

HR Secrets

for Hawai'i Employers

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This is the first in a series of white papers designed to help Hawai‘i business owners and CEOs think differently about the human capital that drives their organizations. Because most Hawai‘i employers do not have ready access to human resources (HR) expertise, it is hoped the information provided here makes being an employer in Hawai‘i just a little easier.

The challenge of being an employer

Employing people is complex and seems to be getting more complicated each year. Whether we’re hiring our first employee or managing a workforce of 200, the business of employment demands our time, our resources and expertise we may or may not possess. And it all starts with the hiring process.

Let’s be honest. Recruiting and hiring employees is a chore. It takes time, it’s distracting, and most of us are not professionally trained when it comes to recruitment. Usually, we decide to hire someone only when the pain of *not* having a person is worse than the pain of hiring.

Then, once we have employees on board, we’re faced with the challenges of developing and then retaining those employees in whom we’ve invested so much. Furthermore, our businesses are burdened with all the requirements of *administering* those employees—payroll, employee recordkeeping, health plans, retirement plans, benefits administration, workers’ compensation, government compliance—the list goes on. Again, most business owners and managers are not trained in these administrative aspects of running a business.

The following HR “secrets” can provide a strong foundation for increasing your success in hiring and

“Those who build great companies understand that the ultimate throttle on growth for any company is not markets, or technology, or competition, or products. It is one thing above all others: the ability to get and keep enough of the right people.”

Jim Collins
Good to Great

hanging on to great employees. (As we’ll explore later in this paper, employee turnover can be very expensive and disruptive to a business.) These crucial HR concepts are recommended by experienced HR professionals and are used daily by many successful organizations.

Secret #1

Get the right people on the right seats on the bus

In his influential book, *Good to Great: Why Some Companies Make the Leap... and Others Don’t*, Jim Collins introduced the average business person to what many successful CEOs already knew: it’s far more important to have the right people on your team than knowing exactly what you’re going to do with them.

To paraphrase Collins, the strategy that appears consistent in great companies—as compared to simply “good” companies—has two fundamental steps:

1. Get the right people on the bus (and the wrong people off the bus).
2. Figure out where and how to drive the bus.

This simple yet potent point of view leads logically to the next concept.

Secret #2

Hire for fit, train for skills

Practically all employees are hired on skill set and fired on “fit.” In HR terms, this is putting the cart before the horse.

Job candidates are much more likely to stay with your organization and be successful if their personalities match the culture of your team and/or organization.

By comparison, if you hire your employees primarily on skills and work experience, chances are your turnover rates will be higher than average.

Secret#2—hire for fit, train for skills—is predicated on the idea that most employees can always learn and develop new skill sets. Yet, if an employee doesn't "fit" your organization, it doesn't matter how much training and development you throw at the person—the overall effect on the business can be disastrous. With even one employee that doesn't fit, team morale and productivity can suffer dramatically. Customer service can be impacted negatively. And the longer the wrong person is on the bus, the more expensive it gets to replace that employee.

"I like hiring people who have one hundred percent of the capability but only fifty percent of the skill," explains one director of research and development for a local company. "If they're truly a fit for the team and for the company, I know they'll be able to acquire the skills to grow into the other fifty percent of their job... and help us take the business forward in the process." This approach to hiring doesn't mean that an organization needs to hire only one type of personality. A successful team usually exhibits a balance between a diversity of skills and a commonality of values.

So, how do you hire for fit? One proven method is to start with behavior-based interviewing techniques. Résumés can be very misleading, especially if you're not trained in candidate screening and interviewing. Rather than asking a job candidate to describe her skills and experience, behavior-based interview questions get the candidate to explain a real situation in which she demonstrated her skills and problem-solving abilities. Compare these two questions:

Standard question: *"How would you describe your people skills?"*

Behavior-based inquiry: *"Tell me about a situation in which your supervisor asked you to complete a project that you believed was headed in the wrong direction. How did you deal with it?"*

Another valuable hiring tool is a personality assessment. This type of evaluation, which uses various methods to describe personality types, can go a long way to

helping you evaluate a candidate's fit for a particular job function or team, or for your organization in general. Popular assessment tools include the Myers-Briggs Type Indicator® and the Rembrandt Portrait.®

20 Questions You Can't Ask a Candidate During a Job Interview

Even though we have a culture of "talk story" here in Hawai'i, did you know it's illegal under state and federal law to ask the following questions during an employment interview?

1. Are you married?
2. Are you planning to get married?
3. Do you have children?
4. Are you planning to have children?
5. Shall I call you Mr., Mrs., Miss or Ms.?
6. What is your sexual orientation?
7. Have you ever been arrested?
8. Have you ever been convicted?
9. Where were you born?
10. What nationality are you?
11. Are you a naturalized or native-born U.S. citizen?
12. How old are you?
13. When did you graduate from high school?
14. What is your mother tongue?
15. What religious holidays do you observe?
16. With whom do you live?
17. Where does your spouse work?
18. Have you ever collected workers' comp or temporary disability insurance for a previous injury or illness?
19. Do you have a physical disability?
20. What is the name and address of a relative we can contact in case of an emergency?

For more information, contact the Hawai'i Civil Rights Commission at www.state.hi.us/hcrrc.

Secret#3

Hire slow, fire fast

If you're striving to get the right people on the bus and hiring them based more on fit than skills, then it only makes sense to exercise patience during the recruiting and hiring process. Yes, it can be painful to leave a position unfilled for longer than you'd like, but the cost of a bad hire is usually not worth the misstep. Similarly, the longer you wait to let a bad hire go, the harder and more costly it becomes.

When in doubt, keep recruiting and interviewing. As discussed in detail below, the true cost of a bad hire and its impact on an organization can be excessive. For instance, the overall cost of replacing a knowledge-worker after only 90 days on the job is typically estimated to be equal to 150% that employee's annual salary.

In addition to exercising patience when searching for the right candidate, more and more organizations in Hawai'i are implementing an introductory "assessment" period for each new hire. In fact, many staffing companies are now offering a temp-to-hire service to their clients.

Under a temp-to-hire arrangement, a job candidate is provided to an employer on temporary basis of, say, three to four months. During this period, both the employer and the employee have an opportunity to test out their relationship before making a long-term commitment. If one candidate doesn't work out, an alternate can be provided. In this way employers can "test drive" potential employees without the burden of the putting them on the payroll and enrolling them in healthcare and other benefit plans.

Employee turnover costs more than you think

A certain amount of employee turnover is normal (and healthy) in most organizations. Yet, high turnover rates can severely reduce a company's productivity or even put a small business out of business. Although you probably worry more about payroll, supplies and equipment, understanding the true cost of turnover is essential—and it's probably higher than you think.

Turnover costs vary according to position and industry.¹

Adding Up the Cost of Turnover

Because turnover affects your entire organization, the true cost of replacing an employee is a combination of many direct and indirect costs, including staff and management time.

- Recruitment advertising and services
- Screening and interviewing
- Background checks and drug testing
- Training costs
- Equipment, supplies and uniforms
- Administrative burden of on-boarding a new employee
- Overtime pay for other workers
- Unemployment insurance increase
- Lost productivity due to...
 - Empty position
 - Co-workers covering for missing employee
 - Decrease in employee morale
 - Training a new employee
 - Employee taking time to get up to speed
 - Customer complaints
- Other potential costs...
 - Loss of competitive information and trade secrets
 - Negative word-of-mouth PR in the community about your company

Estimates range from 25 percent of an employee's annual salary, for a minimum-wage worker, to 400 percent for a top executive. Even if we assume a conservative, average turnover cost to be equal to 100 percent of someone's salary, can you afford to give away 12 months' worth of pay just to replace an employee? Most small to mid-sized businesses and nonprofits can't—they struggle to make payroll as it is.

The average turnover rate in Hawai'i is 21 percent. So, let's take a typical local business with 25 employees and an average salary of \$40,000. If the company's annual turnover rate is 20 percent, or five employees per year, the estimated effective cost of that turnover is five times \$40,000 for a total cost of \$200,000. That's a hefty price tag for most small businesses. However, you can do something about turnover—starting with the first three

secrets presented in this white paper. Keeping turnover low helps increase your business's chances of success. Also, reducing turnover has been shown to improve both team productivity and the customer experience.

The importance of exit interviews

Exit interviews are an invaluable tool in learning how to retain the best talent for your organization. This type of interview—which can be done in person, via questionnaire, or both—is best conducted by a trained human resources (HR) professional, but it's worth doing even if you are a small organization. Not only will exit interviews help to uncover areas that need attention, the documentation it produces can help prevent costly litigation should a disgruntled former employee file a formal complaint.

If you are unable to conduct an interview with an exiting employee, try asking the person's co-workers; they usually have a pretty good idea why their team member quit or how she felt about her job.

To make exit interviewing useful to your organization, it must be applied consistently—with the same questions—so that trends can be identified and acted upon. Exit interviews are only worth doing if your organization is prepared to make changes based on whatever data is gathered.

Sample Exit Interview Questions

- What are your primary reasons for leaving?
- What did you find most satisfying about your job?
- What did you find most frustrating about your job?
- What improvements could you recommend about your job, the working conditions, management support, etc.?
- Would you consider returning to this company in the future?
- Would you recommend this company to friends or family?
- Is there anything the company could have done to prevent you from leaving?
- What do you think it takes to succeed at this company?
- What does your new employer offer that's different from this company?

Employees don't leave companies, they leave managers

Ultimately, the challenge of attracting, hiring and retaining employees is all about relationship building. The main reason most employees leave a job is not the pay or the line of business, it's their manager. This conclusion has been reached by many on-the-job HR professionals and is clearly supported by extensive research.


For more than a decade, The Gallup Organization has been assessing employee engagement at tens of thousands of worksites worldwide. The Gallup Q¹² process, which has been completed by nearly two million employees, is based on a survey that asks respondents to rate 12 statements on a scale from one to five:

- I know what is expected of me at work.
- I have the materials and equipment I need to do my work right.
- At work, I have the opportunity to do what I do best every day.
- In the last seven days, I have received recognition or praise for doing good work.
- My supervisor, or someone at work, seems to care about me as a person.
- There is someone at work who encourages my development.
- At work, my opinions seem to count.
- The mission/purpose of my company makes me feel my job is important.
- My fellow employees are committed to doing quality work.
- I have a best friend at work.
- In the last six months, someone at work has talked to me about my progress.
- This last year, I have had opportunities at work to learn and grow.

Q¹² statements are copyright © 1993-1998 Gallup, Inc.

Gallup's extensive research has shown that more direct and local influences, such as managers and supervisors, are much more important to employee engagement and retention than macroscopic factors, such as the organization as a whole. This research spurred several best-selling business books as well as an article in *Fortune* magazine entitled, "It's the Manager, Stupid."

Even if employees experience challenges with their immediate supervisors, their relationships with co-workers can positively affect staff retention. In one survey of Hawai'i companies, the top reason people gave for *staying* with an employer was their co-workers. Especially in an island community such as Hawai'i, relationships are everything.



“...in the end, turnover is mostly a manager issue. If you have a turnover problem, look first to your managers.”

Marcus Buckingham and Curt Coffman,
First Break All the Rules

Attracting and retaining quality employees is a strategic issue, not a tactical one

In the mid-'80s, McKinsey & Company introduced the term “war for talent” and it's been a banner for HR professionals ever since. In the past five years, the competition for talent has spread from highly technical industries such as IT to include almost all knowledge-worker positions and most industries. The retirement of Baby Boomers, combined with the dramatic increase in the need for educated, high-performers in most fields, is making it difficult for employers to find the people they need to grow their businesses or stay competitive. Job positions that demand a top performer—like a top sales person who can drive 50 percent more revenue than an average sales person—are even more difficult to fill as experienced professionals leave the field.

For many companies in Hawai'i, finding and keeping high quality employees is not just a critical HR issue, it's their number one business challenge. While local and national economies cycle through their highs and lows, the success of a business always depends on people. For this reason having the right number of employees with the right skills is a strategic issue demanding long-term thinking. It's useful to think about finding and keeping employees as part of a larger business concept known as “talent management.” Talent management is a strategic, long-

term endeavor, whereas running employment ads and screening résumés are, by comparison, tactical pursuits.

Here are some key strategic questions to consider as you think about your current and future workforce:

- *What kind of workforce will our business need next year? In three years?*
- *If the economy slows down, what combination of full-time and temporary workers will best serve our business goals?*
- *What kinds of skills do our employees need now that they don't have?*
- *How can we ensure that our new employees will stick around for more than a year or two?*

With Hawai'i's chronically low levels of unemployment and the increasing competition for quality candidates, local business owners, CEOs and key managers must focus on what's most important to the success of their organizations. For most businesses, the number one priority is finding new clients and delivering great customer service to the ones they already have. In the world of nonprofits, it means securing a steady stream of funding and delivering programs and services to the constituents they serve.

Yet, no matter how large or small your organization is, remember that you don't have to do everything on your own. The path to success starts with three basic steps:

1. Determine which business areas are strategic and which ones are tactical.
2. Focus on the strategic.
3. Find the most efficient way to deal with the tactical.

To learn more about outsourcing the tactical aspects of being an employer in Hawai'i, contact the organizations listed on the following page.

About the ALTRES companies, founded in 1969

ALTRES, Inc. is Hawai'i's premier provider of HR administration solutions, known collectively as **simplicityHR**, and is Hawai'i's pioneer professional employer organization (PEO). Serving as the human resources "back office" for hundreds of local businesses, the company provides payroll processing, workers' compensation coverage, safety, HR support, training, health care coverage, and employee benefit plans covering thousands of employees statewide.

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ALTRES Staffing, Inc. is Hawai'i's largest, most experienced employment services company. With four specialized staffing divisions—Office/Professional, Industrial, Technical and Medical—the company screens more than 20,000 job applicants each year. ALTRES Staffing helps local companies "get the work done" by recruiting and placing experienced, pre-screened, and pre-qualified personnel in temporary, temp-to-hire, direct-hire and contract positions throughout the islands.

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