

HIRING IN KENYA

CURRENT METHODS, HIDDEN COSTS AND THE VALUE OF TOP PERFORMERS

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Hiring in Kenya: Current methods, hidden costs and the value of top performers

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The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme's goal is to expand access to financial services among lower income households and smaller enterprises. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). Current funders include the UK's Department for International Development (DFID), the Swedish International Development Agency (SIDA), and the Bill and Melinda Gates Foundation.



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Abbreviations

B2B	Business to Business
CEO	Chief Executive Officer
CV	Curriculum Vitae
Fintech	Financial Technology
FSD Kenya	Financial Sector Deepening – Kenya
HR	Human Resources
JD	Job Description
OCA	Open Capital Advisors
PwC	Price Water House Coopers
SME	Small and Medium Sized Enterprise

EXECUTIVE SUMMARY



Recruiting is time consuming, error prone

Across Africa, business leaders increasingly point to the importance of attracting and retaining top talent to compete and win in the marketplace.¹ In Kenya especially, organisations struggle to recruit efficiently and effectively: when they post a job online, they are often inundated with a high volume of applications from mostly low-quality candidates, and picking candidates feels like a subjective process prone to bias and inconsistency.

Very few organisations are able to quantify the time and cost that goes into recruitment, and they often struggle to improve their hiring processes and outcomes. The businesses we interviewed found it very difficult to estimate the time and money they currently spend on talent acquisition. Further, almost none could even begin to approximate the bottom-line impact of hiring a high performer versus a low one.

Our goal is to provide a better understanding of what drives the cost of recruiting, and to approximate the relative value of high performing employees, so that organisations can improve their recruiting practices and better allocate HR resources. To better understand current recruiting practices, costs, and employee performance implications, we conducted multiple interviews and collected data from eight organisations in Nairobi that participated in our research.

CV screening and traditional unstructured interviews often fail to identify the best hire or predict on-the-job performance

We helped eight organisations articulate challenges and opportunities across four stages of recruiting: 1) role preparation and posting; 2) screening; 3) interviewing; and 4) selection and hire. Our key learnings include:

Organisations spend too much time before the interview stage.

Building a strong initial roster of candidates is the most difficult and frustrating part of the hiring process. HR and senior business managers spend around 20 hours per hire before they reach the interview stage, and feel that much of this time is wasted. This inefficiency is driven by a combination of (i) the need to manage multiple application channels; (ii) a deluge of applications (on average around 200, and sometimes up to 800), most of whom are unqualified; and (iii) reliance on manual CV screens, conducted by both HR and business managers.

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¹ PwC, The African Business Agenda (2014)

Screening CVs is time consuming and not necessarily effective, despite its prominence in selection. Every organisation we interviewed used a CV review as their primary screening tool, and most of them had doubts about the utility of this approach. This is unsurprising: recent research suggests that CV screens are less effective than other methods, such as competency-based assessments, as a first screen.

Many companies recognize that traditional interviews are poor predictors of future performance. While all organisations feel time is well-spent in interviews to get to know the candidates, many raised concerns about the missing link from interview performance to job performance. As a response, more and more companies are integrating skills-based assessments, such as case studies and other work samples, into the recruiting process. In addition, some companies are using trial periods or internships to better assess on-the-job performance before extending full-time offers.

Business managers spend a significant amount of time on recruiting tasks that should be delegated. Due to underinvestment in HR resources, business employees and non-HR managers spend a significant amount of time on recruiting, including simple tasks such as first round CV

screening. Even ignoring the opportunity cost of their time, this heavy non-HR involvement drives up the cost of recruiting.

High performers are exponentially more valuable than average or low performers

The business case for investing in recruiting is strong, as employee performance has a significant impact on an organisation. There are at least four ways in which high performers drive value; they: (i) outperform in their key tasks which translates into increased profits; (ii) proactively look for ways to improve the organisation; (iii) require less management oversight; and (iv) spur others to higher performance. In one organisation interviewed, the difference between high and low performers contributed approximately US \$30,000 in additional margin per sales agent per year.

Overall, there is a strong case for investing in improved recruiting practices

Our research suggests that there is a strong case for investing in improved recruiting processes, and there are validated ways to ease, if not overcome, many of the key hiring challenges:

Table 1: Overview of key challenges and potential solutions in the recruiting process

Key challenge	Potential solutions
Too much time spent pre-interview, especially screening CVs	1. Advertise through industry and role specific platforms, and leverage networks;
	2. Refer to own webpage for application (prevent “one-click-applications”);
	3. Use third-party recruiting services to develop initial shortlists
	4. Use online assessment tools to filter applications
Screening and interview methods are not necessarily effective in identifying the best hire	1. Use competency-based assessments and work samples to better predict future performance
	2. Conduct structured interviews with questions that test for key competencies in consistent ways
	3. Provide work-type interview settings or consider trial periods, such as internships
Managers are heavily involved in the recruiting process, significantly driving costs	1. Consider leveraging professional third party recruiters to free up management time in the early recruiting stages
	2. Automate some of the recruitment process, e.g. online assessment tools
	3. Invest sufficient time and resources into HR to develop an effective HR team

Chapter 1

BACKGROUND

Business leaders across Africa understand the importance of attracting and retaining talent to be successful in increasingly competitive markets. In a PwC survey of business and government leaders across Africa, CEOs ranked “availability of key skills” as their top concern, above energy costs, new market entrants, shifts in consumer behavior, cyber threats, and others.² In Kenya specifically, businesses of all sizes face a range of recruiting issues – they are inundated with applications of unqualified candidates, have trouble recruiting those with specialized skills, and struggle to identify the best-fit candidates.

Knowing that human resources are key to competitive advantage, businesses are ready to invest in talent acquisition and retention. As businesses consider how much to invest, however, they face an additional challenge. Few understand the actual cost of their current recruiting practices. A recent Shell Foundation and Village Capital report found that more than 60% of social enterprises surveyed in developing markets did not know how much time or money was dedicated to recruiting efforts.³ In conducting the research for this report, we found the same. It was very difficult for the organisations we interviewed to estimate the costs or the time they spent on recruiting. Further, we found that this knowledge gap goes beyond the immediate costs of the recruiting process; very few businesses can quantify – or even approximate – the financial implications of hiring a high performer versus a low one. Understanding these costs and implications are critical as organisations work to improve their talent practices and assess tradeoffs in spending limited resources.

1.1 PURPOSE AND RESEARCH METHODOLOGY

The goal of this research was to develop a nuanced understanding of recruiting in Kenya: how businesses approach the process today, what is working well, and what remains challenging. We also sought to shed some light on the key cost drivers in recruiting, as well as the potential value added by high performing employees. By highlighting successful approaches that various organisations have used to address common challenges, and by quantifying the time involved at different stages of the recruitment process, we aim to

help organisations improve recruiting practices and make better-informed decisions to allocate their resources.

The findings in this report are based on primary research conducted with eight organisations in Kenya. We focused primarily on SMEs (5–250 employees), with four from the financial technology (fintech) sector. Further organisations were included to broaden our understanding and assess potential cross-sector differences; these included social enterprises active in financial services, agribusiness, and cook stoves, as well as one non-profit.

With each of the eight organisations, we conducted:

- a) Interviews with two to four people of different levels and functions, including senior managers, HR managers, and employees serving in functional roles; and
- b) Data collection to better understand time and other costs related to each stage of the recruitment process.

In the interviews, we spoke both about the recruiting process generally, and about the process for particularly important, challenging, and/or high-volume roles. As the time and cost of recruiting varies by role, we focused our data collection at each organisation on one role, where a significant increase in headcount is expected; these positions included sales and customer service agents, loan officers, software engineers, investment officers, and researchers.

The structure of the remainder of the report is as follows:

- **Chapter 2** – The recruiting process today: an overview of a typical recruiting process, by stage; a detailed account of current recruiting practices, with a focus on what is working well and what remains challenging; and an analysis of time involved at different stages of the recruiting process
- **Chapter 3** – Performance implications: findings on the business implications of hiring high, medium, and low performers
- **Chapter 4** – Going forward: a summary of findings regarding future recruiting needs and insights gained for future recruiting

² PwC, *The African Business Agenda* (2014)

³ Baird, Ross and Desjardins, Simon, ‘Show me what you can do’, Village Capital & Shell Foundation (2013)

Chapter 2

RECRUITING PRACTICES

In this section, we: (i) define a generic recruiting process as a framework for the rest of the section; (ii) share findings about how the companies we interviewed approach this process, what is working well, and what remains challenging; and (iii) assess the costs of the process.

2.1 A TYPICAL RECRUITING PROCESS

“Recruiting” is a multi-stage process that involves planning for staffing needs, sourcing, screening, and interviewing candidates, making job offers, and

onboarding new employees. In this research, we focus on the following four stages: role preparation and posting; screening and shortlisting; interviewing; and selection and hire.

We describe these stages in generic terms in table 2 below. Note that this overview is illustrative – different organisations approach these steps in different ways.

Table 2: Overview of ‘typical’ stages and activities in the recruiting process

Stage	Common activities
1. Preparation and posting: defining and advertising the role	<ul style="list-style-type: none"> ▪ Identify need. The process begins when the organisation identifies a need that cannot be filled internally ▪ Develop job description (JD). Activities, responsibilities, and expectations for a given role are defined in a detailed JD ▪ Establish candidate profile. Based on the job description, a list of skills, qualifications, and experience required is developed ▪ Advertise. Through various channels, including job boards, recruiting firms, social media, personal and professional networks
2. Screening and shortlisting: selecting which applicants to interview	<ul style="list-style-type: none"> ▪ Screen applicants. Once applications are received, organisations need to decide which should advance; in some cases, this is outsourced to a third party recruiting firm ▪ Define the shortlist. The shortlist is the list of candidates who will go on to the next round (usually an interview)
3. Interviewing: assessing role fit and cultural fit of candidates	<ul style="list-style-type: none"> ▪ Conduct interviews. Several rounds of interviews are conducted to assess both role and cultural fit of the candidate ▪ Conduct any additional assessment. Besides interviews, some organisations use behavioral and competency-based assessments and/or psychometric tests to evaluate candidates
4. Selection and hire: making the hiring decision and extending an offer	<ul style="list-style-type: none"> ▪ Select candidates. After the interview stage, companies select their top-choice candidate(s) ▪ Check references. Companies usually check references before extending an offer in order to verify the information the candidate presented ▪ Extend offer. Successful candidates are offered employment ▪ Draft contract. In some cases, this involves slight modifications to a previously used contract; in others, the company drafts the contract from scratch ▪ Communicate with offeree. This includes “selling” the benefits of joining the organisation as well as contract negotiation

2.2 WHAT HAPPENS TODAY

Recruiting practices vary according to a range of factors, including organisation size, budget, sector, market, senior team composition, and role. That said, we found significant commonality across the organisations we interviewed on the approaches they used at each stage, the challenges they faced, and

even some of the ways they were trying to address those challenges. From the eight organisations consulted, it typically takes between three and ten weeks from posting a job to completing the hire – the length of the recruiting period largely depends on the urgency of hiring and the role requirements. The section below explores the findings for each stage of the recruitment process.

1. Preparation and posting

The process begins when the organisation identifies a hiring need, and determines that the role cannot be filled internally. Our findings on this phase center on the hiring archetype (ongoing vs one-off), JD development, and advertising.

Ongoing vs one-off recruitment. Generally speaking, we found that there are two types of recruiting. First, for certain roles, organisations find it beneficial to be ‘always hiring’; this tends to be true for both high-volume roles with high turnover, such as sales roles, and for medium-volume roles for which there is high competition for talent, such as engineering roles. When these ongoing processes are well-managed, they can give organisations an edge in a competitive market for talent; when they are not well-managed, they end up costing the organisation significant time. For other roles, there is a ‘one-off’ need, either because someone has left the organisation, or because a new function has to be filled. Particularly in smaller organisations, these ‘one-off’ needs can be difficult to predict; managers with whom we spoke reported constantly changing recruitment priorities due to evolving organisational objectives and budgets.

JD development. Once roles are approved, the next step is to develop a detailed job description and the ideal candidate profile. We found that business-side managers (i.e. non-HR) are almost always involved in this step, in some cases working with HR, and that organisations rely on past JDs as much as possible. In some instances, organisations lacked awareness of the importance of accurate JDs, and did not take this process seriously.

Advertising. All the eight organisations interviewed, including those working through third-party recruiters, reported using multiple channels to advertise roles, including:

- The company website and intranet;
- Online job boards and blogs, with the most commonly referenced being Brighter Monday and Career Point;
- Social media, including LinkedIn, Facebook and Twitter; and
- Staff networks (e.g. WhatsApp blasts)

In addition, half of the organisations interviewed use, or have used, third party recruiters on occasion. A few findings emerged from our conversations around advertising. First, organisations use multiple channels because they find that no single channel reliably meets their needs. Second, channel efficacy varies by role; for example, we heard that engineers are best sourced through the networks of existing engineers on the team, while for non-engineering hires, Brighter Monday is effective for more junior roles, while LinkedIn is better for more senior roles. Third-party recruiters were often used for roles with a higher education requirement (university or above) and primarily as a means of sourcing, rather than screening, applicants. Third, many of the best hires for all roles are referrals, as those doing the referring know how

the organisation works and whether the referred person would be a good fit. Finally, managing these multiple channels can be very time consuming for the HR team; one organisation reported that they were mitigating this to some extent by advertising broadly, but directing all candidates to apply through their website.

2. Screening and shortlisting

In this phase, our learnings centered on application response rates, use of third-party recruiters, screening criteria, screening approach, and involvement of various team members.

Application response rates. Once job vacancies are posted, applications flood in. Organisations reported receiving 200 CVs on average per role advertised, with one organisation occasionally receiving as many as 800 CVs per role. Application rates are particularly high for roles with lower educational requirements and higher geographic flexibility, such as field-based roles. This high response rate is due in part to the fluidity (and unemployment rate) in the Kenyan labor market, and in part to the fact that many channels make it so easy to apply – e.g., by sending a CV without a cover letter – that people apply for any job available, even if they fail to meet minimum qualifications. The combination of a high response rate and poor quality of responses imposes a heavy cost on organisations, which have to review all of the submissions.

Use of third-party recruiters. Half of the organisations with whom we spoke use, or have used, third-party recruiters. Third-party recruiters are primarily used for roles with a higher education requirement (university or above), and often for support sourcing high-quality candidates rather than screening applications and developing shortlists. Opinions on third-party recruiting services were mixed, with some organisations saying they are good for sourcing candidates, managing the initial screening process, and developing a satisfactory first shortlist. In contrast, several organisations noted that (i) a considerable time investment is involved to manage the recruiter, and to review the results, (ii) recruiters lack understanding of the company, role and culture, and often use relatively junior staff, which leads to unsuitable shortlists, and (iii) incentives are misaligned as recruiters are often paid per hire regardless of future employee performance.

Screening criteria. Every organisation that we interviewed uses CVs as the primary screening tool; in some cases, cover letters and/or aptitude tests (e.g., for engineers) are also reviewed. We heard significant agreement that professional experience – in particular, experience in a similar role or organisation, and evidence of fast progression – is more reliable than education as an indicator of fit and quality. On education, we heard differing opinions; some organisations find it “completely meaningless”; others focus on level attained (e.g. for certain lower-skill entry-level roles, we heard that candidates with post-secondary education are likely to be dissatisfied and leave), and others focus on reputation of institutions attended. Organisations

with headquarters abroad reported conflicting opinions between the local team and the HR department abroad related to criteria - HR teams based abroad frequently consider education levels and university profile as key criteria, while local teams look for relevant field experience and proven commitment.

Screening approach and team time. In almost all organisations, screening of applications was performed manually (i.e. someone looks at every submission); one organisation had developed an Excel tool to do keyword searches. Seven out of the eight organisations reported having more than one round of application screening, with an average of around 30% of CVs screened proceeding to the second round of screening (where applicable). In many cases, the first round of screening is performed by a HR assistant (if available), and later rounds by business-side (non-HR) managers. Overall, this means that business-side managers are spending significant time on the screening stage. Organisations reported that this is because they feel that the business-side managers' functional knowledge and experience is a prerequisite for identifying the right skillsets and overall fit for the role. In addition, the lack of reliable, cost-efficient solutions for first round screening was called out by most organisations as a major frustration.

3. Interviewing

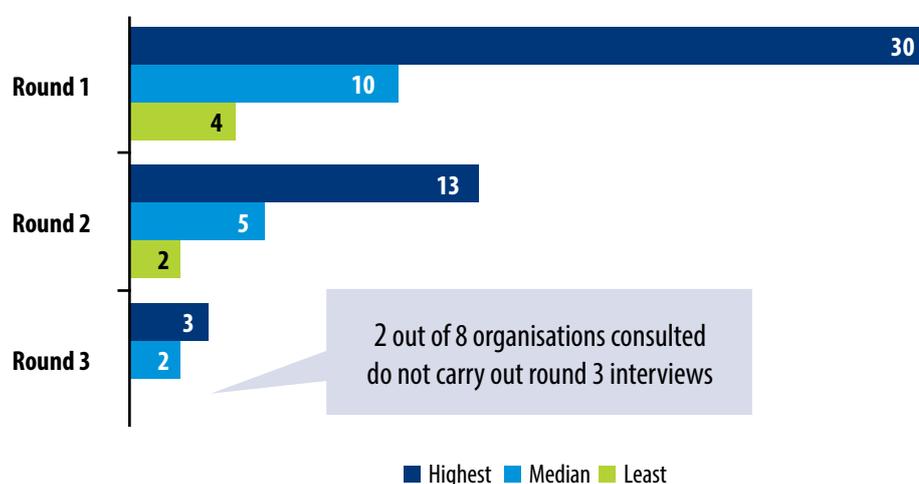
The first in-person contact with the applicant is usually in the first interview, and most organisations consider this the first real opportunity to assess candidate fit. Below, we summarize findings on interview approach, what organisations are looking for, and opinions on whether interviews are suited to predict future job performance.

Interview approach. For the roles discussed, all eight organisations we spoke with used multiple rounds of interviews – most often three rounds – with a subset of candidates advancing from each round to the next. In most cases, business side staff and managers (i.e. non-HR) were involved in most, if not all, interviews.

We found that in later interview rounds, many companies are moving away from 'traditional' interviews, in which the interviewer asks a series of questions about the candidate's experience and professional ambitions, as the organisations recognize that they have limitations in predicting future job performance. Instead, they ask candidates to complete competency-based assessments that require a demonstration of the skills required for the role. All organisations using this approach felt that it improved the quality of their hiring. Examples include:

- *Role plays* for sales and customer-facing roles. For example, one organisation uses an 'angry customer' role play; another asks sales candidates to pitch a product.
- *Writing exercises.* One organisation asks candidates to write a brief essay to demonstrate writing ability, structured thinking, and technical competence.
- *Case studies and mock projects.* Several of the companies give final round candidates take-home exercises based on an actual situations and projects of the company; the candidate has a few days to complete the exercise, and then comes into the office to present the outputs to the team.

Figure 1: Number of candidates interviewed per round



In addition, some organisations administered additional tests to interviewees – e.g., psychometric tests, coding tests – to better assess fit and competency. Finally, a couple of organisations invited final round candidates to spend time with the broader team, outside of the interview, to assess cultural fit.

What organisations look for in interviews. While demonstration of technical skills is clearly important – hence the activities described above – every organisation emphasized the centrality of soft skills and cultural fit, and the importance of using interviews to assess these attributes. On soft skills, we heard across the board that organisations are looking for high motivation, strong problem-solving, critical thinking, integrity, good communication, and an overall positive attitude. On cultural fit, organisations emphasized the risks of hiring someone who is a poor fit – particularly problematic for smaller organisations with lean teams – but reported that cultural fit is the most difficult thing to assess.

Organisations varied in the extent to which they felt they knew what to test for in interviews. Some organisations had a detailed list of the personal and professional attributes that correlated with high performance for a given role, while others felt they were still using trial and error, and learning from interview to interview. In large part, this came down to size: organisations that had recruited repeatedly for the same roles tended to fall into the former group.

Predicting on-the-job performance with interviews. Most organisations share the opinion that future behavior and performance is best predicted by past behavior and performance. But as we heard from several organisations, these characteristics are hard to assess purely through interviews, and interviews frequently favor candidates who are outgoing, articulate, or even attractive, and occasionally even manipulative. The statements made by the organisations interviewed are consistent with widespread research on this topic, which frequently suggests that unstructured face-to-face interviews are poor predictors of on the job performance.⁴ For precisely this reason, more than half of the organisations interviewed are integrating competency-based assessments, as discussed above, into their interview approach. Further, most organisations also called out the importance of the 6-months probation period as an opportunity to let go of underperforming employees; interestingly, they frequently commented that even probation period performance is not necessarily representative of longer term performance as employees are extra motivated in the new job, and strive to overcome the job risk imposed by the probation period.

4. Selection and hire

After conducting interviews, the organisation needs to decide who to hire. Key learnings on this stage centered around reference checks, the offer itself, and factors driving offer acceptance.

Reference checks. Around half of the organisations consulted do reference checks after completing interviews, once they have decided on the top one to two candidates. These checks, typically performed by the HR manager, allow organisations to validate information presented by the applicant. Organisations conducting reference checks generally felt that they were well worth the time; discussions revealed that it is not uncommon for candidates to name family or friends as reference, i.e. people without any type of professional relationship with the applicants.

The offer. We saw three practices that were working well for organisations when it came to making offers. First, organisations benefit from being strategic about the roles offering above market rates, versus those where the rest of the value proposition – such as skill development and resume credibility – is sufficiently compelling. Second, particularly for more junior roles, bringing in new hires as interns for a discrete period of time before confirming the highest performers as full-time employees gives organisations the opportunity to assess fit far better than in an interview. Finally, particularly for more senior roles, a few organisations felt that taking time to ‘sell’ the role to the selected candidates – answer questions, talk about the value proposition, and so forth – increased their acceptance rates.

Offer acceptance. Organisations reported high offer acceptance rates, ranging from 80 to 100%. Factors impacting offer acceptance include:

- **Remuneration:** Larger organisations achieve higher acceptance rates due to their ability to offer higher compensation, training, and other benefits. Smaller organisations reported struggling with competition for talent, especially due to international aid agencies paying salaries significantly above local rates.
- **Brand and reputation:** Especially for start-ups, brand awareness was reported to be a key challenge, with final round candidates occasionally lost to better-known organisations with higher perceived prestige; unsurprisingly, higher quality candidates often have opportunities at larger Kenyan and multinational organisations.
- **Specialised skill sets:** Candidates with more specialized technical skills – particularly software engineers – face significant demand in the market; as such, their bar for a ‘compelling’ offer tends to be higher.

To improve their odds of having offers accepted, many of the SMEs reported spending more time articulating their value proposition to candidates, citing benefits such as flexible work hours, high-energy start-up workplaces, and the prospect of stimulating, high-impact work.

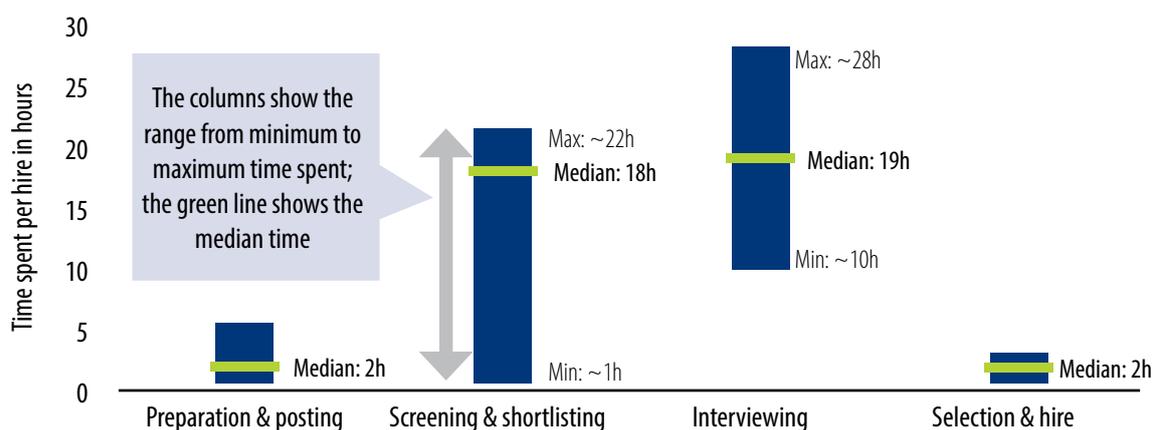
⁴ Don Moore, Stop Being Deceived by Interviews When You're Hiring, Forbes.com, Forbes Leadership Forum (February 7, 2012)

2.3 TIME IS THE PRIMARY COST DRIVER

When companies think about recruiting costs, they often only consider direct, out-of-pocket expenses, such as job board fees. However, the key cost driver of recruiting is the time spent by hiring managers and other employees. Consultations revealed a variation in time spent across the eight organisations in making one successful hire. Figure 2 shows the employee time consumed per recruitment stage to make one hire, showing the median, minimum, and maximum time spent per stage.

Looking at median values, interviewing takes up the most time (19 hours), closely followed by CV screening and shortlisting (18 hours). Given the importance of interviewing for assessing technical, behavioral, and cultural fit for roles, and the increasing use of activity-based interviews, the time consumed for interviewing is not unexpected. The fact that screening and shortlisting is almost as time consuming as interviewing appears more problematic, and is mainly caused by the large number of applications received and the lack of effective solutions for efficient screening.

Figure 2: Time spent per recruitment stage to make one hire



The minimum time invested in screening and shortlisting of one hour was stated by an organisation that, for the role assessed, only received few applications, and quickly determined a shortlist from referrals.

To assess the overall cost of the time spent on recruiting, one approach is for organisations to multiply relevant hourly salary data by the number of hours used at each recruitment stage. Beyond employee time, other direct costs that should be considered include job posting fees, third-party recruiting services, catering, travel, and telecommunications.

This study involved a small sample size of organisations and, as a result, we recommend further research in this area in order to quantify figures that are representative of the broader market. In the meantime, we recommend organisations follow the methodology outlined above to build perspective on their own internal recruiting costs, ensuring they calculate the cost of time spent both by HR employees and by direct business employees.

Chapter 3

EMPLOYEE PERFORMANCE OUTCOMES

All organisations agree that the goal of hiring – and the rationale for investing in recruiting systems – is to recruit the best person available for each position. However, organisations typically find it difficult to assess the business or organisational impact of hiring a high, medium, or low performer, which, in turn, makes it difficult to weigh trade-offs when deciding how and how much to invest in recruiting systems. The focus of this chapter is to understand, and, where possible, quantify that impact.

In doing so, it is important to keep in mind that employee performance cannot be fully attributed to the quality of the recruitment process; while the recruitment process aims to select the right person for the role, there is a whole magnitude of interplaying factors that affect employee performance, including leadership qualities, organisational culture, performance management systems, ongoing mentoring and training, as well as financial and non-financial incentives.

3.1 HOW DOES EMPLOYEE PERFORMANCE TRANSLATE INTO VALUE?

In all interviews, we spoke about the differences between high, medium, and low performers. We had two goals: first, to understand how high performers drive value for an organisation, and second, where possible, to quantify it. Although we were discussing a range of roles, including sales agents, customer service representatives, loan officers, and software engineers, the findings were remarkably similar.

When asked about "high performers" and "low performers", most interviewees focused on an employee's execution of the role: how quickly, reliably, and well she performs her duties. Through further conversation, however, it emerged that there are at least three other ways that high performers drive value for organisations: suggesting improvements, saving time, and improving the performance of others.

Value Driver 1: Role Execution. High performers execute their roles well, in terms of both productivity and quality. The impact of this execution depends on the role. To give four brief examples:

- **Sales.** A high-performing agent will win new customers, and grow sales to existing customers, bringing in more revenue. A moderate or low performer will have lower sales, and customers are likely to be less satisfied and loyal.
- **Customer service.** A high-performing agent will resolve customer issues quickly and efficiently; this results in increased customer satisfaction, which in turn increases customer retention and lifetime customer spend, and drives positive word-of-mouth marketing. A lower-performing customer service agent, on the other hand, may lose customers and damage the organisation's reputation.

- **Loan officer.** A high-performing loan officer will not only generate and manage more loans; she will also make loans to the right clients (appropriate risk profile) and conduct training in a way so as to maximize the likelihood of repayment. A lower-performing loan officer will make fewer and/or worse loans, damaging the organisation's overall portfolio health.
- **Software engineer.** A high-performing software engineer will have higher throughput, and write higher-quality code, shortening organisations' turnaround time for introducing new products and services and upgrading existing ones faster. Lower-performing engineers will not only move more slowly, but they will also make more errors, costing the organisation in terms of time and reputation.

Value Driver 2: Process and Product Improvements. Interviewees described high performers as employees that would go "above and beyond" the requirements of their role: high performers proactively look for ways to improve the organisation. For example, a high performer in a sales role might identify ways to optimize routing of deliveries; a high performer in a customer service role might notice that multiple customers are facing the same challenge, and work with the engineering team to design and roll out a product improvement.

This emerged as the biggest differentiator between a high and either moderate or low performer; a high performer will contribute to continuous organisational improvement, but a moderate or low performer will not.

Value Driver 3: Time Savings. High performers require less time from other team members, particularly their managers, because they ramp up in the new role more quickly, need less support over time, and make fewer mistakes that require fixing. As one manager put it, "With a low performer, it becomes your job to look after them." For example, a high performer in a software engineering role will learn unfamiliar programming languages rapidly while a lower performer will require more time and senior team coaching to get up to speed. As demonstrated above, managerial time comes at a high cost.

Value Driver 4: Improving Others' Performance. In some cases, higher performers are reported to have a knock-on effect within an organisation, spurring others to higher performance. It is unclear whether this happens due to a role model effect, through ongoing mentoring of colleagues, or other. Low performers on the other hand have adverse effects on workplace culture, performance, and morale.

Overall, high performers drive value for an organisation in many ways that go beyond execution of their roles; appendix I provides a summary of characteristics of low and high performers for selected roles assessed during our research. In some cases, it seems to be a matter of degree – a high performer is better than a moderate performer, who is better than a low

performer (e.g., when it comes to time savings). When it comes to suggesting process and product improvements, however, and potentially to improving others' performance, it may in fact be a difference in kind: high performers do it, and everyone else does not.

3.2 QUANTIFYING THE IMPLICATIONS OF PERFORMANCE

It is a difficult exercise to quantify the impact of performance, especially as the effects from product and process improvements, time savings, and improving others' performance are hard to isolate and rarely measured. Here, we illustrate the financial implications of high performance by assessing the value generated by different types of performers in two functional roles – loan officers and sales agents – using insights from two organisations, and restrict our analysis to the first value driver: role execution. Note that this understates the full value created by high performers.

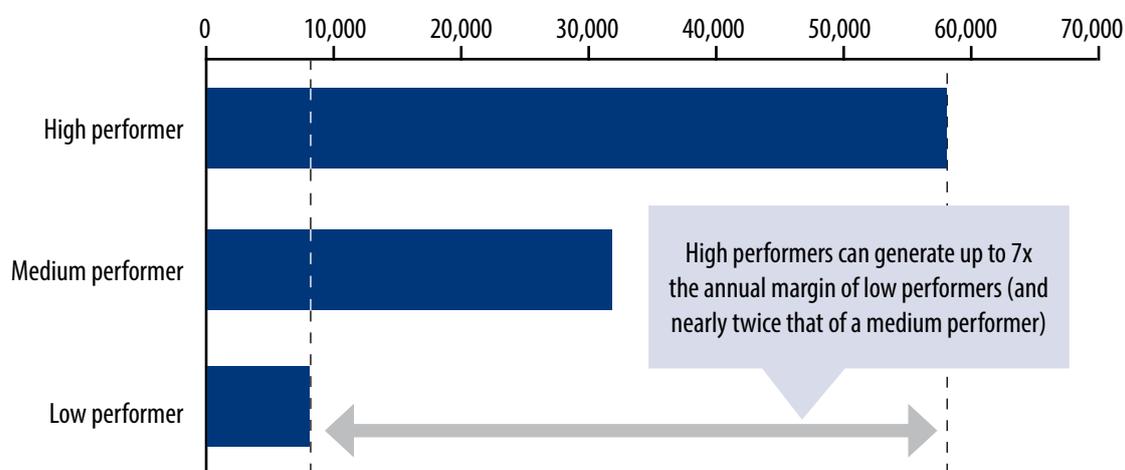
Loans officer role financial performance implications analysis. For financial institutions working to fulfill the needs of the underbanked and financially excluded population through access to affordable credit, the role of a loan officer is crucial. A high-performing loan officer not only acquires new borrowers consistently and in high volumes, but also maintains a healthy portfolio through smart borrower selection and initial training. Here, the metrics we use to calculate the financial impact of a loan officer are gross interest revenue generated and bad debts incurred in the loan officer's portfolio. Gross interest revenue refers to earnings generated through interest paid on

loans by borrowers. Bad debt refers to the amount of principal repayments and interest revenue that cannot be recovered. To calculate the financial implications of performance variance based on the metrics highlighted above, we use following assumptions:

- Clients receive one-month loans with an average loan size of US \$150, and are charged 14% interest for the one-month credit period.
- High performers have a larger portfolio size (i.e. average number of outstanding loans) than medium performers, who again have a larger portfolio size than low performers.
- High performers have a collection rate (on principal repayment and interest payments) of 98% as compared to 90% for low performers.
- Results are displayed as 'annual gross margin,' which is the margin generated from one loan officer in one year (purely from lending operations) before paying her/his salary and other benefits.

Figure 3 illustrates the delta in performance between the different types of performers. In sum, there is a significant difference between the annual gross margin generated by a high performer versus a low performer, driven primarily by two factors: (i) portfolio size, and (ii) portfolio quality (i.e. collection rates, as nonrecoverable loans are particularly expensive for institutions). By building both a larger portfolio and a better-performing one, a high performer brings in nearly twice the annual margin of a moderate performer, and up to seven times the margin of a low performer.

Figure 3: Performance variance within loan officer role (annual gross margin in US\$)



Sales role financial performance implications analysis. Consultations revealed the impact that high performing salespeople have on organisations, as compared to medium and low performers. Again, focusing only on role execution, a high-performing sales agent is able to build new client relationships successfully while also maintaining and growing business with existing clients.

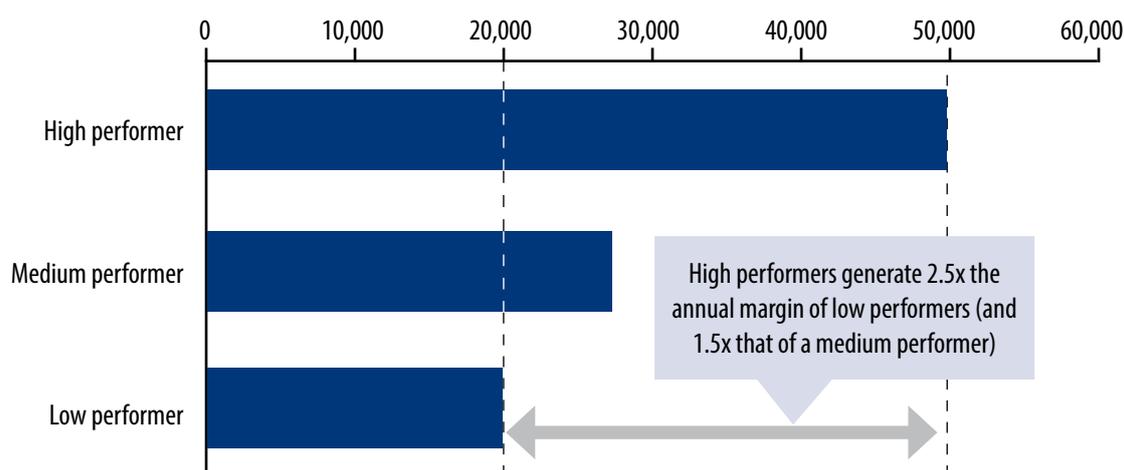
Here, we examine a sales agent for a fast-moving consumer goods company in a B2B setting – the metrics we use include (i) the agent’s client portfolio size (i.e. the number of current clients served by one agent); (ii) increase in average transaction value driven by the sales agent’s ability to introduce new product lines; and (iii) the average number of new clients won in a year. We use following assumptions to calculate the financial implications of performance:

- Clients replenish their stocks on average five times a year (i.e. five purchase transactions per year), with average transaction values ranging from around US \$1,200 to US \$1,500.
- Transaction value is driven by the sales agent’s performance; i.e. her ability to introduce more product lines into the clients’ product range.⁵

- Contribution margin is estimated to be 30% of revenues; in other words, direct inputs such as raw materials and packaging cost 70% of the sales price paid by clients. The contribution margin is needed to cover the sales agent’s salary and benefits, as well as a share of overheads while contributing to bottom line profits.
- High performing sales agents have larger client portfolios; consultations revealed that high performers serve around 20 clients, medium performers around 15, and low performers around 10.
- In addition, high performers are stronger at business development, winning more new clients each year than medium or low performers. Depending on the size of the client portfolio managed by the sales agent, new clients are included or passed over to colleagues.

Figure 4 illustrates the difference in sales agent performance as measured by annual contribution margin in US dollars. It shows that a high performer generates around 2.5 times the margin of a low performer based on overall sales activities, and around 1.5 times the margin of a medium performer.

Figure 4: Performance variance within sales role (annual contribution margin in US\$)



For one of the organisations consulted, the difference between high and low performers amounted to a contribution margin difference of around US \$30,000 per agent per year, with the low performer barely generating sufficient margin to cover her/his salary and benefits. While the difference in business development is considerable, the main driver of this strong financial performance is the high performer’s ability to not only maintain but constantly grow sales in a large client portfolio.

⁵ Other effects influencing average transaction size, such as the average size of clients (e.g. large super market chains versus small ‘mom and pop shops’) were purposely excluded from the analysis as they are often determined by predefined geographic sales area allocations and would therefore reduce the validity of our results.

Chapter 4

RECRUITING GOING FORWARD: KEY NEEDS AND LESSONS LEARNED

Different companies have different recruitment needs, but consultations revealed that there are two common types of recruitment that are considered the most challenging across all organisations. In this section, we explore these two types in the context of the organisations consulted, and identify the key recruitment needs to drive future growth.

Finally, we conclude the report by briefly summarizing our key findings, and exploring, at a high level, potential ways to overcome these challenges. Many of our findings, including the key challenges, are of themselves significant research areas, so we encourage interested readers to refer to further research to gain a better understanding and further develop ideas for ways to manage the situations they are facing.

4.1 RECRUITMENT NEEDS AND CONCERNS GOING FORWARD

While recruitment needs are specific to each organisation, our consultations revealed two distinct types of hiring that are especially challenging and time-consuming in the Kenyan market:

- Finding one hire with specialist skills or experience that is 'rarely' available ("specialist hiring"); examples are senior managers, experienced researchers, or software engineers; and

- Finding many hires, on an ongoing basis, where headcount grows rapidly as the organisation scales operations ("volume hiring"); typical examples are client-facing roles, such as sales agents, customer service representatives, or field officers.

The challenges organisations face for these two types of hiring needs are very different; while specialist hiring is about finding that one person who fits (i.e. the key challenge is a lack of suitable candidates in the market), volume hiring is highly time consuming due to the sheer number of applicants and the ongoing nature of the recruitment process.

The eight organisations interviewed mainly named client-facing roles like sales agents, loan officers, and customer service representatives as their greatest hiring need going forward. Organisations were generally confident that the necessary talent exists in the market, and stated that the challenge comes from the nature of volume hiring. Organisations recruiting for sales and marketing roles or field officers indicated the need to embed local talent within the communities they serve, as a deep understanding of the markets and consumer dynamics is a key requirement for success. The key concern expressed by organisations filling these roles included finding talent that possesses integrity as well as business development and client



management skills. Additionally, organisations highlighted that the large number of employees needed in the role will continue to drive recruiting costs in the coming years through screening numerous applications and an ongoing interview process, if they do not change their current approach.

Regarding specialist hiring, the organisations consulted foresee a high demand for specialized mid- to senior management roles (e.g. experienced marketing, operations and investment managers), as well as specific technical roles including software engineers and specialized field researchers. Understandably, all technology companies consider software engineers as especially critical to their success as they envision their software platforms scaling across markets. The concerns related to recruiting software engineers included (i) limited knowledge of certain programming languages (e.g. Python) used to develop software, and (ii) inability to retain talented engineers as they go on to focus on their own entrepreneurial ventures once they pick up.

For managerial roles, the key concern expressed by organisations is competition with other firms in the same space, as well as international development organisations, that can offer better compensation packages and exciting work experiences. Organisations recruiting for research roles highlighted the need for local talent with technical expertise in field research and tools as well as people management skills to coordinate junior researchers; they also highlighted that the local talent pool lacks required technical skills, such as the use of software (e.g. STATA) for data analysis.

Organisations interviewed revealed that for most of these specialist roles, the local talent is available, but quite rare, thus requiring intensive effort and time in recruiting. Further, most organisations indicated their intent to hire as much as possible from the local talent pool to build local expertise; this also reduces the risks inherent to 'importing talent', i.e. making a significant time and cost investment in international recruiting with the risk that expatriates may not adapt to local working conditions and lifestyle.

Most organisations we spoke with believe the market for talent in Kenya will become increasingly competitive. This is primarily driven by limited talent development systems, both educational and professional, which cannot keep pace with the demand for talent. Across the board, start-ups highlighted the importance of hiring self-starters who can hit the ground running and take ownership of various initiatives - even beyond their role - due to limited time and resources available to train new hires. This is not commonly taught.

4.2 INSIGHTS FOR FUTURE RECRUITING

While there is no silver bullet to address the issues and concerns raised by organisations, there are several practices that can lead to better recruiting and performance outcomes. Some of the organisations consulted have experimented in many ways to improve recruiting processes, and have, as a result, already adopted certain techniques to improve their outcomes. In this

final section, we highlight and briefly explore some of the key insights gained.

Preparation. Consultations revealed that the organisations' biggest challenge in the preparation phase was the uncertainty in making hires due to changing objectives and annual budgets. This challenge is especially hard for SMEs to overcome, and increases the importance of creating flexible recruiting plans that can accommodate changing needs. Especially for high-volume roles, recruiting processes need to be well-managed, thoroughly prepared and consistently executed. Spending time planning can reduce time, challenges, and the risk of recruiting the 'wrong' candidate later. For example, accurate JDs can lead to lower staff turnover, and have additional notable benefits:

- Higher probability of receiving applications from suitable candidates;
- Improved process design (including efficient screening) can better identify critical needs of the role;
- Clear role expectations so candidates can assess whether their interests are met; and
- Ease in developing a suitable induction program and ongoing employee development program

CV screening and shortlisting. Organisations reported being overwhelmed with excessive numbers of applications, often from unsuitable candidates. This suggests that whenever feasible, organisations should consider alternative screening methods, including technology solutions, to capture key data points that appear on a CV. In addition, organisations should re-assess which employees are responsible for the most time-intensive stages of screening. Some organisations invest management time in simple tasks such as reviewing candidate CVs. With sufficient investment into building competent HR resources, the first round of screening for non-managerial positions should be performed by junior HR staff.

Further, organisations should improve screening efficiency by advertising through industry and role specific platforms, e.g. 'Stack Overflow' is frequently considered a reliable sourcing platform for software engineers as the hiring organisations can directly assess the applicant's coding skills.⁶ Further, "one-click" web-based job boards that ease CV submission should be avoided whenever possible. One organisation used many channels to advertise, but only accepted applications through their own website. By doing so, the company can define the application requirements, and is not bound to the terms of the sites used for advertising.

Additionally, third-party recruiting services can be an efficient and effective way to outsource the development of initial shortlists. Longer-term working relationships with the service provider allow for knowledge transfer over time,

⁶ Dhawan, Erica (April 2016), Harvard Business Review, Recruiting Strategies for a Tight Talent Market



so the service provider gains a better understanding of the hiring company, its needs, and its culture. This reduces time involved in managing the service provider, and increases the probability of high quality services. In addition, every effort should be made to align incentives, e.g. base the remuneration for recruiting services on performance, not service delivery.

And finally, starting the application process with a simple online assessment (e.g. to test simple problem solving and writing skills) can be another valuable option to immediately reduce the number of applications that proceed to the screening phase.

Interviewing. Several of the organisations interviewed appreciate the fact that unstructured face-to-face interviews are poor predictors of future performance. As a response, organisations are increasingly integrating assessments that require candidates to demonstrate the skills required for the role, such as case studies, role plays, and writing exercises, into the recruiting process. These skill-based assessments have proven insightful and are considered valuable indicators of future performance.

A further valuable technique to improve the outcome of the interviewing process is the inclusion of at least one structured interview. This means that each candidate is put through the same sequence of questions asked by the same interviewer(s). The answers are rated based on predefined criteria, and each interviewee is given an 'interview performance score' which can be compared across all candidates. Structured interviews help to make the decision process less subjective, and ensures common criteria are applied to all candidates.

Cultural fit is the most difficult thing to assess in any interview process. A prerequisite to assessing cultural fit is that the organisational culture is well-defined and commonly shared within the company. Many organisations have included a more casual interaction for candidates to meet the broader team in order to test the applicant's behavior in a more relaxed setting, as well as people skills and team interactions.

Selection and hire. Key learnings for this stage of the recruitment process are that (i) reference checks are extremely valuable to verify the information provided by candidates, and to ensure candidates have professional contacts willing to recommend them; (ii) ideally, the final selection criteria should link back to the competencies defined in the JD, and the selection process should be straightforward, transparent, and logical; (iii) bringing in hires as interns for a discrete period of time is a great opportunity to assess fit before offering full-time employment; and finally (iv) organisations should never underestimate the importance of brand equity to secure talent, and should proactively consider ways - ideally tailored to the specific needs of the candidate - to become employer of choice. This includes both financial and non-financial incentives, as well as open and interested communication with the candidate to ensure expectations are aligned.

Overall, our research has yielded valuable insights into the time and costs currently committed across different stages of the recruitment process, but more importantly, the research provides an indication of the actual value that high performers bring to their employers. Far too often neglected, upfront investment in solid recruitment processes and ongoing employee development has the potential to yield significant returns.

Appendix

COMPARISON OF HIGH AND LOW PERFORMERS FOR SELECTED ROLES

Role	Metric	High performer	Low performer
Sales and marketing	Business development	<ul style="list-style-type: none"> A “natural sales person” who consistently wins new clients 	<ul style="list-style-type: none"> Rarely wins new clients, mainly due to limited communication skills and sales techniques
	Client management	<ul style="list-style-type: none"> Ensures clients are happy, and drives sales growth through current products and new product introductions 	<ul style="list-style-type: none"> Loses clients due to limited communication, poor follow up, and slow issue resolution
	Proactivity	<ul style="list-style-type: none"> Suggests and implements process improvements, and supports colleagues 	<ul style="list-style-type: none"> Works with a “tick-box-mentality”, only doing the bare minimum to fulfill duties
Customer management	Issue resolution	<ul style="list-style-type: none"> Follows up with clients regularly to proactively identify potential issues and solve issues rapidly 	<ul style="list-style-type: none"> Slow response to client queries, lacks capabilities or motivation to resolve issues
	Client onboarding	<ul style="list-style-type: none"> Trains clients effectively on platform usage and provides proactive, tailored guidance 	<ul style="list-style-type: none"> Weak training delivery, and limited onboarding support lead to client dissatisfaction
	Proactivity	<ul style="list-style-type: none"> Suggests and implements process improvements, and supports colleagues 	<ul style="list-style-type: none"> Works with a “tick-box-mentality”, only doing the bare minimum to fulfill duties
Software engineer	Coding	<ul style="list-style-type: none"> Learns new languages quickly and writes high quality code 	<ul style="list-style-type: none"> Learns slowly, and makes many errors in coding
	Troubleshooting	<ul style="list-style-type: none"> Identifies and solves “bugs” rapidly 	<ul style="list-style-type: none"> Unable to solve critical “bugs” efficiently
	Communication	<ul style="list-style-type: none"> Communicates technical issues to non-technical staff in an understandable, polite way 	<ul style="list-style-type: none"> Struggles to express issues in non-technical terms; sometimes impolite to colleagues
Loan officer	Business development	<ul style="list-style-type: none"> A “natural sales person” who consistently wins new clients, with strong focus on portfolio health 	<ul style="list-style-type: none"> Slow to grow portfolio, makes high risk loans leading to higher default rates
	Client onboarding	<ul style="list-style-type: none"> Provides good training on credit management to reduce defaults 	<ul style="list-style-type: none"> Spends minimal time to train and address borrowers’ queries
	Loan portfolio management	<ul style="list-style-type: none"> Follows up with borrowers regularly to ensure timely repayments 	<ul style="list-style-type: none"> Does not carry out regular follow ups, resulting in further delays and defaults in repayment

