

# QUALITY OF HIRE

Linking  
Talent  
Acquisition  
to Business  
Success

by

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## **THE PURPOSE OF THIS ARTICLE:**

To capture a recent discussion about quality of hire among 25 senior HR leaders of top global companies — and share our thoughts on related trends and opportunities. The list of contributors can be found on [page 8](#).

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**Q**uality of hire is more than just the latest buzzword; it's a key metric indicative of positive business results. In order to effectively measure quality of hire and understand how it can be improved, it is important for companies to identify exactly what quality of hire is — and what it is not. Many think of it as merely what the hiring manager thinks of the recruiting process, and whether they were pleased with the recruiter's performance, the quality of candidates presented, etc. and not about how the new hire performs on the job. Others believe quality of hire can be determined by calculating retention of new hires within a period of time (typically between 90 days and one year).

The truth is that quality of hire is neither. It is the level at which a person new in a role (whether an internal employee promoted to a new position or an external hire) contributes to the business over time. When companies measure quality of hire in this way, they can identify talent acquisition processes and methods that lead to successful hires. They can, for instance, identify sourcing and selection techniques that are most effective and then invest more in these methods.

The need to improve quality of hire is a pressing one for many reasons, least of which is the estimated cost of replacing a bad hire at around 30 percent of an employee's first year earnings.<sup>1</sup> Most important is that the vast majority of companies build business value through intellectual capital — e.g., the work of knowledge workers creating brands, proprietary technology and databases, patents, strategic customer relationships, and so on. This type of value is what our new economy is built on — and it's created and maintained only by talent. When critical talent leaves, the value of such a business can decrease. Last, as the economy continues to improve and hiring is on the rise, turnover will only increase as employees have the confidence and opportunity to look for new positions. This makes it more important than ever for companies to ensure they hire the right people when given the opportunity to do so, particularly into mission critical roles.

The challenge for most organizations is determining how to measure quality of hire and prove the business value of their investments in the talent acquisition function. This challenge and other related trends were discussed in-depth recently with a group of senior talent acquisition leaders in Atlanta, who shared both their struggles to measure quality of hire and the strategies to overcome them.

## Why Measure Quality of Hire?

At a time when HR teams have greater access than ever to information, it can be overwhelming and difficult to arrive at meaningful conclusions about talent strategies and how talent investments affect business results. For example, without clear-cut data to suggest which sources, techniques and backgrounds lead to the best hires, talent acquisition teams are left with anecdotal evidence. The variety of recruiting stakeholders — hiring managers, HR partners, senior leaders, and candidates themselves — presents another challenge, since all have different priorities and expectations. When it's not possible to prove the value of talent acquisition efforts, it's impossible to convey reasons, outcomes and return on investment.

For these reasons, the ability to measure quality of hire can provide the data talent acquisition teams need to not only continue hiring top candidates, but also showcase results to the rest of the organization. Yet, there is a definite lack of information on this critical metric within most organizations. The companies that have a solid strategy in place for measuring quality of hire have much to gain. Recent research shows that 85 percent of companies that measure quality of hire believe doing so has a positive impact on hiring quality.<sup>2</sup> Another case of “what gets measured, gets managed”! By focusing on quality of hire, organizations can better understand the strengths and future potential of their employees and identify the characteristics they should look for when hiring new talent.

## Understanding How Talent Drives Business Value

First, it's important to understand the formula for creating business value: it is an expectation of future cash flow driven by asset performance.

There are two types of assets to consider: tangible assets (equipment, buildings, trucks, etc. — all of which companies report) and intangible assets (brands, customer relationships, IP, proprietary technology — none of which companies report, unless they have purchased from another company). More than 90 percent of the value of leading companies including Proctor & Gamble and Facebook is attributable to intangible assets. This value is created exclusively by people; it is an organization's human capital that drives intellectual capital, which can be thought of as the valuable accumulation of employees' output over time.

To measure the value of talent acquisition investments in a particular organization, one must first understand how value is created within that business. From the review of public documents such as annual reports and 10-Ks, it is easy to determine that for a company like Raytheon, a relatively small team of engineers creates the majority of value for the organization. For companies like Coca-Cola and Proctor & Gamble, it's brand managers and product innovators. For Merck, it's the R&D team creating patentable new drugs. Great hires in these functional areas can result in huge gains for the business. Poor hires, on the flipside, will create great risk. For this reason alone, talent acquisition should be much more strategic with the prioritization and handling of requisitions. Every requisition shouldn't be treated equally nor should more time be spent on the oldest reqs or those of the loudest hiring managers. Instead, the function should focus on over-investing in the attraction and selection of the talent that is most valuable to the business.

Almost all companies project the cliché that “our people are our greatest assets,” but how many back that up with measureable data? Not many. In order to measure — and optimize — intellectual

<sup>1</sup> Holmes, Ryan. *The Unexpectedly High Cost of a Bad Hire*. LinkedIn, July 16, 2013. <http://www.linkedin.com/today/post/article/20130716151946-2967511-the-high-costs-of-a-bad-hire-and-how-to-avoid-them>

<sup>2</sup> Hudson RPO. “How to Boost Productivity & Retention By Measuring Quality of Hire,” 2013. <http://hudsonrpo.com/quality-of-hire>



capital, one must look at the entire spectrum of how people are hired, organized, managed, rewarded and engaged and the value they provide — in other words, quality of hire. But it's not just about the people, or simply hiring the right people. Intellectual capital is successfully created and maintained when a company effectively organizes, leads, rewards and retains teams of people. Without strong leadership, the most talented employees will be stymied in their efforts to produce value-added work. So, what can organizations do to measure their quality of hire?

## Challenges in Measuring Quality of Hire

Given the crucial role that people play in contributing to the success of a business, why don't more companies try to measure the quality of their talent? Oftentimes, the issue comes down to accountability; many organizations are simply unsure of who should bear the responsibility of measuring and taking action. Should it be HR or talent acquisition? After all, they are the ones who identify, engage and evaluate the talent put forward. On the other hand,

not many would suggest they are accountable for what happens after the hiring stage, when the ongoing management of those employees is the responsibility of the manager.

When it comes to hiring managers, they often view quality of hire as whether or not they're pleased with the candidates presented to them. When pressed, they will often state that they felt pressured to hire the best candidate presented by talent acquisition— not the best candidate. Many managers consider turnover rates as a reflection of hiring quality, as research shows 65 percent of organizations use turnover as the leading factor to evaluate the quality of new hires.<sup>3</sup> This is ironic considering that many employees quit specifically because of their manager.

Measuring quality of hire involves much more than just the hiring process or how long the employee stays in their new role. As previously mentioned, it should be seen as a measure of how the individual performs over time. The question of accountability—who should be recognized or penalized when quality of hire is poor — is moot. Rather than deciding on which group to “assign” such a metric to, the first step is to begin tracking it.

So, what can organizations do to start the process? Instead of trying to measure quality of hire for all employees across the organization, a reasonable first step is to begin measuring a segment of the organization that drives the greatest business value, like engineers in our Raytheon example. It's crucial to understand that quality of hire should never be subjective — the fact that a manager is happy with the recruiter assigned to him or satisfied when his employees don't quit — doesn't correlate with the creation of business value over time. Instead, it should be based on specific data points that indicate performance among those employees. In many companies, these would be:

<sup>3</sup>Tucker, Elissa. “Quality of Hire: A Challenge for Organizations Today”  
<http://www.recruitingtrends.com/thought-leadership/59-quality-of-hire-a-challenge-for-organizations-today>

**1 Retention** — The length of time an employee has been with the company is a ticket to measuring quality of hire, as employees should be in place at least two years to begin to understand the value they bring. Quality is dubious if not sustainable. If an employee quits (for any reason), there is nothing more to measure.

**2 Performance ratings** are an essential data point for measuring employee quality. Even when such processes and ratings are imperfect, they are likely imperfect throughout the organization, thus creating a generally fair apples-to-apples calibration of talent.

**3 Potential ratings** — Assessments of potential success in advanced positions is another valuable data point when striving to measure quality of talent over time.

**4 Promotion history (and/or pay history)** — Understanding how employees have progressed in terms of promotion and salary history within the organization provides a very tangible data point about the value they contribute to the organization.

There may be additional business-based data points available for particular roles that would be valuable to consider — such as P&L results, new product launch metrics, net promoter scores, etc. For greatest success, the talent metrics most indicative of quality of hire in a particular function, and how to measure them, should be identified and agreed upon by senior leaders.

By analyzing numerous metrics and involving multiple parties, the organization can have a fuller picture and better understanding of their quality of hire. But many companies still struggle to get to this state and may rely too heavily on one metric, such as sales revenue. Such an approach will only tell one side of the story; additional objective data points are needed. Without doing this, a company won't fully understand what defines

success and leverage this information to hire more high-performing talent in the future.

## Who's Responsible for Quality of Hire?

To create an effective strategy for measuring quality of hire, measurement should come before discussions about accountability. Debating who should be responsible, how they should be held accountable and consequences for good or bad results can derail the more important conversation. Most critical is:

- How can quality of hire be measured in our organization?
- What is the value this measurement can bring?
- How can the measurement be sustained over time?
- What actions will we take based on the data?
- In what areas of the organization should we begin tracking quality of hire?

In many companies, efforts to track quality of hire derail at the beginning — with talent acquisition — for whom it is assumed is “most responsible” for such a metric (the “hire” in “quality of hire” is probably a misnomer). Understandably, talent acquisition is often reluctant to focus on this metric because they can't be responsible for other factors outside their control or things that happen after the onboarding stage. But this isn't the place that such discussions should begin — given how much is at stake for the business if the results are good versus poor. Therefore, support must come from the top, ideally prompted by a team from both HR and Finance.

Only after these discussions take place, agreement is gained, and the measurement method is defined, implemented and evaluated, should the aspect of accountability enter the conversation. Once in place, and results are reviewed over a period of quarters, then accountability for different aspects

of quality can be assessed and assigned. Of course, the best measures are those of importance to senior leaders in the company, so we begin there. Following that, aspects of quality accountability should be assigned to hiring managers, HR (specifically talent acquisition, talent management and HR generalists) and other stakeholders in the process.

An example of an essential slice of quality of hire that talent acquisition should be held accountable for is source of hire. Based on quality results, an assessment should be made by talent acquisition relative to what are the most effective sources, and which are least effective. Over-investing in the best sources, for the right hires, and reporting on the results, is the responsibility of talent acquisition.

## Strategies for Improving Quality of Hire

Once the company determines which metrics are most important for quality of hire and who is responsible for what, the next step is to put those plans into action. During our discussion, our group of talent acquisition leaders opened up about the methods they have used to not only measure quality of hire, but actively work to improve it. Some of these strategies include:

### **Recognize the competencies of top employees to hire candidates with similar traits:**

“We don’t just do competency-based interviews alone, but we also examine ‘attributes’ on how employees are hard wired. We had a consultant come in and figure out why people stayed and identified those items to roll into interview questions. So, we can use this insight as a predictive tool for new hires.”

### **Get everyone on the same page:**

“Everyone needs to understand what good looks like — or we’re all coming from different perspectives and we’ll never get there together.”

### **Take a closer look at the way talent is evaluated within the organization:**

“To perform effective talent management, we rely on performance ratings and potential ratings and we gain insight into the preferences of the individual and understand when they will be ready to advance internally. We are constantly trying to get better at this.”

### **Figure out how to prioritize the work and over-invest in the right talent:**

“Years ago, the most critical jobs would be tied to revenue. But our thinking has evolved — and we’re connecting those jobs intellectual capital, not just revenue. There is a nuance on figuring out where to invest.”

### **Understand that quality of hire varies for different groups:**

“Quality measures and time horizons are very different, so measuring quality is hard, because we have new hires that won’t be with us for longer than two years. Measuring quality of hire for retail versus engineers is very different. The approach has to be different for different populations. You have to address each appropriately and then provide that data to leadership in the right way. You have to adapt based on your industry but also the specifics of your company. We can all learn from each other, but likely don’t want to replicate the same processes.”

## Tying Quality of Hire to Business Success

When companies understand the components of a good hire, they can continue hiring to that same (or better) level and work to ensure their best talent is retained. The challenge lies in measuring quality of hire and determining who is responsible for it. Rather than just being considered a metric that indicates the success of talent acquisition, quality of hire should be based on business value delivered through intellectual capital. And instead of being relegated to one team, senior leaders, HR, talent management, talent acquisition, and front-line leaders should all play a part in measuring, managing and improving quality of hire.

As talent increasingly serves as the biggest differentiator, the ability to understand how people contribute to organizational success is essential to maintaining competitive advantage. By identifying what makes them successful on the job, a company can continue hiring individuals who have the greatest likelihood of succeeding. This insight is essential to creating — and sustaining — a high-performing organization. ■



**Talent Growth Advisors, LLC** is an Atlanta-based human capital consulting firm that helps companies drive improved results in talent acquisition and talent management.

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