

INTRODUCTION

Talent acquisition leaders rate quality of hire as the most valuable KPI for their recruiting teams. On a fundamental level, what we all want to know is: Is my recruiting process actually selecting the right talent?



40%

of talent acquisition leaders rank quality of hire as their top priority

According to LinkedIn, 40% of companies worldwide rank it as their top priority. A recent survey found that while speed was the metric used to measure recruiting success currently, quality was the metric most desired to be used in the future.

Quality of hire is defined as the value a new hire adds to your company. Specifically, how much a new hire contributes to your company's long term success.

Based on its definition, it's obvious why quality of hire is considered such a priority. But quality of hire is also the most difficult recruiting metric to measure and assess. One reason is that it often involves a time delay of several months to even years to prove out. This means investing in improving quality of hire requires a long-term commitment.

Presently, this critical hiring outcome still remains a black box for most employers. 2/3rds of recruiting leaders surveyed admit they currently have no metrics in place to measure quality of hire.

When surveyed, the biggest barriers to collecting quality of hire are:



75%
Time



63%
Lack of Technology

We created this how-to guide for talent acquisition professionals on how to measure and improve your quality of hire and show your financial and strategic value.

SECTION 1:

WHAT IS QUALITY OF HIRE?

Quality of hire is the value a new hire adds to your company based on how much they contribute to your organization's long term success in terms of their performance and tenure. The minimum baseline for a quality hire is that the value a person creates while employed at your company is greater than the cost of recruiting them.

While quality of hire is mainly used as to measure how successful a new hire becomes, it's also often used as a metric for the success of the recruiting function overall.

Compared to other recruiting KPIs such as cost per hire and time to fill, **quality of hire is considered the KPI that best demonstrates a recruiting department's strategic value to the organization.**

This strategic value is clear when you consider top performers contribute disproportionately more to a company's productivity. Research has found a top performing employee generates 4x the output of an average employee.

If your recruiting department is able to track quality of hire and show how many of your hires become top performers, this is the dream scenario for demonstrating your strategic and financial value to the business.

SECTION 2: HOW TO MEASURE YOUR QUALITY OF HIRE

Generally, there is no “one-size-fits-all” metric for quality of hire because it depends on what your priority is.

LinkedIn reports the top three ways quality of hire is measured are:

1. Retention

The length of time new hires stay at the company (e.g., measured as a rate of new hires staying vs. new hires leaving 90 days post-hire or within the first year of hire)

2. Time to fill

The time it takes to fill a job posting (e.g., measured by the number of days taken)

3. Hiring satisfaction

The satisfaction of the hiring managers (e.g., measured by how satisfied they are with the new hire from 0-10)

Other common quality of hire metrics include:

- **Ramp-up time:**

An employee's time to full productivity

- **Employee engagement:**

Measured by the new hire's self-ratings

- **Job performance:**

Measured by supervisors' performance ratings or objective data like sales

- **Cultural fit:**

Measured by 360 ratings of the new hire's colleagues and supervisors

Developing a simple quality of hire index is a valuable starting point to assess whether your hiring process is on the right track or not.

Measuring the quality of hire of an individual employee.

If you want to conduct a quality of hire index for an individual employee, it might look something like this:

$$\frac{(\text{Job Performance} + \text{Ramp-up Time} + \text{Employee Engagement} + \text{Cultural Fit})}{N}$$

N

N = number of indicators (in this case, N = 4)

An important detail here is to make sure all your measurements are using the same scale (e.g., all scores out of 10, all scores out of 100).

Measuring the average quality of hire of all new employees.

To calculate an average quality of hire score of all new employees, find the average of their quality of hire scores:

$$\frac{(\text{Sum of the quality of hire scores for all new hires})}{(\# \text{ of new hires})}$$

(# of new hires)

Measuring the overall quality of hire of your recruiting process.

In order to get an indication of how successful your recruiting process is in general, quality of hire can be scaled by averaging the scores of all hires and including the retention rate.

The formula for calculating new hire retention is:

$$\frac{\text{New hire retention} = (\# \text{ of new hires who remained employed for the measurement period})}{(\# \text{ of new hires at start of measurement period}) \times 100}$$

(# of new hires at start of measurement period) x 100

The Bureau of Labor Statistics reports the annual retention rate for high-volume roles such as retail is approximately 50% (i.e., a 50% turnover rate). When the average cost to replace an entry-level employee is estimated to be \$3400, high turnover gets costly quickly.

As an example, if Wal-mart replaced 50% of their 500,000 entry-level employees in an year, it would cost them approximately \$850,000,000!

The formula for calculating the quality of hire of your recruiting process including retention is:

(average quality of hire score for all new hires + retention)

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Again, make sure your measurements are using the same scale (in this case, both measurements should be out of 100).

Because turnover is so costly, you could weight turnover to carry more importance in determining quality of hire like so:

[(Average quality of hire score for all new hires) + 2(retention)]

3

Measuring the quality of hire of a specific recruiting practice.

To measure the success of a specific recruiting practice, you can compare their relative quality of hire. For example, you might want to know how well a technology like [AI identifies talented candidates](#).

An easy way to do this is comparing the quality of hire scores of the employees hired using AI to the quality of hire scores of the employees who weren't.

Linking quality of hire to business outcomes.

With the advent of real-time feedback, employee engagement, and performance surveys, collecting the data you need to measure quality of hire has become easier.

The harder part is linking your quality of hire metrics with business outcomes such as reduced costs, increased revenues, and other company goals.

1. Reduced costs

Increasing quality of hire by increasing retention can easily be linked to reducing costs. According to SHRM's data, the average cost per hire is \$4,129 and this cost tends to increase as the employee's salary increases.

Using your company's cost of replacement and its retention rate, and you can calculate how much you reduce costs associated with turnover for each one percent you increase in retention:

$$\frac{\text{(cost of replacement per hire) x (\# of new hires)}}{\text{(retention rate)}}$$

Although time to fill and quality of hire are generally considered to conflict with each other, an analysis by Gartner found that most organizations can reduce their time to fill by up to 50% without sacrificing quality of hire.

They found the average vacancy cost averages \$407 per day. If you're able to reduce your time to fill, you can calculate how much you reduce costs associated with a vacancy:

$$\frac{\text{(\$407)}}{\text{(days reduced in your time to fill)}}$$

2. Increased revenues

Research has found a top employee generates 4x the output of an average employee.

If you're able to find out what the revenue generated per employee at your company is, you can attach a monetary value to each high quality employee you've recruited:

$$\frac{\text{(revenue generated per employee)}}{4}$$

SECTION 3: HOW TO IMPROVE YOUR QUALITY OF HIRE

Currently, only a 1/3rd of surveyed companies actually measure their quality of hire.

For most organizations, the first step in improving their quality of hire is defining what it in the first place. Other key areas for improving your quality of hire include collecting the right data, streamlining recruiters' workload, and aligning hiring managers.

1. Collecting the right data.

Your recruiting team has to have the resources to both collect and have access to pre-hire and post-hire data.

Pre-hire data includes:

1. Scores on psychometric assessments, job preview tests, and interviews.
2. Grades on resumes from an intelligent screening software that uses AI.

Post-hire data includes:

1. Subjective data such as managers' satisfaction ratings and new hires' engagement self-ratings.
2. Objective data such as days to full productivity, number of promotions, and tenure.

The key is to be able to show a significant relationship between your pre-hire and post-hire data.

2. Streamlining recruiters' workflow

2/3rds of recruiters surveyed say their workload has become more burdensome with additional challenges including additional stakeholders and hiring managers taking 30% longer to review and select candidates for new types of positions.

Simplifying recruiters' workloads by streamlining their workflow can reduce time to fill by 70%. The tools and processes most effective for streamlining the recruiting workflow include:



1. Speed up screening through intelligent automation.



2. Analyse conversion rates to identify areas of priority.



3. Prioritize resources against demand and creating templates (e.g., candidate emails).

3. Aligning hiring managers

iCIMS' data found that on average, a resume spends 37% of its time under review by a hiring manager.

This means there's a lot of room for improvement in terms of getting hiring managers aligned on quality of hire goals including:



1. During the kickoff meeting, partner to create a consistent definition of a quality hire.



2. Share best practices for interviewing (e.g., using an interview scorecard).



3. Collect their input for onboarding and follow up on new hire development plans.

SECTION 4: HOW TECHNOLOGY IS IMPROVING QUALITY OF HIRE

Talent intelligence technology such as AI is among the fastest growing segments in recruitment tech today.

AI has already proven itself as an enabler of recruiter efficiency by reducing time to fill by 70% on average. The other area where AI has the potential to make a huge impact is quality of hire.

The promise of AI for improving quality of hire lies in its ability to use data to standardize the matching between candidates' experience, knowledge, and skills and the requirements of the job. This improvement in matching is predicted to lead to more productive employees who are less likely to turnover.

The four areas where AI are improving quality of hire are in screening, assessment, interviewing, and talent intelligence.

1. AI in screening

Intelligent screening software automates screening by using AI on your existing resume database.

The software learns what existing employees' experience, skills, and other qualities are and applies this knowledge to new applicants in order to automatically rank, grade, and shortlist the strongest candidates.

2. AI in assessments

Personality and other psychometric assessments have been used in hiring for decades. AI can be trained to recognize patterns to analyze candidates' responses in novel ways to find new insights.

3. AI in interviews

Today's video technology claims to use AI to assess candidates' word choices, speech patterns, and facial expressions to assess his or her fit for the role in terms of personality and motivation.

4. AI in talent intelligence

Talent intelligence is the adoption of AI to improve the recruiting process overall by combining different data sources to improve quality of hire.

Specifically, AI is used to combine data from resumes, assessments, and interviews to provide an overall grade of the candidate and then used to link pre-hire data with post-hire data such as on-the-job performance and attrition.

Want to use AI to measure and improve your quality of hire? We can help you with that

Centralize rich candidate data to reduce attrition,
decrease bias and increase quality of hire.

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ideal.