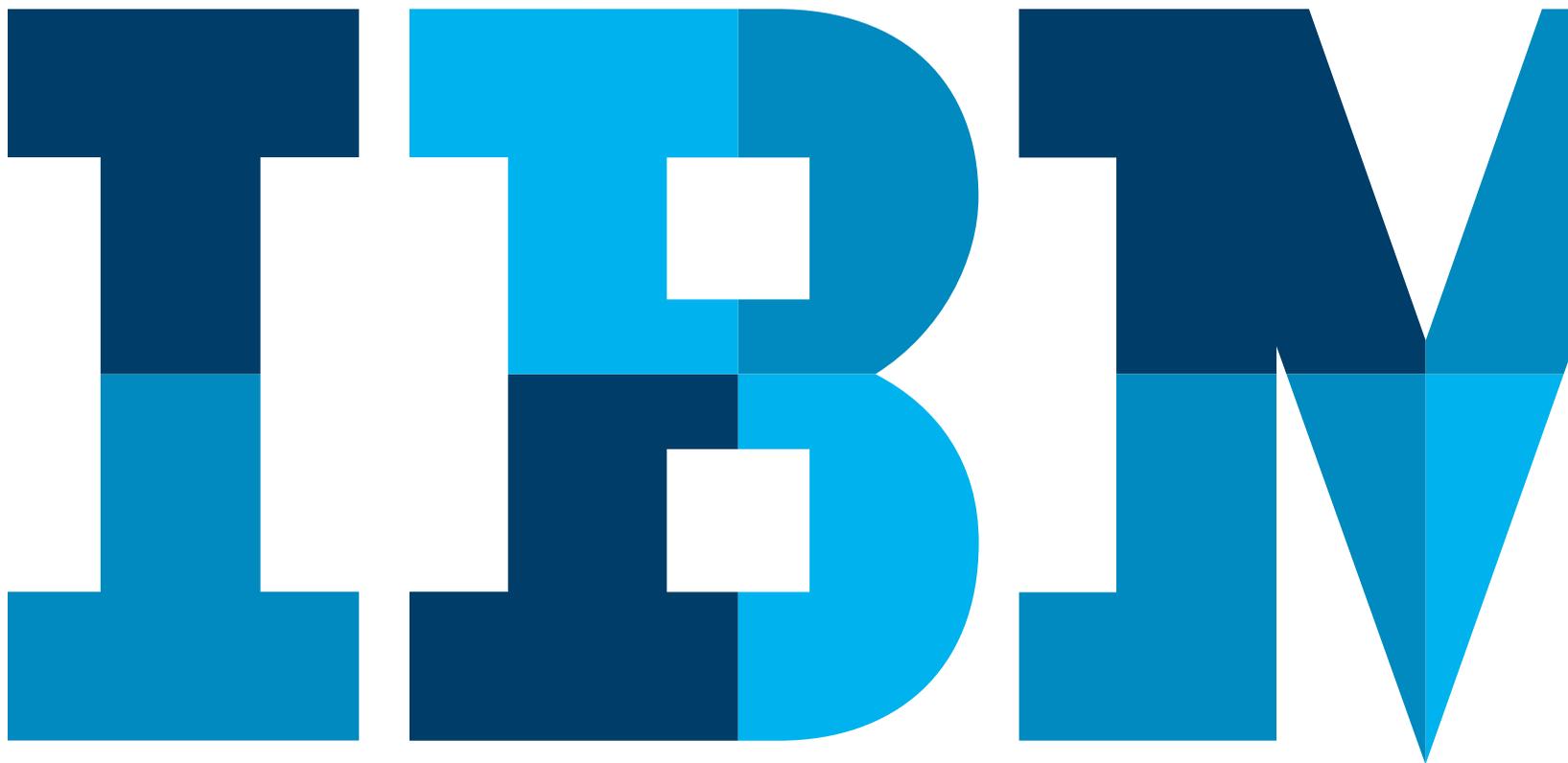


IBM® Smarter Workforce Institute

The secret to reducing hiring mistakes?

It's in the metrics

By Dr. Rena Rasch, IBM Smarter Workforce



Executive summary

In the age of big data and workforce analytics, statistics and metrics abound. In the face of an overabundance of numbers, knowing which metrics are most important can be a real challenge for Human Resource (HR) leaders and hiring managers. Fortunately, new analyses from the IBM Smarter Workforce Institute can provide some guidance.

The Institute explored which metrics organizations are using to evaluate their recruitment processes, and how those metrics impact hiring decisions. The results were surprising:

- On average, 39 percent of recent hires would not be rehired, which means a lot of hiring mistakes are being made.
- Efficiency metrics, like time to fill, are associated with an increase in hiring mistakes—by up to 11 percentage points.
- On the other hand, effectiveness metrics, like quality of hire, are associated with a decrease in hiring mistakes—by nearly 18 percentage points.

Based on these results, four empirically-based practical insights were drawn:

- Metrics can make for better hiring decisions: Organizations that use the best metrics in combination could see a substantial improvement in percent rehire.
- Not all metrics are created equal: Organizations that prioritize quality over quantity seem to be realizing the most benefit.
- Strike a balance between quality and quantity: HR leaders and hiring managers need to manage the trade-off between practical constraints, like cost of hire and time to fill a position, with the desire for the highest quality hires.
- Mind your measures: Given the frequent use of performance appraisals as a measure of quality of hire, these appraisals should be as accurate and unbiased as possible.

Which metrics are being used?

HR leaders and hiring managers were asked how their company assesses the effectiveness of their recruitment process. Figure 1 comprehensively summarizes the metrics used by the HR leaders and hiring managers in our study, because a mere one percent of respondents mentioned an “other” metric that

Data and analyses

Analyses presented in this white paper are based on a selection of data from the IBM WorkTrends™ survey, administered in 2013/2014 to over 33,000 workers across 26 countries, 18 industries, and 21 occupations. A sub-sample of 6,202 HR leaders and hiring managers was used for this study. Workers in this sub-sample are likely to have direct knowledge of the talent acquisition solutions used by their organizations, and would be well-positioned to answer questions about these solutions.

was not already specified. The most commonly used metric focuses on the quality of the candidate—six out of ten HR leaders and hiring managers reported using quality of hire. Still, the other metrics are fairly popular—between one quarter and one half of our sample reported having used them. However, surprisingly, one out of ten HR leaders and hiring managers report their organization does not assess the effectiveness of their recruitment process in any way.

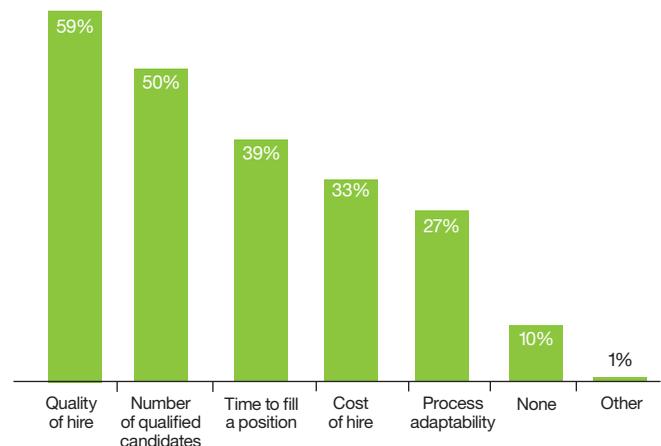
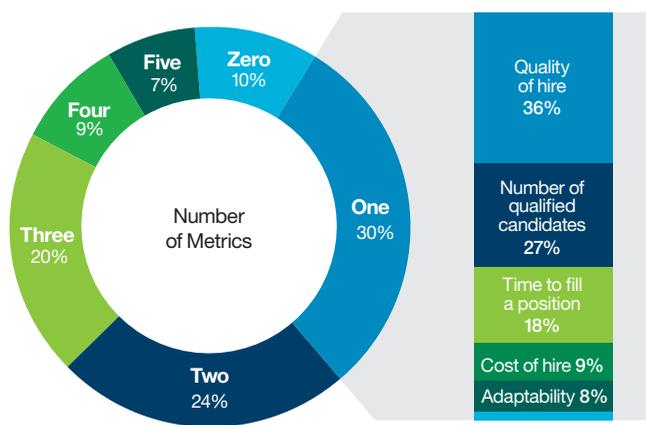


Figure 1: Which metrics are being used to assess recruitment process effectiveness?

Source: WorkTrends 2013/2014 HR leaders and hiring managers (n=6,202)
Note: Percents sum greater than 100 because respondents could select more than one assessment. Process adaptability refers to how easily the process can be modified to suit the changing needs of the organization.

Most organizations do not rely on a single metric; three fifths (60 percent) of HR leaders and hiring managers use more than one metric to assess their recruitment process (Figure 2). Only a third of HR leaders and hiring managers use a single metric. Even among those who use only one metric, there is a lot of variety in what that one metric is. Given so many options, HR leaders and hiring managers may find themselves wondering which metric(s) they should use.



Source: WorkTrends 2013/2014 HR leaders and hiring managers (n=6,202)

Source: WorkTrends 2013/2014 HR leaders and hiring managers who use one metric (n=1,834). The remaining 2% is "other."

Figure 2: How many metrics do companies use to assess recruitment process effectiveness?

A closer look at quality of hire

To make matters even more complicated, there are many ways to measure quality of hire. The nearly 60 percent of HR leaders and hiring managers who reported using it were also asked how their company measures the quality of their new hires.

Again, the list presented in Figure 3 comprehensively summarizes industry practices, as less than one percent reported measuring quality of hire in some other way not

already listed. The most commonly used metric was subsequent performance appraisal ratings of new hires—three out of five HR leaders and hiring managers reported measuring quality of hire this way. But, quality of hire is certainly not a unitary construct.



Figure 3: Of those companies that use quality of hire, how do they measure it?

Source: WorkTrends 2013/2014 HR leaders and hiring managers who use Quality of Hire (n=3,660)

Of those that use quality of hire, the vast majority (87 percent) use multiple measures—on average three different measures. When a single measure is used, performance appraisal is the most common. When two measures are used, employee-organization fit is most commonly added to supplement performance appraisals. When three are used, peer feedback is most commonly added to appraisal and fit measures. This is not surprising, given these three quality of hire measures are the most common overall (recall Figure 3). These results illustrate the complexity of quality of hire—it could mean very different things in different organizations or even multiple things within the same organization.

Efficiency metrics are easy, but quality metrics are more effective

Knowing which metrics are commonly used is only one part of the story—what really matters is which metrics are most helpful in making the right hiring decisions. The effectiveness of the metrics was measured by asking HR leaders and hiring managers what percent of their new hires they would rehire, given the chance to do it over again.¹ A high number would indicate a successful recruiting process, whereas a low number would indicate a lot of hiring mistakes are being made.

Analyses revealed HR leaders and hiring managers would rehire only 61 percent of their recent hires on average. Considering the cost of recruiting, selecting, onboarding, and training new personnel, this number is immensely disappointing—and potentially very costly for organizations.

“HR leaders and hiring managers would rehire only 61 percent of their recent hires...”

However, and more importantly, the choice of metric is related to percent rehire. Specifically, some metrics are associated with an increase in the percent rehire, while others are related to a decrease (Figure 4). Six of the metrics are positively correlated with percent rehire, and together they represent a nearly 18 percentage point increase in percent rehire. Feedback from peers and coworkers showed the strongest relationship to rehire, but also important were employee-organization fit, performance appraisal ratings, hiring manager feedback, ramp-up time to productivity, and (to a lesser extent) leadership potential.

But, not all metrics seem to be helpful. Four of the metrics—number of candidates, time to fill, cost of hire, and promotion speed—actually decrease percent rehire by nearly 11 percentage points combined. Interestingly, many of the metrics that decreased percent rehire tend to measure recruitment process efficiency, while the metrics that increased percent rehire tended to measure recruitment process effectiveness or quality of hire. Finally, three of the metrics had no statistically significant relationship (positive or negative) to percent rehire:

When an organization uses metric listed, percent rehire changes by...

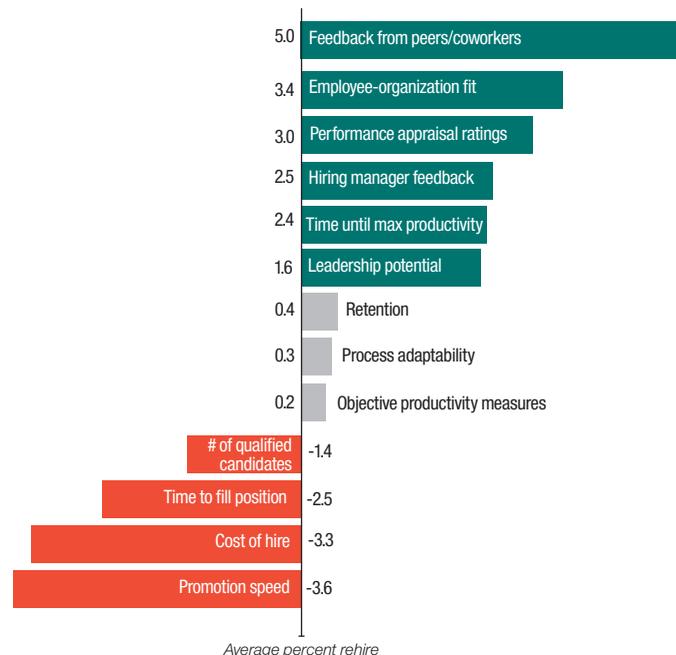


Figure 4: Which metrics increase or decrease hiring mistakes?

Source: WorkTrends 2013/2014 HR leaders and hiring managers (n=6,202)
 Note: $R^2 = .11$, $F(57,6,144) = 12.83$, $p < .00$. Several control variables were also included in this model, including whether the respondent works in HR, home country, and industry.

retention of new hires, recruitment process adaptability, and objective measures of employee productivity.

Data-Based Insights for Practitioners

This paper has shown which metrics are most commonly used and which are most important to hiring decisions. But, what do these results mean for HR leaders and hiring managers? There are four empirically-based practical insights.

Metrics can make for better hiring decisions

These results highlight an improvement opportunity for organizations that are not currently evaluating their recruitment process at all—as many as one in ten organizations based on Figure 1. In fact, if those organizations used the best metrics, in combination, they could see an improvement in percent rehire, from 61 to 79 percent on average. Not using metrics at all represents a potential missed opportunity to optimize recruitment processes.

Not all metrics are created equal

The results of these analyses could also help organizations re-prioritize the metrics they are currently using. Not all metrics lead to the best outcomes. Organizations that prioritize quality over quantity seem to be realizing the most benefit, at least in terms of good hiring decisions. Not only does this paper provide guidance about which metrics to use, it may also provide guidance about which metrics not to use. In fact, the worst metrics in combination are associated with a decrease in percent rehire, down to 50 percent on average.

Strike a balance between quality and quantity

At the same time, the practical challenges of talent acquisition cannot be ignored—budgets must be followed and timelines must be adhered to. There seems to be a trade-off between practical constraints, like cost of hire and time to fill a position, with the desire for the highest quality hires. HR leaders and hiring managers need to strike a balance that is right for them in the context of their own organization.

Mind your measures

Beyond the type of metric being used, the validity and reliability of certain measures also require careful consideration. Given the importance of quality of hire and the frequent use of performance appraisals as a measure of quality of hire, HR leaders and hiring managers should strive to ensure these appraisals are as accurate and unbiased as possible. Inaccurate and biased performance ratings lessen the utility of this metric in evaluating the effectiveness of recruitment processes.

For more information

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About the Author

Dr. Rena Rasch has been with IBM's Smarter Workforce Institute since 2008 and as part of her responsibilities has managed the Institute's WorkTrends study, a large-scale employee opinion survey of over 33,000 workers in 26 countries globally. Rena values empirically based practices, and she uses her skills in psychometric theory, research design, and statistics to develop valid and reliable HR tools and knowledge. In addition to her responsibilities at IBM, she publishes in academic and business journals, including the Journal of Applied Psychology and Journal of Business and

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Contributor Acknowledgements

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Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
March 2015

1 The exact item wording is “Thinking about those employees hired by you or your group in the past 12 months, if you had the chance to do it over again, what percent of them would you rehire?”

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