Stop Worrying About The Cost-Per-Hire - A "Better Metric" Is The Quality Of Hire

I hear HR professionals say they want to be strategic, but often their actions indicate otherwise. Take the all too commonly used "cost-per-hire" metric. Sure it's used by lots of people, but so is astrology. Let me explain what's wrong with it and how it could be improved.

What's wrong with cost-per-hire?

- **Hiring cheap is easy -**
  Finding great people is never easy or cheap. Hiring walk-ins and poor quality applicants "no one wants" is cheap.

- **Quality is often expensive -**
  The metric "cost-per-hire" often does not have the corresponding metric of the "quality or performance of the hire". Hiring Michael Jordan is time consuming and requires a great deal of looking and smoozing. All of which cost money. If too much emphasis is placed on cost cutting, HR might get into the bad habit of "hiring cheap".

- **Quality hires have a better ROI -**
  Cost is only one part of the equation. Track the return on spending "more" money to get great hires. The performance and productivity of the hire is the important component. You want a high ROI, not low cost.

  If you hire a high performer (high sales, output, productivity or performance appraisal scores) their higher productivity (usually 3-7 times salary) will make the cost of their hire insignificant in comparison. Hiring low performers is cheap and easy. The competition and costs come when you try for the best. Provide the CEO with evidence of the high performance/productivity of those you hire, and cost will not be an issue.

- **Cheap hiring sends a cheap message -**
  Recruits (especially Michael Jordan) judge a company by their ads, web page etc. Being "cheap" might send a clear message to applicants, and by trying to cut your cost of hire, you may actually increase your cost by scaring away many applicants with a "cheap message".

- **Cheap hiring might mean poor service -**
  Most hiring metrics lack a customer service component. If there are also no metrics on how satisfied the managers and applicants are with the recruitment and selection process, you can't tell if your cost cutting is frustrating your managers with poor customer service.

- **Cheap hiring is slow -**
  Cutting costs almost always slows up the "speed of hire". If time to market is a business issue, then cutting HR costs might actually raise costs in production and cut the resulting product margins and market share.

- **It's only 2% -**
  The average cost of a hire is generally in the $1-$3,000 range. That is less than 10% of a first year salary of $35K. If the person stays for an average of 3 years and you include benefits costs, then the actual cost of a hire becomes less than 2% of the dollars paid to the employee.

- **The formula is wrong anyway -**
  Most cost-per-hire calculations are not comparable because so many different parts are left out by some and included by others. Many include a recruiter's time while others don't. Most exclude the manager's time…the most expensive cost in the cost of a hire!

Costs are generally not strategic without the corresponding quality measures to go with them. Calculate the return on recruiting dollars, and if it's high enough, your CEO might want you to actually spend more on it!

Great employment is recruiting quality people who produce more per dollar of salary paid than those we hired last year (and that produce more per dollar than the people hired by the competitors). Track the productivity of our hires and forget the cost-per-hire as a primary metric. Don't ignore costs, but you have to spend more money to get great people. Do you really think the CEO would care about such a small cost item as cost-per-hire if you hired someone as good as Michael Jordan!

Remember the cost of driving a mile in a Yugo is lower then driving a mile in a BMW...If you watch costs too closely, you might end up walking home!

by Dr. John Sullivan