

Taleo Research White Paper

Quality of Hire: The Next Edge in Corporate Performance

Table of Contents

Executive Summary	1
I. Why is Quality of Hire Important?	2
Cost of a Bad Hire.....	2
Impact of Staffing Practices.....	3
II. Defining Quality	4
III. How to Measure Quality of Hire	5
1. Hiring Manager Survey.....	5
2. Performance Reviews	7
3. Productivity	7
4. Turnover	8
IV. Staffing Process	9
Sources of Poor Quality	10
V. How a Better Staffing Process Can Impact	
Quality of Hire.....	11
Importance of Methodology.....	11
1. Job Success Analysis	12
2. Targeted Sourcing	12
3. Fast Reaction Time	13
4. Consistent Screening Process	13
5. Measuring Quality of Hire.....	14
6. Continuous Improvement.....	14
Appendix: Case Studies	17
About Taleo Research.....	19
About Taleo	21

Contact for Taleo Research:
research@taleo.com

Contacts for Taleo:
U.S. 888.836.3669
International 888.922.5665
info@taleo.com

Executive Summary

The assembled workforce of a corporation is its predominant competitive asset. High performers outperform average performers by a wide margin. The quality of employee performance begins with the quality of the hire.

Ultimately, increasing the quality of hire can be the greatest financial performance booster for your organization.

To measure quality of hire, corporations have to define pre-hire requirements and expectations. The comparison between pre-hire requirements and the new hire's actual performance on the job may be made by:

- Surveying the hiring manager.
- Consulting annual performance reviews.
- Measuring worker productivity and tenure directly.

Improving the quality of an overall staffing process requires a consistent, enterprise methodology for defining the demand for talent and fulfilling that demand in a consistent way. Quality has to be achieved not as an accident, but as a matter of design. The steps in which to address quality are:

1. Job Analysis
2. Targeted Sourcing
3. Consistent Screening Process

For a successful quality of hire program, Taleo Research makes the following recommendations:

- Involve and educate senior staff and hiring managers to understand the financial implications of quality employees.
- Define the factors that determine success at a job.
- Design screening and assessment steps that select for the requirements of the job.
- Measure new hires for quality of hire, using:
 - Objective metrics (Productivity + Retention)
 - Subjective metrics (Hiring manager opinion)

- Measure new hires at a consistent point in the employee life cycle.
- Use quality of hire metrics to undertake continuous optimization of:
 - Talent definition.
 - Sourcing.
 - Screening and assessing.

I. Why is Quality of Hire Important?

The old adage “People are your most important asset” is wrong. People are not your most important asset. The right people are.

Jim Collins
Good to Great

The quality of employee performance begins with the quality of the hire. Though this statement is an obvious truth to many executives, companies today taking steps to identify and systematically manage factors that impact quality of hire are in the minority. Yet the companies that define consistent processes and metrics around quality of hire will benefit from a sharp competitive edge in the future. The business literature is replete with studies exploring ways to increase staffing efficiency and cut costs. Very little has been written however, focusing on quality of hire and its direct link to revenues and profitability.

This report outlines the profound importance of the quality of hire. The report details methods used in its evaluation, and outlines what the staffing function in a corporation must do to comprehensively manage the quality of its process outcome. The report outlines ways of measuring quality in terms of productivity and output, and ways to put quality first in staffing practices. The report includes remarks and observations from Taleo Research’s numerous consulting engagements and discussions with front-line staffing executives at large corporations.

Impact of Quality Staffing

The *War for Talent* study crystallized the impact of quality performers. It found that in the opinion of senior managers, high performers outperform average performers by a wide margin. According to the study, high performers in operations roles are able to increase productivity by 40 percent; high performers in management roles increase profits by 49 percent; and in sales positions, high performers are responsible for 67 percent greater revenue.¹

1. *War for Talent*. McKinsey & Company, 2000



Cost of a Bad Hire

The risks and potential losses from making a poor quality hire stem from poor productivity and a reduced quality of output. Poor quality hires may result in poor customer service, which leads to revenue loss and even loss of market share. A workforce with a lower overall quality of worker takes longer to bring products to market, resulting in lost competitive advantage. The cost of goods sold is also higher, as the company has to contend with lower productivity.

The costs of poor quality are sensitive to the position, increasing dramatically for key positions. In the retail industry for example, bad hires may result in excessive costs due to inventory shrinkage and loss of brand equity from poor customer service. The wrong hire may cost the company hundreds of dollars in employee theft, or millions of dollars in a liability suit from cases involving criminal actions.

Having made the wrong hiring decision, a company may seek to cut its ongoing losses by replacing the worker. Replacement costs, including sourcing costs, administrative and processing costs, and lost productivity for the hiring manager,

all become part of the cost of a bad hire. The cost of a bad hire for a software engineer can exceed millions of dollars, while the wrong choice of a CEO may result in the loss of billions of dollars of shareholder value.

Bad hires produce damaging results that can be calculated as the sum of these direct and indirect costs:

- Productivity loss.
- Loss of customers.
- Loss of brand equity.
- Legal liability.
- Separation costs.
- Replacement costs.

CFO's View of Employee Quality

Industry: Manufacturing

Number of employees: 60,000

Revenue: \$9.8 billion dollars

This multinational corporation generates about \$5 dollars in revenue for every \$1 dollar invested in labor.

When the cost of materials for production is removed, every dollar invested generates close to \$2 dollars in net contribution.

At a new hire rate of 10% per year (6,000 new employees), and using a conservative 1% increase in output productivity by those new hires, the company realized an increase of approximately \$3.0 million dollars in pre-tax profits, or 4%, and a corresponding increase to earnings per share of 5%.

Impact of Staffing Practices

The impact of quality staffing on corporate performance is perceptible not only in the opinions of senior managers, but also in corporate financial results. The Human Capital Index (HCI) seeks to measure the impact of human capital management (HCM) practices on shareholder value. The research found a positive correlation between a company's HCI score and its financial results: the higher a company's HCI score, which represents how well an organization manages its human capital, the higher its total shareholder value.

The study identified five key areas of HCM practice that are associated with the creation of shareholder value:

1. Achieving recruiting and retention excellence.
2. Creating a total reward and accountability orientation.
3. Establishing a collegial, flexible workplace.
4. Opening up channels of communication between management and employees.
5. Implementing focused HR technologies.

Excellence in all practice areas is associated with a 47 percent increase in a company's market value.² Analysis further quantified the impact of improvement in each area. Recruiting and retention excellence is associated with a 7.9 percent increase in market value.

*All that separates you from your competition are the skills, knowledge, commitment, and abilities of the people who work for you. Companies that manage people right will outperform companies that don't by 30 to 40 percent.*³

Dr. Jeffrey Pfeffer
The Human Equation

2. *Human Capital Edge*, B. Pfau and I. Kay. (McGraw Hill: 2002)

3. *The Human Equation: Building Profits by Putting People First*, Dr. Jeffrey Pfeffer, (Harvard Business School Press, 1998)

II. Defining Quality

Quality in a product or service is not what the supplier puts in. It is what the customer gets out and is willing to pay for. A product is not quality because it is hard to make and costs a lot of money, as manufacturers typically believe. This is incompetence. Customers pay only for what is of use to them and gives them value. Nothing else constitutes quality.

Peter Drucker

Quality is an elusive, inherently subjective term. The definition varies widely from company to company. The first of quality expert Philip Crosby's Four Absolutes of Quality Management™ states "Quality means conformance to requirements, not goodness." The American Society of Quality defines quality as "A subjective term for which each person has his or her own definition. In technical usage, quality can have two meanings: 1. the characteristics of a product or service that bear on its ability to satisfy stated or implied needs. 2. a product or service free of deficiencies."

There is no over-arching or universal standard of employee quality. Process improvement philosophies define quality as that which meets the customer's requirements. Six Sigma, for example, defines a defect as that which fails to meet customer requirements.

To measure the quality of a process is to measure the output of the process for conformity to the customer's requirements. In the case of a staffing department the primary customer is the hiring manager. The key to measuring quality of hire, therefore, is to define the hiring manager's expectations at the point of identification of the need for a new hire.

Quality Programs

Interestingly, little or no focus has been given to the quality of hire in the popular quality programs. Formalized quality programs began in the 1920s with the Plan-Do-Check-Act (PDCA) cycle, a systematic approach to improving work process. Total Quality Control practices in the 1940s were followed (primarily in Japan) by the introduction

of quality circles which included all employees, not just department managers. American companies began to embrace the teachings of quality gurus (e.g., Deming, Juran and Feigenbaum) by the mid 1980s. During the 80s, criteria for the first Malcolm Baldrige National Quality Award was established; ISO 9001, *Quality Systems-Model for Quality Assurance in Design, Development, Production, Installation, and Servicing* was published and was developed at Motorola.

These quality initiatives grew out of manufacturing, at a time when it was the predominant industry in the US; and hence, they are process focused. All acknowledge the importance of employees, yet none of the major quality initiative programs address what may be of utmost importance in today's service economy: the quality of hire. The quality of hire comes before the employee can be part of any team or participate in improving any process.

Talent Definition

To drive quality into a selection and recruiting process, the company must first define what quality is for each position in the company. The selection process must be grounded on the foundation of a proper specification of the requirements of the job. The staffing department must work with hiring managers to set out the criteria that will bring about success at a job. These include:

- Knowledge, skills, and abilities.
- Attitudes and motivation.
- Cultural fit, both with the organization and with its customers.

The more specific the criteria, the better the company is able to calibrate the selection process and measure for a quality outcome.

Once set, these criteria for the ideal candidate for a position inform all aspects of the recruiting process for the position, from the writing of the job description to the criteria employed by an online

pre-screening function. The criteria of selection and of performance must be aligned, to ensure that the staffing process reliably selects qualities and characteristics that promote high-quality performance on the job.

III. How to Measure Quality of Hire

The key question to answer in measuring quality of hire is whether the company hired the people it set out to hire, as defined by pre-hire requirements. Measuring quality of hire amounts to measuring how the candidate varies from pre-hire requirements and expectations. The comparison between pre-hire requirements and the new hire's actual performance on the job may be made in one of several ways: surveying the hiring manager; consulting annual performance reviews; or measuring worker productivity and tenure directly.

Pre-Hire Assessment

Many companies use standardized assessment tests, such as behavioral and personality tests, as part of the selection process. Do these assessment tests measure quality of hire? The companies include the assessment tests in the selection process as further checks or screens to identify those most qualified for the job.

A global medical products and services company, for example, uses an outside vendor of assessment tests to administer behavioral or personality tests to all exempt hires gauge capabilities and fit with the company. The testing occurs either after a phone screen or the initial interview. The vendor defines cut-off scores for capability and fit. The company uses reports on the number of candidates passing three cut-off points (A, B, and C) to assess the overall quality of new hires, as well as to measure specific aspects of the staffing process, such as a recruiter's sourcing skills.

Whether the assessment tests do indeed result in candidates that are more qualified for the job and who perform well on the job depends on whether

the tests have been validated. Assessment and testing is predictive, but does not actually measure quality of hire. A company would still need an independent test or check on the quality of the outcome of the selection process to know whether adding assessment tools to the selection process increases quality of hire.

1. Hiring Manager Survey

Since the expectations of the hiring manager ultimately determine the standards for quality of a new hire, a straightforward measure of quality of hire is to ask the hiring manager how these expectations have been met. A suitably structured survey of the hiring manager will capture his or her opinion in an objective framework. At its most fundamental, the question is simply "*Would you hire this person again?*" Objectivity and quantitative measurement intensify if the survey references specific pre-hire requirements set out by a detailed job analysis.

Possible Survey Questions

Please rate this hire on the scales below. Choose one rating for each scale.

	Very Low	Low	Moderate	High	Very High
Overall fit between abilities and job requirements					
Motivational fit for the job					
Overall productivity					
Likelihood that he/she will stay with the organization					
Probability of being promoted after one year					

Or

Please rate this hire on the scales below. Choose one rating for each scale.

	Below Average	Average	Above Average
Performance in Training			
Time to Contribution			
Job Performance			

Or

Rate this hire's overall job performance using the scale below. Select one answer.

- Superior Performer—better than 80% of employees in similar positions.
- Above Average Performer—better than 60% of employees in similar positions.
- Average Performer—50% of employees in similar positions are better, 50% are less skilled.
- Below Average Performer—better than 40% of employees in similar positions.
- Poor Performer—better than 20% of employees in similar position.

To establish the overall quality of hire produced by a staffing function requires tracking metrics on the number of hires that meet, exceed, and fall short of job requirements. A consistent process reduces variability, either above or below the mark.

Surveying hiring managers for quality of hire and quality of service may go hand in hand, as part of a 360-degree review of the process.

In one company, an informal survey is conducted after three to four months on the job:

The recruiter may talk to a hiring manager about the candidate and how things are going. The recruiter also talks to the candidate to assess how well the hiring manager has integrated the new hire and how the new hire feels about the work, the team, the challenge etc.

Senior Recruiting Manager
Software company

A hiring manager survey to measure quality of hire must however be distinguished from a survey that investigates satisfaction with the service level provided by the staffing department. Although clearly an important aspect of meeting customer expectations, high or low satisfaction with the service delivered by the staffing department (e.g., timeliness or helpfulness of recruiting staff in coordinating and scheduling interviews) cannot be correlated with high or low quality of a new hire.

2. Performance Reviews

Quarterly, biannual, and annual reviews represent a potential source of information of on-the-job performance, and thus can be used to gauge whether the staffing process reliably attracts and selects quality employees. Many companies conduct performance reviews, often with formalized structures and procedures in place, which make the information suitable as a quality of hire metric. However, the timing of a review may not be optimal for the validation of the output quality of a staffing function. An HR executive at a publishing company relates:

One of the benchmarks that we have used to measure quality of hire over the years has been our annual review. We might look at the review score and review of the new hire to determine how well he/she is doing against goals. Obviously this depends on how long they have been in their role as all reviews are done in the July/August time frame and if someone had just been hired a few months

before, there is not a lot of data to be gathered through this review.

A further obstacle to the use of performance reviews for an assessment of output quality in a staffing process is the fact that separate HR professionals perform performance management and talent acquisition. For the staffing function to benefit from performance management efforts, the two areas of HR practice have to form bridges.

Since performance reviews are often tightly associated with compensation, the staffing function can also turn to data regarding salary increases, promotions, awards and bonuses as metrics to gauge the quality of the employee and then indirectly, the effectiveness of the staffing process. But a lack of direct connection between hires and review can make it problematic as a reliable indicator.

3. Productivity

The ultimate validation of the accuracy of a selection process is to measure how people actually perform after they are hired. The most rigorous approach to measuring employee quality is to measure productivity. Although productivity can only be viewed after an interval of time has passed with the new hire in the position, it is worthwhile to review the fundamental measures of productivity. Those measures represent a method for evaluating performance and lead to evaluations of quality.

The hiring manager's pre-hire expectations may include a certain target for productivity. Ascertaining how the new hire is meeting that target for productivity may be achieved by polling the hiring manager's opinion, as above, or by measuring the new hire's productivity directly.

Measures for productivity are specific to the job function. Key productivity measures include units of output per employee and workload per employee. A measure of productivity may also focus on revenue generated, as sales positions have traditionally been measured. As an HR executive

at a professional services firm explains, “Our sales organization measures the performer’s impact on the company’s financial results.”

Productivity is part of a hiring manager’s expectations. If a company chooses to assess quality of hire by measuring productivity, it must set standards of productivity for the job positions and job families to be assessed. Again, these standards of quality must be worked out through a process of setting out the hiring manager’s expectations, or the expectations of the company as a whole.

Time-to-Contribution

Focusing on worker productivity sheds light on a new staffing metric, time-to-contribution. The metric typically rests on a hiring manager’s assessment of whether a new hire has become a contributing member of the team in the expected time frame. The challenge is to give the metric some consistent framework, and productivity makes this possible. Time-to-contribution may be rephrased as time-to-productivity: the time it takes for new hires to meet a minimum standard for output.

Two kinds of mistakes destroy potential productivity. The first is hiring candidates who can’t raise their productivity fast enough to stay ahead of their compensation. The second is hiring people, however capable, who won’t stay with the business long enough to earn back what it cost to bring them on board.

Frederick Reichheld
The Loyalty Effect

Training

Time-to-contribution is closely linked to the area of initial training. Data suited for use as quality of hire metrics include hours of training required to be productive, and scores by new hires on mandatory initial training.

Examples of Productivity Measures Specific to Job Functions

Customer Service Call Centers

- Calls per representative.
- Resolved complaints per full-time employee (FTE).

Finance and Accounting

- Invoices processed per accounts payable FTE.
- Remittances processed per accounts receivable FTE.

R&D

- Number of new patents.
- Number of new product launches.
- Time to product launch.

Human Resources

- Total organization FTE per HR FTE.
- Requisitions per recruiter.

4. Turnover

Turnover is typically measured in terms of the proportion of separations to the total number of employees in the corporation. Costs associated with turnover are extremely high and occur in three areas:

1. Separation costs.
2. Replacement costs.
3. Productivity losses.⁴

4. A detailed financial model for Cost of Turnover is in the Taleo Research report, *Internal Mobility*, available at www.taleo.com.

Many companies turn to metrics regarding turnover as a reflective measure of quality of hire. The theory is that high turnover is an indicator that there are issues with quality in the workforce. Conversely, high retention (low turnover) is considered to be a sign of quality in the recently hired workforce.

There are many causes of employee turnover. First, distinguish voluntary from involuntary turnover. Voluntary turnover is a very poor indicator of quality of hire. Someone who is an outstanding performer may be difficult to retain, as he or she will attract the attention of recruiters at rival companies. Involuntary turnover is a better indicator, provided that turnover that occurs for a performance reason is isolated.

As a metric, the percentage of new hires terminated for performance reasons is a very blunt instrument for assessing new hire quality. It indicates whether there is a serious problem, but it is not able to differentiate between degrees of quality or productivity. It tracks gross lack of fit, quality or productivity. Still, a reduction in the overall trend for performance-related involuntary turnover in the first six months of employment may be useful for some companies as a first step to improving quality of hire.

IV. Staffing Process

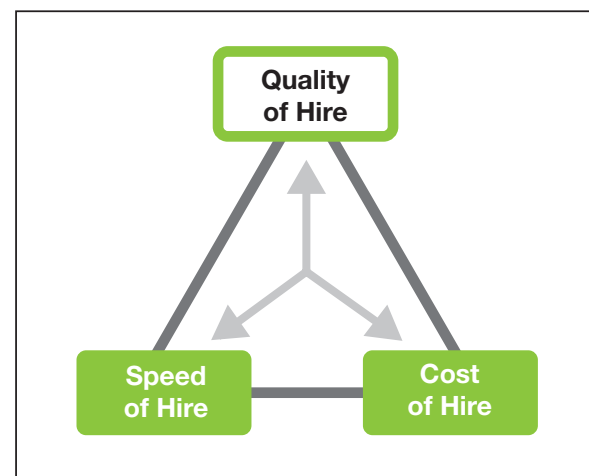
The corporate staffing department performs a critical gateway function in a company, bringing people from the outside world into the organization. As such, staffing has a huge impact on the quality of the assembled workforce. Attracting a quality workforce and deploying it optimally are fundamental goals of every organization.

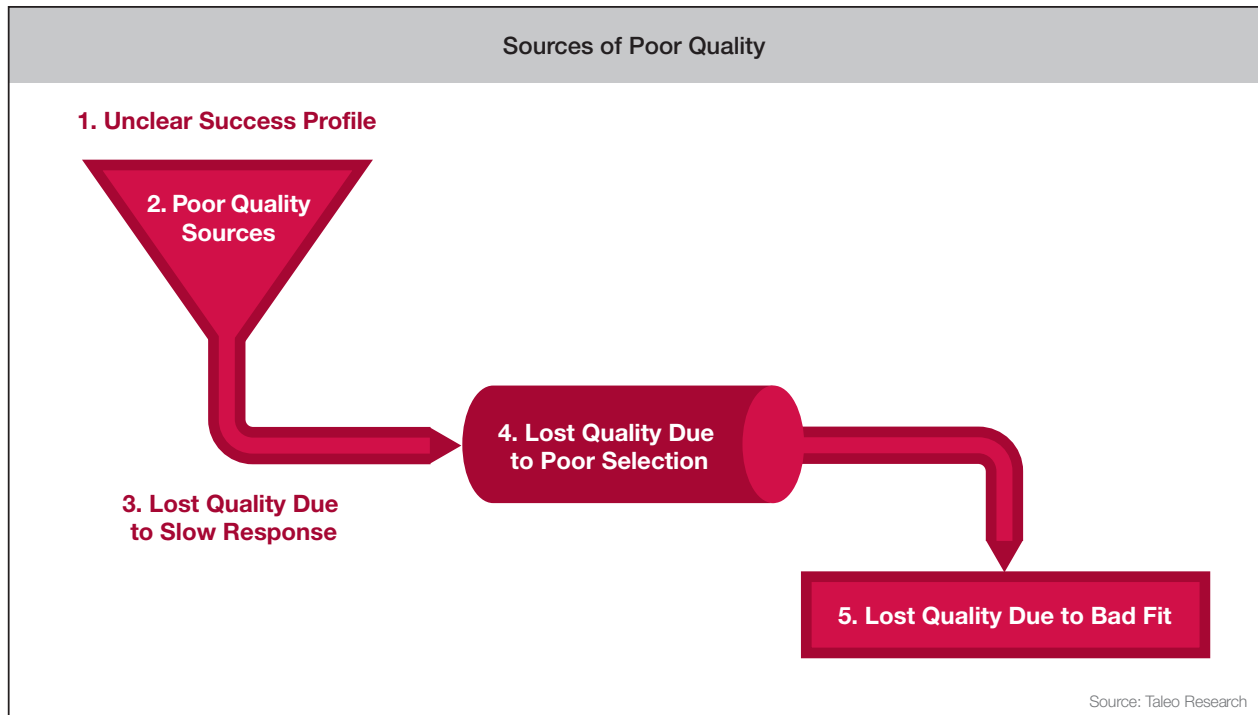
As a business process, staffing departments have made great strides in process optimization. For many corporations, both hiring cycle times and costs associated with hiring have been reduced. Streamlined processes and robust technology platforms enable quicker identification and

more efficient communication with candidates. Measuring these process improvements validates the progress and supports continuous improvement. Composition of the metrics used to measure costs and cycle time process improvements may be debatable. For example, the components included in cost per hire vary widely. Nonetheless, each component is quantifiable and can be consistently calculated.

Speed of hiring and cost containment are important and measurable drivers in the staffing process. Together with quality of hire, speed and cost form a virtuous triangle – each affecting and being affected by the other. Yet each point is not equally weighted. In contrast, quality of hire presents a more nebulous metric to define and measure yet as shown in this study, is the critical measure to take into account.

Ultimately, quality of hire has the potential for the greatest impact on the organization.





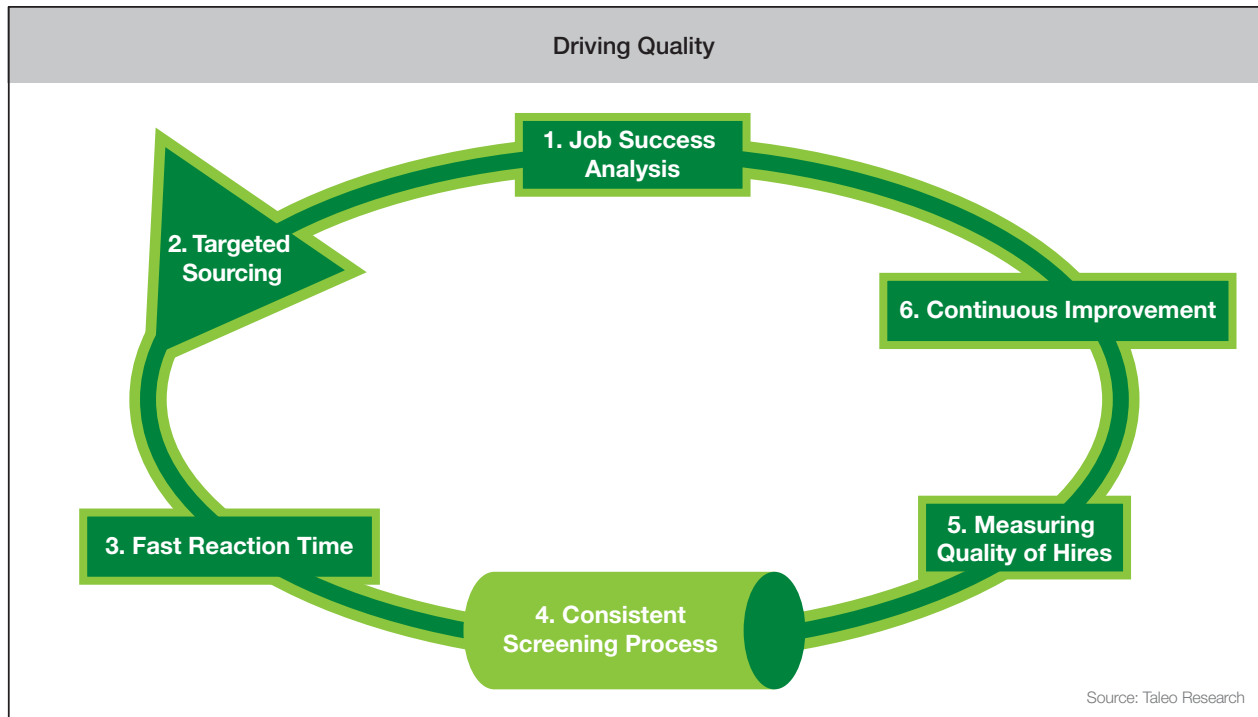
Sources of Poor Quality

When the expectations of a hiring manager are not met, causes may lie in any or all of these areas:

1. The hiring manager's expectations were mis-identified at the outset of the staffing process.
2. Candidates having the characteristics to meet the hiring manager's pre-hire expectations were not represented in sufficient numbers in the candidate pool.
3. The staffing process did not react fast enough to hire the candidate who best met the hiring manager's expectations, before he or she found employment elsewhere.

4. The staffing process rejected candidates who possess characteristics that would meet the hiring manager's expectations.
5. The staffing process accepted candidates whose characteristics do not meet the hiring manager's expectations or fit corporate culture.

Understanding and acting on those sources of poor quality will lead to better end results. However, measurements that analyze the level of quality must be available in order to drive specific actions towards improvement.



V. How a Better Staffing Process Can Impact Quality of Hire

Once onboard, new hires are influenced by many factors outside of the control of the staffing department including corporate culture, schedule and workload issues, personalities and performance of team members, personal circumstances, and perhaps most significant, their relationship with and the management style of immediate supervisors. Hiring manager satisfaction, performance reviews, productivity and turnover provide useful post-hire views that can reflect and measure performance, but those measures cannot be analyzed to specify the staffing department's responsibility for the quality of hire. The staffing department, though, can implement practices and procedures it can control and improve to positively impact quality of hire.

Importance of Methodology

To improve the quality of an overall staffing process, each step of the process must be designed to maximize the probability that the candidate ultimately selected meets the expectations of the hiring manager. Quality has to be achieved not as an accident, but as a matter of design. The steps in which to address quality are:

1. Job success analysis.
2. Targeted sourcing.
3. Fast reaction time.
4. Consistent screening process.
5. Measuring quality of hire.
6. Continuous improvement.

A consistent, enterprise-wide methodology for defining the demand for talent and fulfilling that demand in a consistent way will result in an increase in the quality of the workforce.

1. Job Success Analysis

Given that quality of hire is defined in terms of the expectations of the hiring manager, these expectations must be made clear. The staffing department must work with hiring managers to articulate what is required for success at a given job. This calls for a rigorous and systematic methodology for creating competency models for each job family and position that the staffing function fills.

For each job family, we gather existing information, determine what are the real success factors or skills/competencies needed, verify with line management and roll out. It is a “holistic” change.

Vice President Recruitment Services
Insurance company

Creating an accurate competency model for a position is the first and most critical step of the staffing process. The set of competencies identified by the job analysis determine the remaining steps in the staffing process: the skills profile determines the criteria for screening and assessing, as well as informs the sourcing strategy and marketing message.

Best of breed staffing management systems support the process of documenting the basic requirements of job positions across an enterprise. Job templates and libraries of skills and job requirements allow front-line users to create job position descriptions and requisitions quickly and accurately. A consistent and globally scalable enterprise methodology for defining success at a job will result in an increase in the quality of the workforce.

2. Targeted Sourcing

The quality outcome of a staffing process can be no better than the quality inherent in the candidate pool from which it draws. Sourcing is responsible for bringing to the selection process a pool of candidates in which the characteristics identified as contributing to success in the job are in high proportion. This is accomplished through employment branding,

the right marketing message, targeted delivery of that message, and a smooth and efficient process to encourage a response from candidates.

Employment Branding

Effective sourcing requires a unique employment brand well communicated to candidates. The employment brand projected to jobseekers plays an important screening role in the corporation’s ability to source the highest quality talent. Cultural fit is as important a factor to the overall quality of hire as the possession of requisite hard and soft skills. In most cases, cultural fit is a hiring manager’s unspoken expectation. Lack of fit is a common cause of premature separation.

The overall employment brand is the responsibility of the staffing department, working together with the corporation’s public relations and marketing arms. As an important factor affecting the cultivation of top talent, staffing should monitor and shepherd the employer brand.

Sourcing Strategy

The function of a sourcing strategy is to ensure that employment advertising reaches the right audience and draws on the targeted candidate pool. The goal is to maximize exposure to qualified candidates while minimizing exposure to unqualified candidates. A job posting appearing in a media vehicle that has too low a proportion of qualified to unqualified candidates will increase the burden on later stages of the selection process to screen unqualified candidates out. Some companies using Six Sigma define a defect as the number of unqualified candidates who continue through the screening process and are presented to the hiring manager.

Job Description

Once staffing has collaborated with the hiring manager to create a job success job requisition, the job description and marketing message can be crafted. The job description for a vacancy should describe the role, and the activities and responsibili-

ties involved. Moreover, the job description should describe the abilities, credentials and experience possessed by the ideal candidate. Other pieces of information on a job description that give candidates the opportunity to self-screen are salary ranges and details on logistics, such as the location of the vacancy and the amount of business travel involved.

Candidate Relationship Management

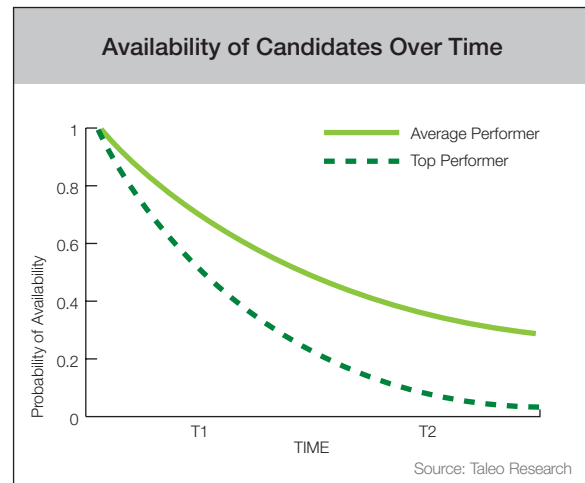
Corporations can also use robust candidate databases as a source for quality candidates. Candidates who have been sourced at an earlier time may be considered for current needs. Effective candidate relationship management requires a database that maintains structured data on specific desired skill sets, motivations, and interests, so that pre-qualified candidates can be matched automatically to new positions and invited to apply on targeted job opportunities.⁵

Corporate Careers Website Best Practices

A primary marketing vehicle under the control of the corporate staffing department is the corporate Careers website. The corporate Careers website should implement best practices for attracting and selecting qualified candidates. These best practices include the presentation of a consistent employment brand, and provide visitors with good quality information about the organization, even a realistic portrayal of life working at the company. The corporate Careers website should have user-friendly technology, and promote quick and effective communication between candidates and staffing personnel.⁶

3. Fast Reaction Time

Candidates are not static objects, to be processed on the corporation's own timetable. They are active agents in the employment marketplace, free to pursue opportunities that best meet their needs. A staffing process must be fast enough to hire top performers, before they find employment elsewhere.



For example, if two corporations' time response is compared, the corporation with faster response time (T1 on the chart) has a higher probability of finding available qualified candidates who are not engaged with a competitive firm. On the contrary, a corporation with a more lengthy hiring process (T2 on the chart) jeopardizes its access to a pool of available top performers.

That being said, speed should not be valued for its own sake. Hasty hiring decisions may lead to low productivity, lack of cultural fit, or unexpected turnover. Corporations are increasingly turning to automated prescreening to increase the responsiveness of the staffing process, while eliminating errors.

4. Consistent Screening Process

Screening is an essential step in the staffing process. This is especially true during periods of high unemployment, when the job market is characterized by an oversupply of talent. The staffing function eliminates unqualified people so that the candidate ultimately selected meets the expectations of the hiring manager. The selection process must be operated with systems and procedures that ensure these unqualified candidates do not make it to later stages of the staffing process, where costs increase.

5. Detailed analyses is in the Taleo Research report *Economics of Candidate Relationship Databases* available at www.taleo.com.

6. See Taleo Research report *Value Creation Through Corporate Careers Websites* available at www.taleo.com.

The competency profile for a position arrived at through job analysis provides the necessary structure for the screening process to select for the qualities and characteristics that define success in the position. The key to automating much of the screening and selection process is to gather data from candidates in a format that maps onto the structure of the job competency profile. By pulling data from candidates that matches the defined structure for each position, all candidates can then be matched and sorted against the same set of objective criteria. Consistency is attained when decisions are made on the basis of a systematic and analytical framework.

The widespread acceptance of the corporate careers site as the communication medium for jobseekers and corporations makes online prescreening possible. A best of breed staffing management system takes the data submitted by candidates on the careers site and scores and ranks candidates based on that data.

By maintaining the competency model, job description template, screening criteria, and algorithm in a database, the staffing management system increases consistency in the staffing of future openings for a position. Increasing consistency over future openings decreases variability in the quality of hire over time, which is the hallmark of an overall quality staffing process.

5. Measuring Quality of Hire

The importance of measuring quality of hire lies in evaluating the effectiveness of a staffing system. The staffing process first sources candidates, then screens out those who lack certain characteristics. At each successive step, more applicants are removed from consideration based on screens and tests applied to the information gathered in the process.

Ideally, the characteristics selected for by the staffing process should be the very ones that are associated with success in the job position being filled. The selection criteria used in each step

should increase the representation in the pool of advancing candidates the attributes of an employee who is successful and productive in the role. In effect, the role of a selection process is to predict the ability of candidates to perform the job in question, screening out those who are predicted not to perform well in the role, and selecting for those who are predicted to do well. This makes the accuracy of a selection process critically important.

Measuring the quality of a new employee after he or she has come on board provides an independent test or check on the selection process to ensure that it accurately selects for qualities and characteristics that actually contribute to the company business plan. A program of measuring quality of hire also provides a means of evaluating the effectiveness of change initiatives, as a company seeks continuous improvement in its staffing process.

6. Continuous Improvement

This is the nut, and a tough one to crack. Most measures have been strong (times are low, costs are low, and quality is high), and not requiring corrective actions. But could we be engaged in continuous improvement? Yes.

Strategic Staffing Manager
Semiconductor manufacturer

The areas of continuous improvement made possible by linking the results of quality of hire measurement to the staffing process are:

1. Talent definition
2. Sourcing
3. Screening and assessing

If the results of a company's quality of hire measurement show that the hiring managers' expectations are consistently being exceeded, then a company may revisit the talent definition for the position and revise expectations upwards. If, on the other hand, hiring managers' expectations are not being met, and yet staffing can demonstrate that the candidates possess all the characteristics specified by the talent

definition agreed upon when the hiring need was identified, then there is strong evidence that the original talent definition must be revised to better capture the hiring managers' true expectations.

Quality of hire data can be used to assess and improve sourcing. The focus may be on an individual recruiter's sourcing skills, as is the case in one company:

Quality of hire data is used to assess and improve the recruiter's sourcing capabilities.

VP of HR
Medical devices manufacturer

Alternatively, the emphasis may be on optimizing a company-wide sourcing strategy. Correlating the quality of new hires with the recruiting source from which they were obtained can help optimize the sourcing strategy. Source optimization is important, given that sourcing typically accounts for a significant percentage of variable staffing expenditures.

It is important that screening and assessing tests select for candidates who possess the characteristics that contribute to success in the job. Measuring quality post-hire will establish whether the candidates that are selected by screening and assessment are indeed successful. Poor quality of hire metrics may indicate a gross disconnect between the standards for screening and assessing candidates and the standards for performance in the job.

Where quality of hire metrics are good, a company may undertake a careful and systematic process of small adjustments to the screening and assessment process, looking for evidence in the post-hire quality analysis that the changes are resulting in incremental improvements in process outcome.

Reporting and Metrics

For HR executives to make informed decisions about optimizing the staffing process and increasing the quality of its outcome, they need accurate and timely reporting. Quality of hire reporting in the corporate world ranges from robust:

A quarterly scorecard is created in each region and then analyzed, then action plans developed at the country level.

HR Manager
Diversified technology company

to nonexistent:

I do not believe we store our conclusions or report and analyze the findings. It has been done randomly in the past, but not across all of the recruiting organizations.

Recruiting Manager
Computer services company

Ideally, quality of hire metrics are monitored for an overall trend over time in the measured quality of hire in the organization. To make meaningful comparisons and conclusions about quality of hire over time, quality must be defined and measured in the same way. Decentralized staffing functions may further complicate an enterprise-wide standardization of measurements. Without accurate and timely reporting, actionable results of a quality of hire initiative are unattainable.

Quality Focus

The challenges of defining and measuring quality of hire pose high enough of a barrier to some companies that they do not make the attempt. Still other staffing departments do not measure quality of hire because the company's priorities lie elsewhere, such as with cost containment. However, the greatest financial benefit is attainable through focusing on quality. Towards that end, Taleo Research provides support and help for organization that want to create metrics and start reporting them to management.

Close the Quality Feedback Loop

The ultimate best practice for staffing to improve the quality of hire is to use quality of hire data to optimize the staffing process. Such an optimization involves a rigorous loop-back of quality of hire measurements to changes made in the staffing process. Optimization is a challenge for most companies: metrics must be accurate and dependable; staffing procedures must be standardized in a consistent and repeatable process. Without a staffing process that is measurably repeatable to begin with, optimization will not have an Archimedean point from which to improve the process.

Sixty percent of respondents to one survey indicated that they considered it important to the achievement of their organization's goals to formally measure employee performance evaluations against the candidate assessment process, yet only 33 percent were satisfied with their organization's ability to correlate employee performance evaluations against their candidate assessment process.⁷

Many companies perceive the importance of staffing optimization through quality of hire measurements, and yet have not engaged in any loop-back efforts.

7. *Screening & Assessment: Best Practices* Global Learning Resources, Inc., 2001

Appendix: Case Studies

Financially, the impact of talent on corporate performance is increasingly acknowledged. Consequently quality of hire metrics should be more evident, yet detailed data on quality of hire measurement practices is scant. Strong evidence of executive leadership is also lacking. Thirty percent of survey respondents answered “yes” when asked, “Do you measure new hire quality?” Yet no single standard has emerged.⁸ Companies use different measurements and have different goals for initiatives to evaluate quality of hire. In fact, as seen in the practices of the companies described here, a combination of measurements is generally applied.

Company A

Industry: Global Semiconductor Manufacturer

Number of Employees: 43,000

Revenue: \$6 billion

Quality of Hire Metrics:

- Hiring Manager Satisfaction
- Turnover

For Company A, quality of hire is considered to be a matter of how well a new hire fits into the job, and how long he or she stays in the job. The company uses hiring manager surveys as the primary tool for assessing quality of hire. Company A uses hiring manager surveys to gather data on the hiring manager’s satisfaction with the overall quality of service received in the staffing process, as well as to address the quality of an external, exempt hire.

Hiring managers receive two survey questionnaires, at 90 days and 6 months after the new hire’s start date.

1. The first survey addresses satisfaction with the hiring process and the quality of the staffing service.

2. The latter survey measures quality of hire by asking hiring managers to rate new hires on a seven-point scale for successful integration to the position. The questionnaire for evaluating quality of the new hire makes specific reference to pre-hire requirements for the position.

Quality of hire metrics are analyzed by the company’s Strategic Staffing Manager. The data is used to arrive at a ratio of successful hires. This ratio is defined as the number of exempt, external hires who meet or exceed expectations to the number of exempt external hires (meet or exceed / total hired).

The ratio is measured on a quarter-by-quarter, retrospective basis. Staffing professionals at Company A recognize that the quality of hire data gathered presents an unparalleled opportunity for continuous improvement, but associated action plans are almost non-existent. Company A is a past Malcolm Baldrige Award winner.

Company B

Industry: Global Communications, Electronics and Life Sciences

Number of Employees: 39,000

Revenue: \$6 billion

Quality of Hire Metrics:

- Performance Reviews
- Turnover

Company B assesses quality of hire for all new hires, both quarterly and annually. The two sources of information are turnover and performance reviews.

- The company measures the rate of voluntary attritions within the first year (number of voluntary attritions within first year / total new hires in first year).

8. 2003 Recruiting Metrics and Performance Benchmark Report Staffing.org, Inc. and the Human Capital Metrics Consortium, Inc., 2003

- The company also turns to annual performance reviews for rankings of new hires within their first several years of employment.

Quality of hire data gets reported in regional, quarterly scorecards, which are analyzed by regional staffing managers. HR representatives at Company B report that the process is still nascent, so no action on quality of hire data being used to optimize the staffing process has taken place as of yet.

Company C

Industry: Health Insurance

Number of Employees: 29,000

Revenue: \$25 billion

Quality of Hire Metrics:

- Productivity
- Turnover

Company C administers health benefits and provides network-based health care. Staffing professionals at Company C report that most job families do not have problems with quality of hire—the candidates selected generally are successful in their position.

The company focuses its quality of hire efforts in three areas:

1. In job families where the selection of talent is critical to future success.
2. Where staffing has had poor outcomes such as poor performance reviews.
3. In job families with high turnover that require corrective measures.

Company C employs a variety of quality of hire measures, depending on the job family.

- Service, production, and call centers use productivity-base measurements, according to the position, including the number of calls handled, the average time to handle a call, the number of claims processed, and others.
- Sales positions are measured by revenue.

Company C measures the quality of clinical positions by monitoring turnover.

Company D

Industry: Telecommunications

Number of Employees: 24,000

Revenue: \$5.3 billion

Quality of Hire Metrics:

- Productivity
- Performance Reviews

Company D is in the midst of implementing a program to measure quality of hire. The company has launched the initiative to increase recruiters' awareness of post-hire success.

As designed, the program will be assessing each new contract, full-time and part-time hire after three months of employment. The company plans on using productivity metrics where they have already been defined and are being measured. For instance, call center hires will be evaluated with metrics such as handle time, work time, and number of calls taken.

Professional hires will be evaluated against personal performance objectives, which are set out at the start of their employment. Data will be reported monthly and reviewed quarterly.

About Taleo Research

Taleo Research analyzes the best practices and economics of talent management for organizations of all sizes, worldwide. The specialty research practice focuses on business analytics that tie talent management technology and process improvements to financial results.

Taleo Research also conducts primary research on critical issues of talent management and maintains a valuable library of talent management resources. Published reports and studies include:

- *Trends in Hourly Job Application Methods*
- *Background Checking: Uncovering the Facts*
- *Hidden ROI of Talent Acquisition & Mobility*
- *Internal Mobility*
- *Measure, Report, Analyze, and Improve: Turning Analytics into Action*
- *Social Networks and Talent Acquisition*
- *Onboarding: Speeding the Way to Productivity*

Founded in 1997 as iLogos Internet Intelligence, Taleo Research is the talent management research division of Taleo.

research@taleo.com

CONTACT

www.taleo.com – info@taleo.com

1.888.836.3669 – U.S.

1.888.922.5665 – International

1.888.561.5665 – Customer Service

ABOUT TALEO

Leading organizations worldwide use Taleo on demand talent management solutions to assess, acquire, develop, and align their workforce for improved business performance.

Copyright © 2007 Taleo Corporation. All rights reserved. No portion of this document may be reproduced in any form without the prior written permission of Taleo Corporation.

Taleo and all Taleo product and service names mentioned herein are trademarks or registered trademarks of Taleo in the United States, France, The Netherlands, U.K., Canada, Australia, and several other countries. All other product and company names mentioned herein may be the trademarks of their respective owners.

WORLDWIDE OFFICES

NORTH AMERICA

SAN FRANCISCO — HEADQUARTERS

4140 Dublin Boulevard
Suite 400
Dublin, CA 94568, United States
Tel.: 925.452.3000
Fax: 925.452.3001

NEW YORK

1010 Northern Boulevard, Suite 328
Great Neck, NY 11021, United States
Tel.: 516.301.2121

CHICAGO

One Energy Center
40 Shuman Boulevard
Naperville, IL 60563, United States
Tel.: 630.983.9609
Fax: 630.983.9509

QUÉBEC

R&D Facility
330, rue St-Vallier Est, Bureau 400
Québec (Québec) G1K 9C5, Canada
Tel.: 418.524.5665
Fax: 418.524.8899

TORONTO

1235 Bay Street, Suite 1000
Toronto (Ontario) M5R 3K4, Canada
Tel.: 416.646.1680
Fax: 416.646.1688

EUROPE

WINDSOR

Gainsborough House
59-60 Thames Street
Windsor
Berkshire SL4 1TX
United Kingdom
Tel.: +44 (0) 1753 272170
Fax: +44 (0) 1753 272171

PARIS

19, Boulevard Maiesherbes
75008 Paris
France
Tel.: +33(0) 1 55.27.36.62
Fax: +33(0) 1 55.27.37.00

AMSTERDAM

Poortgebouw
Beech Avenue 54 - 80
1119 PW Schiphol - Rijk
The Netherlands
Tel.: +31 (0)20 658.6699
Fax: +31 (0)20 658.6111

ASIA PACIFIC

SYDNEY

Level 12, 1 Pacific Highway
PO Box 639, North Sydney
NSW 2059
Australia
Tel.: +612.9959.1034
Fax: +612.9959.3003

MELBOURNE

Level 3, IBM Towers
60 City Road
Southbank VIC 3006
Australia
Tel.: +613.9626.2413
Fax: +613.9626.2455

SINGAPORE

90 Cecil Street #14-03
Singapore 069531
Tel.: +65.6323.4007
Fax: +65.6323.4009