

# Fixing Hiring Through Science:

How to get the hiring results of world class companies at a fraction of current time and cost

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# How to break the cycle of hiring on skill and firing on fit

**S**tandard hiring practice goes something like this:

An employer needs to fill a position. A job requisition is produced—recycled from an earlier hire or new-minted by a recruiter with limited familiarity with the job—and reviewed by a furiously busy hiring manager. The job requisition leads to a sourcing action—a job post online, a contract with a professional recruiter, a trawl through social networks, maybe an ad designed to make the job and company appealing. Huge numbers of jobseekers respond; clever technologies screen out applicants based on their résumés. The remaining candidates are reviewed, a few are shortlisted and interviews are scheduled. Impressions are compared, decisions taken. A hire is made.

Meanwhile, jobseekers find the job by keyword searching on job boards. Most apply quickly by uploading existing cover letters and résumés. Savvier jobseekers research the company, tailor their résumés and letters to the specifics of the job description, and present their experience in the best possible light for that role. Almost all jobseekers apply to multiple jobs because it is impossible learn enough about any role—or to be sure their résumé will get picked up—to limit their search. If they make it as far as interview, they try to give the right impression to land them the job, not necessarily to reveal the truth about themselves and their capabilities.

The results of this labor- and time-intensive process are shocking: Fewer than half of all newly hired candidates earn a “very good” or “good” rating six months after being hired and nearly half leave in the first eighteen months. 70% of hiring managers regret their decision a year after hiring. The cost of this systematic failure—lost productivity, reduced engagement of other workers, missed opportunities and spiraling recruitment expense—runs to many multiples of the annual compensation

*Only 48% of new hires are rated good or very good...30% of business failures are due to poor hiring*

for a job. The impact can be terminal: According to the U.S. Department of Labor, 30% of business failures *every year* can be traced back to poor hiring decisions.

This Working Paper looks at what has gone wrong with recruitment, and how it can be fixed. We expose the fundamental misunderstanding at the heart of recruitment's failure. We draw attention to the proven science that predicts job performance across all roles and we show how every business can get the recruitment results of world class companies at a fraction of current recruitment spend.

## Current hiring practices are suboptimal and unsustainable

There are 7 million authorized recruiters—people with hiring budgets—in the US. All want to attract the best talent at reasonable cost, effort and time-to-hire. Instead, they get an expensive, involved, inaccurate and time-consuming process that delivers extremely uncertain results.

### Hiring costs are spiraling at a time when business can least afford them

Nearly half (49%) of US companies aim to increase hiring spend in 2011<sup>1</sup>. Even channels that are shrinking as a percentage of budgets are rising in absolute terms: in 2008 business paid \$58 billion for recruitment ads; by 2012 this is predicted to grow to \$73 billion<sup>2</sup>.

*A big driver of rising costs is increased turnover – over 1/4 of employees have been with the organization less than one year*

Why is recruitment spending on the rise? One major reason is increased turnover. Average Americans now can expect three to five careers in their working lives. Those between the ages of 18 and 37 will most likely change jobs ten times<sup>3</sup>. Turnover has increased even at the top of the pyramid: executives now stay with an organization an average of 2.8 years, compared to 3.3 years in 2006.<sup>4</sup> Immediately prior to the downturn, more than one-fourth of employees had been with their current employer for less than one year, one-third for less than two years<sup>5</sup>. The recession dampened turnover, but it has now recovered:

According to the Department of Labor, job openings have risen by 32% over the past year and 84% of employees plan to look for a new job in 2011<sup>6</sup>.

The effect of this spiraling turnover is dramatic. The technical costs of managing a termination and recruiting a successor average 30% to 250% of annual salary for the position. When the full impact of a mis-hire – lowered productivity of the job holder, impact on team and organizational productivity and motivation – are taken into account, the costs rise to 1,400% to 2,800% of annual compensation for the role<sup>7</sup>.

*The full impact of a mis-hire can run from 14 times to 28 times annual salary for the role.*

## Application volumes are now so huge they are impossible to process meaningfully

The impact of suboptimal hiring is not just seen in costs. The volume of recruitment work has risen so swiftly the system is close to unmanageable.

Large companies get sent 25,000 résumés per week. A job posted on a major online job board generates, on average, 1,400 applications. One company we know received, in a single year, 1.4 million job applications. There are over 100,000 online job boards, web scrapers and aggregator job boards that showcase several million potential jobs and encourage candidates to apply with a couple of clicks. In 2008, 48 million jobs were posted online and 77 million résumés were uploaded<sup>8</sup>. 124 million job searches are performed each month via the major search engines.

*Large companies receive 5,000 résumés every day*

*124,000,000 online job searches are performed every month*

These volumes are impossible for hirers to process in any meaningful way. Technologies such as keyword searching of résumés have yet to deliver precise and meaningful results—semantic search is still a gleam in Google’s eye. Proven technologies like psychometric and other scientific assessments deliver impressive results but are expensive, time consuming and difficult to deliver at scale. Applicant tracking software often just digitizes the problem. No wonder average time to hire now ranges from 30 days to 100 days or more.

Processing overload unsurprisingly impacts quality. No recruiter processing hundreds of applications a day can give thorough consideration to each one. According to research by the Corporate Executive Board, a quarter of recruitment managers read less than half of

the job applications they receive, while three-quarters spend less than 5 minutes reviewing the information of each candidate. And why should they? – almost 85% of the time, less than half of applicants meet the basic requirements of the position. But random sifting risks missing good candidates, the last thing recruiters or their hiring managers want.

## The system is set up to favor volume over results – jobseekers as well as business are losing out

Why have volumes risen so dramatically? One reason is clearly ease of access. When applying for a job required typing a letter and résumé, addressing an envelope and mailing a letter, only serious candidates bothered. Now that a few clicks of the mouse achieve the same end for zero outlay, anyone can and does apply.

To be fair, jobseekers have no option but multiple applications. Refining the search as much as possible using keywords for function, level, industry, geographic location, and so on still returns a mass of undifferentiated job ads. Online and classified ads give little information about the real requirements of a job, the culture of the company or the factors leading to success. Even extremely self-aware and focused jobseekers cannot know whether they would be a good fit...and most jobseekers, like most people, have a less than accurate self image and no professional guidance as to their likely fit with particular roles or industries: over 50% of respondents to a survey agreed they would have made better career decisions if they had had formal testing. Instead of developing their self knowledge, candidates are coached in how to game the recruitment system through improved presentation skills, résumé keywords, and targeted networking. Too often this simply increases a candidate's attractiveness for unsuitable jobs.

*Jobseekers cannot assess job-person fit so end up gaming the system to land unsuitable jobs*

## Improving efficiency is hard when the system delivers partial or misleading information

Flawed information is not just on the candidate side. A 2008 CEB survey uncovered wide cracks in the recruitment infrastructure. More than 30% of hiring managers in the survey admitted to being less-than-accurate in describing the job (around 25% of candidates admit to massaging the truth).

Some—perhaps much—of this misinformation is inherent in the recruitment process. Résumé-based recruitment, especially when it is combined with unstructured interviewing, reveals precious little about the factors that science has found to predict success in a job. Hiring managers recognize this: only a third believe they get accurate information on candidates' hard and soft skills during the recruitment process.

The situation is even worse for candidates. 40% of those who are successful say they were not told the full truth about the job during the recruitment process. No wonder, when most have little more than a summary, responsibilities-based job post and impressions of the interviewers to inform them about the job.

*66% of recruiters and 40% of candidates think they get inaccurate information during hiring*

## The most popular recruitment channels are often the least efficient at getting good candidates

With the soaring costs and volumes of recruitment, and the unreliability of many recruitment processes, hirers are getting desperate. Is the dream candidate to be found via classified ad, online job board, recruitment agencies or headhunters, in-company recruitment, career websites, social networks, referrals from current employees? Which process is most likely to give the most relevant information about each individual and a good range of candidates? Which one achieves best value for money?

Nobody knows for sure. Where we have evidence, the efficacy of recruitment channels is pitiful. Some 40% of companies use job boards, including niche boards that focus on a particular sector or role and aggregator boards that scrape jobs from multiple sources, but research suggests only 14 or 15% of external hires—8% or fewer of all hires—are found that way<sup>9</sup>. Scarcely 10% of hires come via third party recruitment agencies or headhunters and even smaller percentages from direct sourcing, search engine marketing, newspapers, professional and social networks, niche job boards and college recruiting.

*Job boards are used by 40% of companies but produce only 8% of hires*

The largest single source of hires is a company's existing employees, internal transfers. The next largest source is referral candidates, people known to existing employees. Both of these channels have significant drawbacks.

# ***The Reality of Recruitment Today***

## ***US businesses are not hiring enough successful, engaged employees***

- 46% of new hires fail in the first 18 months
- Fewer than half of new hires rate “very good” or “good” six months after being hired
- 30% of business failures are due to poor hiring decisions
- 55% of employed people are dissatisfied with their job; 20% say they never had a job that suited them

## ***The system is overloaded and under-policed***

- 124 million job searches are performed each month on major job boards
- Large companies receive 5,000 résumés per day
- 40% of recruitment managers surveyed have selected below-average candidates to get the job filled
- 30% of hiring managers and 25% of candidates admitted in a survey to being less than honest with the information they provide during hiring
- 40% of candidates say the info they had about the job they took was less than accurate

## ***New approaches are not getting results***

- Social networks provide about 2% of new hires
- Only 8% of new hires (12% of external hires) come from job boards
- 1 in 11 referral candidates were hired in 2009; this dropped to 1 in 15 in 2010

## ***The costs of hiring failure are colossal***

- Replacing an employee costs 30% to 250% of annual salary
- The cost of a mis-hire—reduced productivity, impact on co-workers and missed business opportunity—can rise to 14x to 28x annual salary
- Disengagement is estimated to cost US businesses \$350 billion per year

## ***Focusing on fit—the real predictor of job performance—gets results***

- 81% of people who leave their job go for reasons of fit; 11% for lack of skill
- 2/3 of best-in-class companies will use assessments this year

## ***Companies that use assessments, compared to companies that do not, get:***

- 75% greater year-on-year improvements in hiring manager satisfaction
- 75% greater year-on-year reduction in hiring costs
- 2.5 times greater year-on-year increase in profit per full-time-equivalent employee

## Internal transfers and referral programs are not demonstrably better at getting good candidates, and their limitations are serious

Most years internal transfers account for around 35% of hires, though in 2009 that figure jumped to 51% of full-time hires, no doubt due to cut backs on external recruitment.

88% of surveyed employers rated referred candidates above all other sources for quality of hire<sup>10</sup>. Referrals are the source of 57% of passive candidates—people who are in work but who could be persuaded to move for the right opportunity—who many employers believe to be the best source for high quality hires. Referrals are the largest external source of successful candidates, comprising 27% of all external hires in 2009, even more in some years. About 1 in 15 referral candidates is hired, as against 1 in 1000 external candidates.

*Referral candidates are not significantly better performers, just better at getting the job*

But there is little evidence referral candidates perform better in the job: Research suggests a 3% performance advantage at most. Employers feel better about hiring internal candidates because they feel they have more knowledge of these candidates and can apply their *gut feel* as to fit between the job and the person, something that is very difficult to do while screening a résumé. Candidates like getting a referral because they believe—accurately—that their chances of landing a job are hugely increased that way. Wearing by job seeking, too many are flattered by the attention referrals convey and take jobs which are a poor fit, in which they quickly fail.

In addition, internal hires and referrals have built-in limitations. Most of us have only around one hundred relationships that are deep enough to draw on for referral purposes, around four hundred more superficial relationships. Increasingly, as jobseekers network more actively—often in pursuit of referral bounties—referrals are sourced from the larger group of acquaintances, or friends-of-friends, rather than from close friends and people we have worked with in depth. As a result of this reduced screening, the proportion of referral candidates who actually get the job is declining—from 1 in 11 in 2009 to 1 in 15 in 2010<sup>11</sup>. Most likely it will drop further, ruling this out as a solution to hirers' dilemma.

*Bounties incentivize employees to source referrals actively – eliminating any advantage over other candidates*



## Social networks offer more hype than hope: they are poorly adapted for hiring purposes, potentially expose recruiters to legal challenge, and contain little relevant information for predicting job performance

The new, new thing in recruitment is social networking. According to a recent study<sup>12</sup>, 92% of hiring companies use or are planning to use social networking sites for recruitment. They believe it will give them access to a wider candidate pool, including the ever-desirable passive candidates who might move jobs for the right offer. About half of all companies who use social networks plan to use them more.

*92% of hiring companies plan to use social networks more...but they lead to only 2% of hires*

The top choice is LinkedIn, used by 78% of those trying to hire through social networking (55% use Facebook and 45% use Twitter). LinkedIn generates by far the most success in leading to successful hires: in 89% of cases where a social network leads to a hiring, that network is LinkedIn. Probably this is due to the greater amount of job-related information on LinkedIn candidate profiles, making it easier to identify appropriate candidates.

But social networking has yet to deliver. Right now, it leads to only 2% of hires. In addition, using social networks adds considerably to the time and, if tailored search services like LinkedIn Recruiter are used, to the cost of recruitment. Behind the hype, there are no signs yet that social networking is capable of producing significant numbers of high-quality, well-matched candidates and there are serious equal opportunity issues in sourcing candidates primarily through social networks.

## Current job-person matching solutions only deliver at small scale and high cost

Existing attempts at large scale job-candidate matching use a variety of approaches. Many sites provide keyword scans of résumés and job posts. Some online services use rudimentary personality questionnaires or ask candidates to create their own behavioral profile. Others scan employment and other details held within social and professional network sites.

*Without validated links to work outcomes, job-person matching is nothing more than a gamble*

The technologies employed are less than sophisticated. Keyword scanning is far more basic than the search

technology of a Google: typing in “Director” to most job sites or recruitment support services will bring up “PA to Director” jobs but not jobs described as Senior Manager, Divisional Head, Chief Officer, etc. Scanning of professional details on networking sites rarely yields anything that is not to be found on a résumé and risks popular and legal challenge for invasion of privacy.

But the real problem is not the technology but the basis for the match. It does not matter how well a system measures if it does not measure the right thing. Résumés detail few of the factors that predict how well a candidate will do the job and contain many factors (such as time in role or age) that have weak or even negative correlations with performance. Personality questionnaires that are unfounded on rigorous science or, worse, allow candidates to tweak their profiles are useless as predictors of job performance or organizational fit. None have significantly helped employers or candidates.

One kind of job-candidate matching does work: the psychometric-based, structured and in depth analysis of jobs and candidates that is performed by psychometric consultants and headhunters.

But while this gets outstanding results, it is expensive and impossible to scale because of the human intervention required. Even top companies only use this approach with shortlist candidates, and usually only for a selection of executive-level jobs. In its consultant-led form, it is unfeasible as a scalable solution to recruitment sub-optimization.

*Psychometric testing gets outstanding results, but at a high price*

## The most serious impact of suboptimal recruitment is poor job-person fit

Serious as is the impact of poor recruitment processes, the impact of poor recruitment results is worse.

*46% of new US hires fail within 18 months*

46% of US hires fail within their first 18 months; only 19% ever achieve what can be categorized as unequivocal success<sup>13</sup>. A UK study found 90% of workers decide whether or not to stay in a job, and 25% resign, within the first six months of employment<sup>14</sup>. 40% of hiring managers claim to

have seen their peers make below-average hires just to fill a post and 32% doubt decisions they themselves made<sup>15</sup>. A head of recruitment we know said, “We spend a lot of time and money doing everything we can and still the person doesn’t work out.”

The main reason for failure is poor fit between the person and the job—a mismatch of an individual’s behaviors, preferences and capabilities with the demands, challenges and rewards of the job. 81% of the reasons for failed hires relate to fit: the ability to accept feedback (26%), manage emotions (23%), have sufficient motivation (17%) and show the right productive temperament (18%) at work<sup>16</sup>. Only 11% of failing employees’ problems are due to lacking the skills to do the job.

**81% of hiring failures are due to poor fit...**

**...11% to insufficient skills**

Poor job-person fit results in disengagement at work. Two thirds of US employees are estimated to be less than fully engaged with their work, nearly 1 in 5 is actively disengaged and 20% say they never have had a job that suited them<sup>17</sup>. Engagement is even lower with Generation Y workers, only 23% of whom are fully engaged and 25% disengaged. A study focused on twenty-somethings found that nearly a third of those who leave their jobs do so because of feelings of isolation, of not fitting in the company or work unit<sup>18</sup>.

Gallup has estimated the cost to US business of disengagement at \$350 billion annually. Research has found that companies whose employees show low engagement have less than half the earnings-per-share growth of high engagement firms (11% compared to 28%)<sup>19</sup>. Moving an organization’s employees from low to high engagement can result in a 21% increase in performance, and 85% of engaged employees will stay with their company<sup>20</sup>. 73% of disengaged workers – those who feel no connection between their own interests and career goals and the job they do – plan to leave their employer within the year<sup>21</sup>.

Any industrial process with a 46% failure rate and cost to business of billions of dollars would be reengineered on the spot. But the latest refinements to recruitment simply tinker with the same, highly flawed approach of focusing on skills and experience, giving rise to the truism that companies hire on skill and fire on fit.

**Companies hire on skill and fire on fit**

# The solution: scientific job-person matching

## A parallel: the dating industry

For years, online dating sites all looked pretty much the same. You surfed listings of potential dates, looking at their photos and reading a few lines about their interests, then emailed anyone whose profile or, more likely, photo caught your attention. Everyone complained it was a crazy way to find a partner: people often posted years old photos and massaged the truth about the most important aspects of their lives. There was no clear way to differentiate the person surfing for a casual hookup from someone intent on a serious relationship, and no good way to assess compatibility in advance of a meeting.

*Recruiters don't need to find the best candidate; they need to predict the best employee*

In 2000 a different dating site was launched. It did not let singles trawl its listings for a date. Instead, they had to fill in exhaustive questionnaires on their personal preferences, behaviors and beliefs before they were offered introductions to a shortlist of potential matches—people with whom they shared the characteristics that research showed predicted

stable and happy long term relationships. By 2007 this dating site, eHarmony, had amassed over 20 million users and was responsible for 1 in every 50 weddings in the US (today it's nearly 1 in every 20 weddings in the US). Competitors quickly launched copycat sites, realizing that they had gotten dating wrong. Photogenic pictures and snappy profiling was not a good predictor of relationship success. Using psychometric science to match people was.

We think the recruitment industry in 2011 is in the same position as online dating was in 2000. Like traditional dating sites, recruiters have gotten the wrong idea. If you want a long term, highly productive employee, you do not need to compete for the best candidate—the person with the most attractive résumé or the most prestigious education or prior experience—or digitize or increase the efficiency of your résumé-based selection process. You need instead to match the person with the job, find the individual whose behaviors, capabilities and preferences best match the proven determinants of success in the specific role.

Recruitment needs to mind-shift from screening candidates to predicting successful employees.

## The rigorous, validated science behind job matching

For decades, researchers have known what differentiates the best performers at work from their peers: a range of behaviors, capabilities and preferences that match the demands of the job. Factors such as years of experience, age and educational qualifications—the main contents of résumés—have little or no statistical relationship to job performance. High levels of job-seeking skill (interviewing well, having a keyword-targeted résumé, writing a compelling cover letter) do not necessarily translate to on-the-job performance.

*The best candidate is not always the best employee*

Some of the criteria on which traditional recruitment selects candidates can be spectacularly misleading. Selecting according to candidate age has a negative correlation (-0.1) with predicting job performance. Years of education, years of work experience and outside-work interests have very poor positive correlations (around 0.1 or less). References are somewhat better at a 0.26 correlation with performance<sup>22</sup>. Using a combination of personality tests and cognitive tests has a predictive validity of 0.6. Following up such first-round selection by structured interviewing can raise the predictive validity even further, but costly, labor-intensive tests and structured interviews are usually applied only at the final stages of selection, by which time many potentially strong performers may have been weeded out by poorly predictive methods.

## Scientific matching profiles both the job and the person according to the proven predictors of work performance, enabling hiring that genuinely gets the best person for the job

The most accurate predictions are made when both the candidate and the job are profiled. No candidate is ideal for every job. Even within the same family of roles, there can be big variations in what jobs demand. The best salespeople rarely make the best sales managers. A good family practitioner will show a very different set of behaviors, capabilities and preferences compared to a good radiologist, or a good emergency room doctor. Rejects for a particular job, as well as successful candidates who do not work out, are not bad candidates; they are just people who have applied for the wrong job.

*Good job and candidate profiles focus on scientifically proven predictors of performance*

Scientific job-person matching profiles every job and every candidate along the dimensions that research has shown predict performance at work. Each job and each candidate will have a distinct, individual profile.

Job profiles are not job descriptions but blueprints for successful performance. Job descriptions typically talk about the responsibilities and performance metrics of the job, about its purpose within the organization and the skills necessary for performance. Job profiles focus on the factors that have been shown to predict high performance. Many of these factors are behavioral, others relate to specific capabilities, motivations and choices, and to necessary skills and capabilities. For different jobs, different factors matter, and to different extents. Researchers and consultants have built up validated databases of thousands of job profiles to track the precise predictors of performance in different roles.

*Scientific matching can be done at scale and can achieve the results of the best recruitment systems*

Candidate assessments—psychometric profiles—are much more than tests in the conventional sense. They are less about rating than about discovering a candidate's unique patterns of behavior, work preferences and motivations. Specific jobs demand specific combinations of competencies, at specific levels that can be low or moderate as well as high. The best fit for a specific job will not necessarily be the candidate with the greatest number of competencies at the highest levels.

It all comes down to fit. There is no best job—and no job which requires every predictive factor at the highest level—just as there is no best candidate, or person who shows the highest level of potential across every competency, preference and ability. But there is a best match. By matching jobs and candidates based on what the science has shown predicts superior performance, we can dramatically reduce turnover and increase performance at work.

Today the technology exists to enable rigorous and validated scientific matching between a very large number of people and a wide variety of jobs. This is the model implemented by Matchpoint Careers.

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- <sup>1</sup> Aberdeen's 2010 Talent Acquisition research
  - <sup>2</sup> Borrell Associates, 2008 Outlook: Online Recruitment Advertising
  - <sup>3</sup> Babson Working Knowledge Research Program, 2009
  - <sup>4</sup> ExecuNet survey 2010.
  - <sup>5</sup> The Aberdeen Group
  - <sup>6</sup> Manpower, 2010
  - <sup>7</sup> research by Michael Watkins presented in his book The First 90 Days
  - <sup>8</sup> 2009 Benchmark Report, Staffing.org
  - <sup>9</sup> LinkedIn White Paper: Corporate Recruiting Trends, June 2009
  - <sup>10</sup> 2006 Direct Employers Association Recruiting Trends Survey
  - <sup>11</sup> CareerXroads 9<sup>th</sup> Annual Source of Hire Study, February 2010
  - <sup>12</sup> "2010 Social Recruitment Survey", from Jobvite (also some data from the 2009 Social Recruitment Survey from Jobvite)
  - <sup>13</sup> "Driving to Win-Win Selection Decisions", Corporate Executive Board, 2009
  - <sup>14</sup> sponsored by the Chartered Institute of Personnel & Development, 2010
  - <sup>15</sup> Corporate Executive Board Survey of Hiring Managers, 2008
  - <sup>16</sup> research by Leadership IQ
  - <sup>17</sup> Blessing White, Inc "The State of Employee Engagement 2008: North America"
  - <sup>18</sup> SelectMinds study on Workplace Connections
  - <sup>19</sup> Towers-Perrin "The Global Workforce Study 2007"
  - <sup>20</sup> Corporate Executive Board: Driving Performance and Retention through employee engagement
  - <sup>21</sup> Blessing White, Inc "The State of Employee Engagement 2008: North America"
  - <sup>22</sup> "Personnel Selection", Robertson & Smith, Journal of Occupational and Organizational Psychology, 2001

## About Paul Basile

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## About Matchpoint Careers

Founded in 2010, Matchpoint Careers matches people and jobs based on the proven predictors of performance. We offer employers a richly-documented shortlist of candidates who possess the qualities that drive performance in the specific job. We offer jobseekers industry-standard psychometric feedback and the opportunity to be matched with jobs that ideally fit their particular talents and preferences.

We match based on an assessment of both the candidate and the job. Candidates take psychometric and skills tests, answer work preference questionnaires and submit bio data. Hirers are guided through a job profiling process that allows them to validate their impressions of the job against the thousands of profiles in our database. Every job has different requirements, every candidate has different strengths. We optimize the match using our proprietary matching algorithm.

Matchpoint Careers is based on serious science and powered by SHL, the largest and most respected global people assessment company.