

The Hidden Costs of Poor People Management

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No one knows better than HR professionals that an organization's human capital is its most important asset. The positive impact made by a single motivated manager, an innovative thinker or a newcomer with an ambitious new project can reverberate positively within businesses of any size. Conversely, the burden of people performing below par -- the hours spent correcting mistakes, the money wasted on unproductive performance, and the costs of having to recruit and train replacement staff -- take a powerfully negative toll on the bottom line.

Yet, far too many executives today continue to regard HR as a non-strategic cost and to under-invest in hiring and employee development solutions. Why would astute executives take this position? It is my contention that organizations have long had a difficult time connecting human performance costs with their root cause. Underperformance, and its associated costs, results in large part from having the wrong people in jobs. Until the person-job match connection is made, organizations will continue to under-fund proactive investments to ensure that the right people are filling jobs in their organizations, and to over-fund reactive investments in dealing with employee performance problems.

As a world leader in objective assessment, my company, SHL, decided to take on the challenge of surfacing the costs of poor hiring and people management decisions, in order to make the business case for adopting effective solutions for people management. We commissioned a global research project, conducted by The Future Foundation, to determine the quantifiable costs of poor people management in the workplace. The Future Foundation surveyed more than 700 executives in seven countries: the United Kingdom, Sweden, the Netherlands, the United States, Hong Kong, India and Australia. Their polling put forth a series of fundamental questions about the philosophy of -- and approaches to -- people management. The results of managers polled in the U.S., as well as their global counterparts, revealed that current approaches to people management are draining corporate profits.

The research confirmed a fact that many U.S. executives may have suspected, but have not prioritized as the performance threat that it is. Each year, vast sums of money and work hours are lost due to poor people management. Organizations in the U.S. are failing to actualize the latent human potential within their workforces and to address the performance issues hindering sustainable success. Indeed, poor people management is one of the worst hidden costs facing U.S. companies.

Overall, the U.S. is devoting \$105 billion a year to correcting problems associated with poor hiring and people management practices. This shortfall is worth 1.05% of the total U.S. GDP. The reason for this loss of capital in the U.S., as uncovered in The Future Foundation study, is that businesses waste the talent and potential of their workforces and fail to match the right people to the right jobs.

The research reveals that an average of eight months is necessary to attain required on-the-job performance levels, which makes mismatches between person and job prove costly for both employees and their companies. Employees themselves are neither blind nor impervious to the demoralizing effects of poor people management practices. In fact, nearly a quarter (23%) of U.S. workers surveyed believe their colleagues are

incompetent. And, currently, one out of eight U.S. employees leaves his or her job before becoming competent.

U.S. managers waste an average of 34 days per year dealing with underperformance. Senior executives claim they spend seven weeks a year -- or over an hour per day -- managing badly performing employees. More worrying still, U.S. employees admit that 68% of the mistakes they personally make never come to their managers' attention.

By not matching the right people with the right jobs, U.S. companies are also compromising the productivity of their experienced, well-paid managers, because their managerial time could be more productively spent on value-adding tasks. And the problems increase with organizational size. U.S. managers in larger organizations (>\$8.5M in turnover) are spending 41 days, or eight weeks per year, on managing poor performers.

Clearly, companies need to adopt new approaches to workforce assessment. The Future Foundation research illustrates that time wasted on managing poor performers is staggering and that management time could be better focused on selecting the right employees for specific roles in the first place. By improving hiring and management practices, an organization will also reduce related costs, increase productivity and rejuvenate its workforce.

The results of this research provide a powerful argument for corporate change to stem the losses of poor people management. Only when these costs are revealed can HR departments confront the issues and begin to effect positive corporate change. I believe that the study results underscore the value of investing in effective hiring and job placement practices versus investing in correcting mistakes over the course of the employee's tenure.

As the world merges into one global economy, human capital is, more than ever, the key driver of profit and innovation. As SHL's research has revealed, to excel in the 21st century, leaders will need to focus on people first, above technology and all other aspects of running a business. The advantages will go to those who can redefine skill sets, reconcile cultural differences, and match the right people to the right jobs through intelligent and objective assessment.

The research noted above is part of SHL's ongoing program of research exploring the "hidden" costs of hiring, selecting, and managing employees. SHL's full report, "Getting the Edge in the New People Economy," is available as a free download at www.shl.com/edge.

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Prior to joining SHL in January 2002, he was Vice President and Managing Director of the Eastern United States and the General Manager of the Metro New York Office for the Hay Group, a global organizational and human resources consulting firm. He was also accountable for Hay's National Employee Benefits practice and their Employee Attitude and Customer Satisfaction Survey business. Prior to joining Hay in 1987, he was Director of Succession Planning and Corporate Human Resources for the Genstar Corporation in San Francisco.