggest we don't make fancy notepads." John was still fixated on the ceiling when Nancy walked in and coughed. "Oh, hey, Nancy," John righted himself awkwardly.

"You said you wanted to know how our candidate's meeting with Brent went," said Nancy Flores, his very resourceful recruiting manager of the past six years and a former accountant. Brent Smith was the president of KCG who was struggling with several executive team vacancies. "Brent's feedback was, 'not enough related experience' and 'not a good fit with the team.' I thought this guy cleared all the experience hurdles so maybe they just didn't hit it off."

John said, "Tough break; didn't Sarah say she had some new résumés?" Sarah Otter was Nancy's recruiting coordinator who did the initial résumé screen and kept John informed on critical searches.

Nancy put on a false bravado, "Back to the drawing board."

"Well maybe not completely. Can you get me a list of applicants over the last few weeks, as well as new résumés? Let's see if we missed something."

Key Expense Reductions and Hurdles for KCG Recruiting:

- Ended agency hiring practices *(contracting with search firms to source external candidates)* for administrative and support positions
- Reduced spending on job postings and advertisings by almost 50 percent
- Hiring restrictions to maintain quality of candidate
- Keller Consumer Group is still growing, albeit more slowly, and is on pace to hire 3,000 new employees by end of year
- Engineering and technician positions always in high demand, and increasingly hard to fill
- Spike in turnover of key managers in Quality, Finance & Legal

Nancy left and John decided to see if his counterpart, Holly Kim, director of recruiting for GP's Technology Group, had any insights. Although their divisions were separate they often collaborated. Holly had provided beneficial insight into some recent reporting initiatives. "Hey Holly, how's it going?"

"Still trying to walk up the sand dune of silicon dust," she said. Holly was always trying to put a new spin on HR's lack of prominence in the Technology Group's decisions. "What have you got going?"

"Well, I've been trying to drive some cost savings and thought we could bounce some ideas around. First, have you come up with anything new?" John asked as he sipped his Diet Coke.

"Ugh, same old stuff. Even though total new hire requisitions are down those hiring restrictions are making us work twice as hard to find any candidates. We can't get approval to fill our support and management positions. We're paying too much to source technical architects and database administrators because they are mission-critical openings. And I might have to let recruiters go to fund cost savings."

"I understand. Our vacancies are costing us precious time and talent, too. I think the cost of our vacancies is greater than the savings we are trying to achieve." As he said it, John felt the nudge of validity.

"I think you have something there," Holly agreed.

John was building momentum and said, "What if we were able to roll out an internal development program? That would help us identify interest so we could promote high performing, high potential employees to fill the critical job roles that are so challenging. I bet it would be significantly cheaper than hiring candidates externally at market rates. We'd have some free cash from the expedited fill process that could be used toward backfills. Plus we would keep recruiters busy filling positions internally so we wouldn't need to reduce head count. Not to mention the fact that internal candidates are already grandfathered in under the hiring guidelines."

Holly thought for a moment before responding, "I see a lot of potential there. I'm sure Barbara would be interested in an idea that's out of the box. Your problem will be Brent. He's very old school. He's been slow to accept the changing nature of recruiting, with people changing jobs more quickly than ever. Oh sorry John, got to run. Please keep me posted."

John thought about Holly's advice. Brent's management approach was stuck in the 1980s. In the decade since he came to KCG as president, Brent had doubled revenues. Unfortunately, profits had not kept pace, but that was being blamed on the economy, hence the cost savings measures. John shook his head. Brent was very tight with salary and merit increases for employees, but was often willing to pay over market for new hires, creating a significant disparity in salaries between new and existing employees. It was as if management considered new employees to be perfect polished diamonds for their first year, but then failed to understand how their value appreciated as they gained skills and experience. As their tenure grew, existing employees felt short-changed and overlooked. This led to increases in turnover, more expensive new hires and constant push back on salary increases for existing employees.

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Well, give yourself points for human psychology, John thought to himself, but psychology isn't driving cost savings. Barbara has a hard enough battle every year to try to get annual salary increases approved. Now, to present a cost saving strategy built on promotions with salary increases in order to cut overall costs – that would be a tough sell. Good ideas don't gain acceptance easily, John thought. That should be our corporate motto.

John dialed Jeremiah Worhall in Corporate Compensation. Of course, he didn't reach anyone. You never got corporate people on the first try, but he left a message and got a call back later that day. John pitched Jeremiah his ideas on internal promotions. For the most part it went over well. So John ventured, "In order to make this work I'll need some data. Would you be able to tell me the average salary increase in conjunction with a promotion for all of our key positions?" John realized he was literally holding his breath waiting for Jeremiah's response.

> *"…I'll need some data. Would you be able to send me the average salary increase in conjunction with a promotion for all our key positions?"*

Jeremiah didn't make him wait long, "The short answer is 'no'! We don't have the capability to track all that history or break it down by specific job type. But, we could give you the data for the last 50 or so promotions at KCG."

That was good enough. Jeremiah said that they were swamped but he'd deliver by the end of next week. John had at least one data set coming so he started putting together a plan and pulling some of the other data he'd need. Time flew until 8 p.m. when his wife, Claire, called wondering when he'd be home. Claire was great about his long hours because she worked long hours, too.

The next morning John called Nancy in to share his internal hire program ideas with her in detail. "I think that has real promise," Nancy responded. "In fact, I've been evaluating something that might aid your efforts." John nodded for her to proceed. "Last month Sarah was in a workshop with someone who had a workforce strategy manual that had a great section on recruiting analytics. She was able to look over some of the analysis and recommendations, where information on employee referrals was emphasized. Sarah relayed some basics to me and I asked her to pull some numbers. In the last three months, only a little over 10 percent of our hires were sourced through employee referrals."

"Well, historically that hasn't been a big part of our strategy," John added. "But 10 percent sounds low even for us. Still, referrals are by far our cheapest hiring sources, right up there with internal hires.What was the name of that manual?"

The week flew by. John worked part of the day Saturday but reserved Sunday for a long picnic with Claire to recharge and reconnect. He did not even think about work. That was good because Monday started in fire drill mode and did not let up. There were scheduling issues with candidate interviews, more hiring managers requesting hiring guidelines and hiring freeze exceptions, as well as a host of regular recruiting issues. Near the end of the week when Jeremiah called to say that he had e-mailed over the promotion data, John thanked him before he could even remember what Jeremiah was talking about.

John assigned the promotion analysis to Nancy who asked if Sarah could do it because Nancy's plate was too full. "Sure, but stay close to it" John warned. "I want to get a comparison of the salaries of the employees on this list that received a promotion as compared to the external hires we made for similar positions. I realize that not all the job titles will be a perfect fit, but can we give it a shot and put a rush on it?"

After several days Nancy entered looking quite triumphant, "It took some doing, but I think we got great matches on the job titles and compared the cost-per-hire of referrals and internal hires versus all our other recruiting methods. On average, the employees promoted internally are approximately 30 percent cheaper than their externally hired counterparts."

John skimmed down to the bottom of the report saying, "That adds up to $1 million in total workforce cost savings potential for every 50 people promoted internally. Of course, there will be some variances depending on position, but this is exactly the kind of information I've been looking for."

Nancy continued excitedly, "Now add in referrals with no outside recruiting costs at all, just recruiter time, and we even have enough savings to create a $500 employee referral incentive for increasing referrals and still save over $4,000 per position. That breaks out to another $1 million saved for every 250 referrals hired for exempt professional or manager positions."

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"I love it, but do you want to check your sources?" John said with a raised eyebrow.

"Salaries and average bonus information per job level are from Compensation. Benefits gave me the standard benefit percent of salary they use to calculate their costs," Nancy stated.

"One more thing, I want you to go with me to show this to Barbara," John added.

In the week before they could get in to see Barbara, John was able to fine tune the numbers and put together a presentation that was Brent-ready. Barbara had a few questions that John and Nancy fielded with their data:

"Where does the savings show up, in what department or budget?"

"The total compensation savings show up across the departments' hiring jobs and the recruiting savings show up in John's recruiting department budget."

"How much savings for HR before the end of the year? Next year?"

"At least $1 million dollars annually. And another $2 million dollars to KCG departments annually, depending on the jobs we can source internally or fill with referrals. That adds up to more than the HR cost savings target you wanted and without any job cuts."

"Do you address the hiring freeze?"

"The money the hiring managers will start seeing from internal fills should address the savings targets of the hiring freeze. All this without the consequences of project delays or managers overburdened from short staffing that we currently see. This should support exceptions to the hiring freeze on critical positions when the department is properly budgeted."

"So you want me to ask Brent to offer a $500 employee incentive for every placed referral?"

"The $500 referral incentive is critical because it changes the way we find more candidates. It might even boost morale because employees see a way to increase their income and recommend a candidate. Keep in mind that our employees are probably the best judge of who will be a culture fit with KCG.

"I'm not sure it will get Brent's approval, but you've sold me. Can you put together a separate spread sheet isolating savings for the rest of the year? Then look at savings under some different scenarios, like internal promotions but without the incentive for employee referrals. What I need are a few different combinations to provide a range of potential cost savings now and what might be expected over a longer time frame."

After struggling at the beginning to cost out different scenarios, John and Nancy had their projections and documentation of their assumptions and rollout schedules.

Two weeks after they met with Barbara, she made the presentation to Brent. John called Barbara's office checking for her return to get Brent's response. Barbara called John back, "Well, he almost didn't go for it. But I was able to convince him that he should give it a shot since it was not expensive to implement or change compared to the potential savings. Showing him a specific example of an internal promotion to VP with the actual salary compared to an external candidate hired for a similar role did the trick. And I added that the internal hire was a top performer. That really won him over. John, be sure to thank your team. We hit this one out of the park."

John told Nancy and Sarah the good news. Then he thought he'd update Holly as he had promised. "John, congratulations," Holly said answering her phone. "Thanks, what for?" John queried.

"Barbara already called and told us to get a rollout strategy for our group. I think she is looking at implementation in every group. You are the man of the hour," Holly exclaimed.

John mused that sometimes you need investments to move forward. Companies certainly understood that when introducing new product lines or finding a new top executive. So it only made sense to incentivize employees to find good fits for the company – both in skills and personalities that would do well in this company culture. Then he picked up the phone.

About the Authors

Grant Cooperstein is VP, Analytics at HCMI. He has 10 years of experience conducting advanced workforce analytics and planning projects. In his current role, he provides guidance to organizations across the globe, enabling rapid advancement in human capital management practices. Responsible for leading consulting engagements, deep content training and product development, he helps clients drive value and quantify the impact of workforce decisions. Previously, Cooperstein worked as a human capital consultant for the Infohrm Group, a global analytics and planning company and he has extensive experience as a Human Resources practitioner working as workforce analytics manager at IndyMac Bank. He can be reached at ***grant.cooperstein@gmail.com***.