

Special Edition

What Constitutes a Good CEO? Part 4

Over the last several weeks, I've discussed leadership skills and their importance. I've discussed that our country lacks strong leaders. In fact, the real leaders have been added to the "endangered species" list. I defined a leader as an individual that knows where they're going and can convince others to go with them.

I believe that any company that wants to increase their growth, has to pay closer attention to the quality of the people they hire; the employees professional and personal goals, and helping their employees reach those goals. The key to success is; hire smart, train well and back off and not micromanage. There are 12 things that a leaders must remember;

1. The value of time.
2. The success of perseverance.
3. The pleasure of working.
4. The dignity of simplicity.
5. The worth of characters.
6. The power of kindness.
7. The influence of example.
8. The obligation of duty.
9. The wisdom of economy.
10. The virtue of patience.
11. The improvement of talent, and;
12. The joy of originating.

Leaders recognize that one of their biggest expenses, other than their cost of goods and services, is their cost of employee turnover. To complicate matters, the cost of turnover isn't even a balance sheet line item.

The turnover of a single employee costs thousands of dollars, and many trucking companies are not even aware of this cost, nor do they budget for it. Strong leadership includes the recognition of turnover. The key to reducing this cost begins in the selection process. In this edition, I will discuss why turnover costs so much, and why so little attention is paid to it.

In order to understand how the process works, let's review a typical employee hire. A particular individual has been with the company for 6 months. After 3 months, you notice the work produced is not what you expected. Your performance review with this employee brings out the fact that he/she feels they need additional training. So, you take one of your key personnel and provide additional training. However, 3 months later, productivity is still below expectations.

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As a leader (owner), you then make the decision to terminate the employee, so you set the process in motion. You feel you've done everything possible to properly train that individual and you justify that the termination is necessary because the employee didn't perform.

To begin with, the employee didn't perform because he/she wasn't the right person for the job. Regardless of what they told you by their references, their past employers and the interview itself, they just did not fit the job. **Now, you have to begin the entire process of;**

- Placing an advertisement.
- Creating an ad which creates additional cost to the company.
- There's also cost associated with writing the ad.
- **There is associated cost with responding to the ads, including speaking to potential employees, over the telephone, reviewing resumes and applications, opening letters, etc.**
- **Each time an application is received, someone has to review it and, if you receive 100 – 200 applications, there is a cost associated with those applications.**
- Then, you set up pre-screening and whoever does the pre-screening, that employee is compensated for the time dedicated to do the employee pre-screening or initial pre-screening.
- **Then, there's the cost of the interview time;**
- Depending upon what type of position you are recruiting; there could be cost associated for job integrity and honesty evaluations.
- A test for job fitness.
- **A second interview, and;**
- Complete reference checks.

The list goes on and on and this is just the beginning.

The cost associated with just starting the process over again, before you hire or train, could equal several thousands dollars. The cost of a hypothetical new employee could be \$1,500 - \$2,000 before he/she begins work, **and this is the smallest cost of hiring.** Then, you need to consider phase 2 which is the training.

Additional cost begins the first day on the job. Usually, there are papers to complete, some type of orientation for a new employee at the job, and the staff time associated with the first day. Additionally, there are the management hours spent associated with the initial day.

The second day begins the cost of training. A complete costing is divided into 6 parts;

- **Part 1 is the productivity of the new employees,** during the initial training, versus productivity you would expect from a fully trained employee in that position.
- **Part 2 is the wages you pay the employee, even though productivity may be only 10% - 30% of what would be expected of a fully trained employee.**
- **Part 3 is the wages paid to train while training that individual employee.** The trainer is not productive while training, so their wages must be considered in the total cost of the turnover.
- **Part 4 is the cost of materials while the new employee is training.** The employee is certainly not going to be doing everything right the first time, or probably the second or third time.
- **Part 5 is loss of productivity of the trainer while training.** This could be substantial, unless you have several individuals that are devoted to full time training. Either way, their total wage must be calculated as part of the turnover cost, and;
- **Part 6 is the cost of any training material – books, college tuition, videos, manuals, etc.** How long is the initial training in this position? One week, one month, several months? **How many hours of training does this involve?**

Once you analyze these costs, you have to analyze the total cost of losing an employee, hiring a new employee, training that employee and the loss of productivity associated with the new employee, plus the individuals that are training the employee. I won't bore you with the formula at this time, but when you add the recruiting cost, plus the cost of hiring and training, and the loss of productivity, **the turnover cost approximates \$12,000 - \$14,000 – that's what I said; \$12,000 - \$14,000 for one employee.**

My point, the key to reducing turnover is proper selection. It is vital to know the turnover cost in your company. This is a vital step in, what I refer to, as profit performance management. Hiring the wrong employee is expensive. It's apparent that people have to be carefully matched to the job they're expected to perform. When people are well suited for the work they do, they do a great job and a company prospers. **However, when the wrong person is hired for a job, it sets off a chain of adverse reactions as follows:**

1. **There is stress**, which occurs when employees enter new jobs and discover they can't do the job well or they don't like the job.
2. **There is boss related tension** because the boss has expectations greater than the ill-fitted employee can produce.
3. **Conflicts occur** as other employees develop negative feelings about poor performance.
4. **The stress level increases**, both for the non-performing individual and other company employees. The misplaced employee complains about the job, the boss is an SOB and too much pressure.
5. **This leads to mass conflict** – I call this polarization, as employees chose sides and start fighting with each other.
6. **Stress is taken home** – an employee that cannot perform is "never at fault". So, at home, with friends, the complaint is how bad the company is, how hard he/she has to work, how overloaded and unhappy everyone is. **Then, the word spreads that your company is a bad place to work.**

This may sound like a farfetched occurrence, but it happens every day.

Next week, I will discuss background reference checks and the mysteries of motivation and how to motivate people as well as micromanagement.

QUOTE OF THE WEEK:

“Great minds discuss ideas, average minds discuss events and small minds discuss people”