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**"Experience is what you get, when you were expecting something else."**
**—Al Rainaldi**

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# Employer's Advantage

Edited by John W. Howard, Ph.D




*The highlights in this edition are sort of a drumbeat of self-evident truths we talk about month after month:*

- *The job market is squeezing some employers who have a tough time recruiting quality applicants*
- *Prescreening pays off, and you should do it with every hire*
- *There are a lot of bad folks out there, even if they are still a minority*
- *You're not likely to identify them with traditional interviewing methods.*

*—Editor*

## As the Labor Pool Shrinks: We Keep Making Jobs...How Long?

Earlier articles in this publication have discussed the effects of retiring baby boomers, shrinking unemployment and other factors contributing to an effect that most North American employers are experiencing: It's tough to get enough qualified applicants to fill the jobs we have open.

Calendar year 2005 saw over two million more jobs (net) than we had at the end of 2004! November's net job increase of more than 300,000 was the largest since the spring of 2004.

Manufacturing, long a sore spot in the job figures, even added 18,000 net jobs in December of 2005!

The tightening supply of workers to fill these new positions was reflected in the unemployment rate dropping to 4.9 percent in December, and in a steady rise in average wages, to over $16.00 per hour. Continuing the trend, January of this year saw a net increase of 193,000 new jobs and unemployment continued to drop, to a four-year low of 4.7 percent.

Meanwhile, our increasingly service and profession-dominated economy further penalized those with less education: Unemployment rose to 7.5 percent among those with less than a high school diploma by the end of the year. (Compare that with a rate of only 2.2 percent unemployment for those with a college degree.)

The outlook for 2006, according to most analysts, is for a slight slowing of job growth compared to 2005. Lower consumer confidence, less new construction and higher fuel prices are all expected to play a role in the slowdown.

If you're a jobseeker, this all bodes well for your future. If you're an employer, you'd be well-advised to come up with a strategy for maintaining or growing your profits in a tighter job market where candidates expect more money and simply "filling the holes" may be more challenging.

The U.S. Chamber of Commerce tempered its forecast with a general warning: Businesses are facing an "accumulating burden of rising health care, retirement and energy costs. Restrictive immigration and visa policies, along with inadequate education and training, have tightened the supply of qualified workers."

Getting more from the employees you already have, and holding on to your best, may become the most productive strategy for the coming year—or years!

## As the Labor Pool Shrinks: Manufacturing Suffers Shortages

The National Association of Manufacturers says. "83 percent of U.S. manufacturing companies can't find enough skilled workers to remain productive, with nearly 90 percent reporting a 'moderate or severe shortage' of machinists, operators, craft workers, distributors, technicians and other workers."

The continuing long-term decline in manufacturing jobs in North America combines with competition from other countries to conjure up images of a whole continent with very little manufacturing base. Even Mexico is losing manufacturing jobs to Southeast Asia and Eastern Europe.

Meanwhile, India, Russia and China continue to outproduce North America in college graduates, adding to competitive pressures for business.

So far, better productivity has helped the U.S. and Canada maintain an advantage, but January's statistics showed a drop in productivity and manufacturing efficiency, both an alarming reversal of a long-term trend.

Analysts and investors will be watching those numbers with intense interest over the next several months, searching a cloudy crystal ball for indications of the health or illness of our manufacturing sector. Some have already predicted the untimely demise of manufacturing as the crown jewel of the North American economy.

## So, You Don't Screen Executives for Integrity?

I'm always intrigued when a client decides to use the Step One Survey II™ to pre-screen lower-level employees for Honesty-Integrity issues and then exempts management or executive candidates from the same screening. The rationale usually goes something like this: "Executive Candidates are already so thoroughly vetted, the assessment would be redundant." Or, alternately, they may reason, "Executive candidates would be offended by the questions on this assessment."

Assume, for a moment, you hire someone of questionable integrity. At what level in your business could they cause the most damage? Is hiring such a person as an executive or manager really that unlikely? Will the candidates be *offended* when they discover you are taking extra care in selecting the right people to run your business? As you consider these questions, consider the answers you might receive from the stockholders of Enron or Adelphia and consider the following news stories. ***—Editor***

### Utah Embezzlements Hit Credit Unions and Banks

From the Salt Lake Tribune comes this lead: "The amount of money that disappeared from Chevron West Credit Union each month was relatively small—$50 here and a couple hundred there. But over eight years it added up." The estimate eventually reached $168,000.

The indictment named the former president of the credit union. The story goes on to note that, on the same day, in the same state (with a population of less than three million), the president of another credit union was charged with embezzlement of $132K.

Two more Utah stories: 73-year old Barbara Coward was sentenced last fall for embezzling $2.6 million from her credit union employer ***over 40 years!***

The Bank of Ephraim was liquidated by the government, the failure the result of a $5 million embezzlement by a bank employee.

Are the executives of Utah's financial institutions more likely to commit crimes than those in other states? Probably not.

Were these executives prescreened for honesty and integrity before they were hired?

***Probably not.***

*73-year old Barbara Coward was sentenced last fall for embezzling $2.6 million from her credit union employer* ***over 40 years!***

### Indiana Data Trashed

Indiana-based Travel Zone Inc. reported charging a former employee with fraud, after he allegedly used his (company provided) login to access their iBank accounts by computer, then deleted the entire records of 17 corporate travel clients.

### Lay & Skilling Trial

From *Forbes*: "Jurors in the fraud and conspiracy trial of former Enron Corporation chiefs Kenneth Lay and Jeffrey Skilling have spent several hours getting a glimpse of the duo as they were before their company crumbled in scandal, with more to come. Prosecutors have played clips of videos and audio tapes of Enron employee meetings or quarterly conference calls... "

### More News About Questionable Integrity...

**From a July 9, 2002 Executive Order of the President of the United States:** "The Attorney General shall immediately establish within the Department of Justice a Corporate Fraud Task Force."

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**From the Environmental Working Group:** "A consulting firm hired by Pacific Gas & Electric Co. to fight the "Erin Brockovich" lawsuit distorted data from a Chinese study to plant an article in a scientific journal reversing the study's original conclusion linking an industrial chemical to stomach cancer, according to documents obtained by the Environmental Working Group (EWG)."

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**From the Washington Post: "**A former America Online executive pleaded guilty yesterday in Alexandria federal court to defrauding the Dulles-based Internet company of $100,000 through a phony contract for an outside consultant who did no work and then shared the fees with him..."

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**Anonymous post on Craigslist San Francisco:** "I've met Kenneth Lay and Jack Welsh. They were remarkably alike. I can't quite figure out what that means for GE."

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**From KCTV in St. Louis:** "A former insurance executive was sentenced Tuesday to six years in prison on a fraud conviction involving a $5.7 million mortgage fraud scheme…"



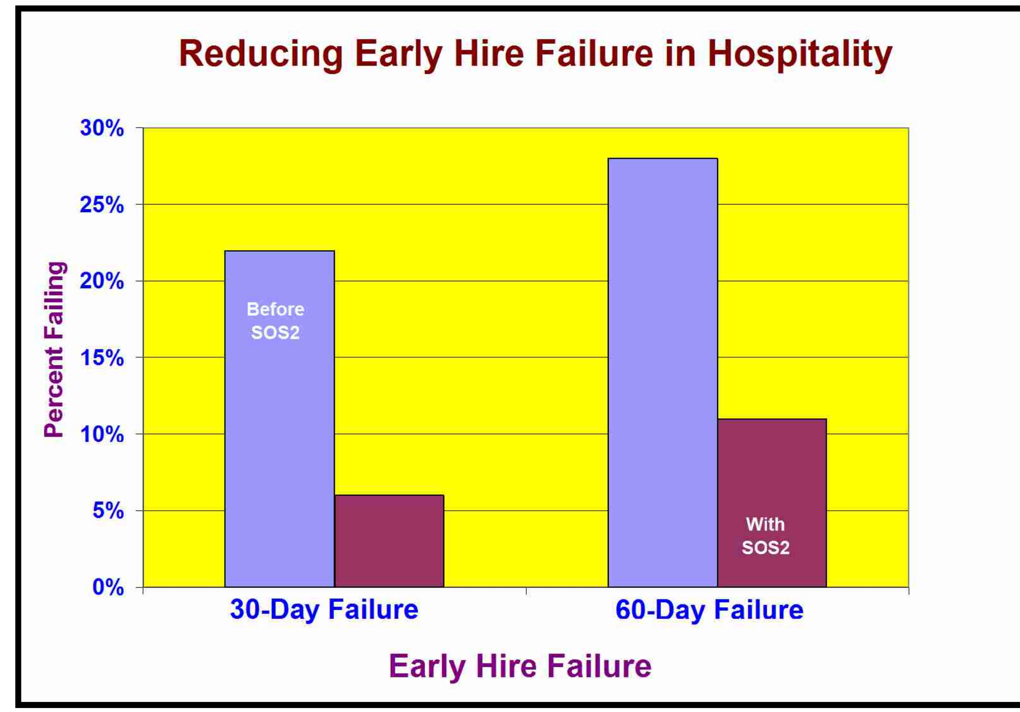
## Simple Prescreening Program Reduces Early Hire Failure—Mike Pacholek

Six months ago, this feature covered the story of an award-winning Sheraton property's decision to rework their hiring process and include the use of the Step One Survey II™ as an integral part of their prehire screening. In their first six months of use, the property cut their 30-day and 60-day new hire failure rates by about 33 percent, to levels of 14 percent and 18 percent, respectively. Now, they have a full year of experience in using the assessment program and the statistics are even more impressive as shown in the graph below. From their baseline 30-day rate of 22 percent, they have reduced 30-day failures to just six percent! The decline in the 60-day rate is as impressive, from 28 percent to 11 percent!

In the hospitality industry, early hire failure makes up the biggest part of total annual turnover, and also the most expensive part. Consider the expense of recruiting, hiring, training and losing employees before they ever really become productive!

In this operation, hiring around 90 new employees in a year, this means a decrease of 25 new hires. A very conservative estimate of $2,500 per failed new hire shows the program is saving them $62,000 per year! The entire year's expense for the program was $7,650, so they are enjoying a return on investment of over eight dollars for every dollar invested. Over time, the return has increased. It is expected to continue increasing into the second year of this simple and effective program.

*From their baseline 30-day rate of 22 percent, they have reduced 30-day failures to just six percent!*




## Assessments Consistently Reduce Failures

The table below illustrates the effects of using the Step One Survey II™ assessment in hiring in five ***very different*** hospitality properties. Results and ROI* are consistently positive.

| AAA Property Rating | Early Hire Failure: Base Rate | End Rate | Change | Return on Investment |
|---|---|---|---|---|
| ◆◆◆ | 78% | 28% | -50% | 3800% |
| ◆◆◆◆ | 112% | 42% | -70% | 2550% |
| ◆◆◆ | 54% | 14% | -40% | 1650% |
| ◆◆◆ | 31% | 16% | -15% | 855% |
| ◆◆◆◆ | 58% | 27% | -31% | 545% |

**** Note, each of these properties has their own method of calculating cost of hire, and therefore ROI. Individual properties also set their own criteria for hiring, producing wide variations in ROI...but they are all positive!***