

Think Twice: Cost Per Hire - Don't Even Bother

Hiring costs are such a small percentage of an employee's value that figuring cost-per-hire is usually a waste of time.

By Todd Raphael

We must find out what he's worth.

That's what Texas Instruments said as one of its top techies was being wooed by a recruiter working for a competitor. TI, one of the world's great chipmakers, added up all the ideas that the employee had generated for the company, and what that was worth in terms of patents.

TI decided that the employee was probably fairly valued at about \$25 million. Yes, \$25 million. The company also decided it was worth its trouble to get the employee to stay. TI gave him a nice amount of stock, structured in a way that provides an incentive to stay another decade. Also, TI arranged for a week of private golf lessons for him and his wife at a famous golf resort.

If employees are so valuable, it's silly to spend time and money trying to decide whether we should shell out \$1,200, or \$1,2000, or \$30,000, to source and potentially relocate an employee. Measuring these expenses occasionally can be worthwhile when hiring large numbers of employees with similar skill levels. Usually, though, the whole exercise is a joke.

John Sullivan, one of the leading recruiting experts in America, has little interest in cost per hire. Instead, he spends his time helping companies make calculations like TI's.

Think about it, Sullivan says. If you were going to buy a steak, would you compare the cost of one at Denny's to that of one at Morton's? Of course not: the products are very different. And you'd buy one at one point and the other on a different occasion.

If you were getting brain surgery, would you compare its cost with that of a less complex, more standard operation? No. You'd just do whatever you could to get the best. Is a \$1,800 laptop the same as a \$500 laptop? No. You pay more, you get better quality. You cannot compare the price of two items and not compare their value.

Pamela Ferrell combs the entire world for people Texas Instruments can hire. She says the organization doesn't keep track of, or care, what it spends to hire someone. Her team recently stole an employee from an Israeli competitor, racking up relocation costs and spending money to fly him across the world for interviews. "Nobody gets paid what they're going to bring in," Ferrell says.

Employees are such a bargain, and hiring costs are such a small percentage of an employee's value, that fretting over the cost of a hire is like agonizing over whether the gumball machine will give you seven or eight gumballs for a nickel. Who cares?

Measuring the cost of each of your hires is one way to spend time. It takes a lot of it. Don't do it. It's a waste. Instead, every HR and recruiting pro should spend time measuring what a top employee is worth. Compare that to what an average employee is worth, and then sprint to your CFO's office with the numbers. Ultimately, if you realize how much more top employees are worth, you'll realize you can spend a ton more to hire them.

Sullivan says that Cisco's employees each generate \$700,000 to \$1 million in revenue, a figure determined by dividing company revenue by the number of employees. That's far more than you pay to acquire or pay people.

You might think if you're not talking about technology employees, that the differences between employees would be very subtle. In other words, you might think that one McDonald's employee is worth about the same as any other McDonald's employee, so keeping hiring costs low is essential to fast-food success. Wrong. A top McDonald's manager, Sullivan says, is worth 35 percent more in profits than an average employee.

A top PR person is worth far more than an average one, a calculation based on the number of newspaper columns, television news shows, or Web-site pages her client has appeared in. Sullivan has even measured something as abstract as what a strong journalist is worth. To do this, he took into account readership, name recognition, the volume of articles written, the quality of articles (assessed by an independent panel), the number of times the article was downloaded or e-mailed, comments by advertisers, rankings by fellow journalists, the number of times the journalist has been cited and quoted, and comments received.

Gosh, if we could just include negative comments, I'd be living high on the hog.

Your CFO understands this return on investment. Sullivan says that he's repeatedly seen that whenever someone calculates the value of employees, and shows how important it is to pay more for them, that person is suddenly very valuable to her company.

"Most people who do these calculations then go in and ask for a raise."

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