Executive Brief: What Factors Influence Cost-per-Hire?

The SHRM Benchmarking Database provides members with more than 400 metrics based on their organization's industry, employee size, geographic region and more. Questions about this research or how to receive key benchmarking data can be directed to www.shrm.org/benchmarks or 703-535-6366.

Introduction

Hiring new talent is a critical management function. Organizations that consistently bring on new hires whose knowledge, skills and abilities align with their firm's overall strategy and culture outperform their competition. Firms show higher profit, higher revenue growth and lower turnover when they follow a hiring strategy of attracting and selecting employees who fit the culture and values of the organization.[1] One component of an organization's talent acquisition strategy is the amount of financial investment it makes to attract and recruit new employees. These financial investments include advertising agency fees, employee referrals, travel cost of applicants and staff, relocation costs, and recruiter pay and benefits. Defined as *cost-per-hire*, this metric is calculated as the sum of these costs divided by the number of hires.[2] This article examines factors that influence cost-per-hire, such as industry, organization staff size and assignment of job requisitions to recruiters. In addition, this article reviews the relationship between time-to-fill and cost-per-hire.

Cost-per-hire is an important metric. HR professionals consistently rank cost-per-hire as one of the top most helpful HR metrics.[3] Its popularity among HR professionals drove the **Staffing and Workforce Planning Standards Taskforce** to choose cost-per-hire as its first metric to evaluate and define. Cost-per-hire has a special attraction for recruitment executives. Unlike many HR activities that are difficult to quantify,[4] cost-per-hire is easy to calculate because external sourcing costs such as online job postings, agency fees and relocation costs are easy to track. The metric also links recruitment performance to the organization's bottom line. It implies a direct line of sight between the recruiter's ability to effectively source candidates and the resulting cost savings for the organization. Finally, cost-per-hire has face validity outside of HR because it is understood and accepted by line managers as a form of recruiter effectiveness.

Factors Influencing Cost-per-Hire

SHRM Benchmarking Service experts are routinely asked by HR professionals to interpret their organization's cost-per-hire. Yet, interpreting absolute measures for cost-per-hire cannot occur in isolation. Since industry, staff size, profitability and geographic region influence recruiting costs, benchmarking is most effective when organizations compare their cost-per-hire against similar organizations' metrics, making for a meaningful comparison. The organization's overall business strategy can affect cost-per-hire. An organization whose business strategy is to compete on price focuses on low margins and high unit sales. By keeping costs down in all areas of its business, including cost-per-hire, an organization ensures that its profitability is high. Conversely, an organization whose strategy is to lead its market with innovative products that

are often more expensive than the competition may have higher business costs. Recruiting costs may also be high because as the organization seeks highly creative, innovative talent, it will need to increase its sourcing strategies and costs to scan the country for top talent.

To learn what factors influence recruiting costs, cost-per hire metrics from the SHRM 2011-2012 Benchmarking Database were analyzed by industry, organization size and assignment of job requisitions to recruiters (whether recruiters are assigned jobs to fill based on job function, such as filling all software engineer positions, or business unit, such as filling diverse types of positions for a specific business unit). The following sections present an in-depth analysis of these data.

Industry
Organizations in the same industry tend to face similar market pressures, financial constraints and workforce demographics. The type of industry drives the type of talent organizations hire. The bulk of hires for financial services firms, for example, are employees with backgrounds in finance and accounting. Similarly, high-tech organizations mainly hire technical staff with backgrounds in engineering and computer science. Yet when organizations source candidates from competitive labor markets—where demand for skills is high, but supply is low—cost-per-hire goes up because organizations invest in expensive sourcing strategies to compete for talent. These strategies include third-party agency fees, sign-on-bonuses and relocation costs, among others. Table 1 shows industries with the three highest and lowest cost-per-hire metrics. Professional/trade associations ($5,582), durable goods manufacturing ($5,159) and publishing ($4,438) reported the highest cost-per-hire.

Professional/trade associations typically do not hire hard-to-find talent; therefore, it is important to interpret cost-per-hire by looking at other metrics, such as the number of positions filled. Professional/trade associations hired only 10 employees. This suggests that for this industry the overall recruiting dollars spent were low, but because few were hired, the actual cost-per-hire is high. Conversely, recruiting costs for durable goods manufacturing and publishing industries are high because they seek candidates with hard-to-find skills.

Table 1. Cost-per-Hire Metrics for Key Industries

Industry	Cost-per-Hire	Number of Positions Hired
Industries with high cost-per-hire		
Association-professional/trade	$5,582	10
Manufacturing durable	$5,159	2,401
Publishing	$4,438	1,501
Industries with low cost-per-hire		
Services—accommodation	$1,062	316
Waste management	$1,320	4,243
Arts and Recreation	$1,394	184

Source: 2011-2012 SHRM Benchmarking Database

Industries with low cost-per-hire recruit for positions that require low skills and minimum experience, and their ratio of candidates is high compared with the number of openings. Accommodation services, waste management, and arts and recreation were industries with the lowest cost-per-hire, at $1,062, $1,320 and $1,394, respectively. Recruiting costs are low because the supply for talent in these industries is very high compared with employment demand.

Organization Staff Size
Cost-per-hire data were analyzed by organization staff size. Smaller organizations (fewer than 1,000 employees) reported cost-per hire of $3,079, whereas larger organizations (more than 1,000 employees) had a cost-per hire of $4,285, 39% higher than found in small organizations (Table 2). Large organizations also hired an average of 552 employees, as opposed to 48 employees hired by smaller organizations. The increase in cost-per-hire for large organizations is a result of high-volume recruitment activities, which need additional financial investments to source a steady pipeline of quality applicants. Large organizations are also more likely than smaller organizations to be conscious of being a target for legal actions resulting from unfair hiring practices. Hence, they spend more for diversity job fairs and advertisements to attract a diverse workforce and ward off lawsuits. Finally, large organizations may also invest more in creating product awareness and employment brand as a way to attract candidates. Product awareness, reputation and image have been found to increase the number of applicants who apply and accept job offers.[5]

Another hiring metric, time-to-fill, was analyzed by organizational size. Time-to-fill is the number of days it takes to fill a position.[6] Large organizations had a higher average time-to-fill, 43 days, compared with 29 days for small organizations. Because large organizations hire more employees, they typically inject more structure in the interview process in order to manage the large volume of applicants and to ensure consistent and legally defensible hiring practices. Such structure can take the form of additional interviews to make a hiring decision, more signatures required for offer approval, and additional selection testing and background checks—all of which increase time-to-fill.

Table 2. Organization Staff Size

Organization Staff Size	Cost-per-Hire	Time- to-Fill
Fewer than 1,000 employees	$3,079	29 days[7]
1,000 or more employees	$4,285	43 days

Source: 2011-2012 SHRM Benchmarking Database

Assignment of Job Requisitions to Recruiters

Recruiter assignments also affect an organization's cost-per-hire. As illustrated in Table 3, recruiters who were assigned positions by job function, which meant they mainly filled openings for similar positions, had lower recruitment costs than recruiters who staffed a diverse set of positions within a business unit ($2,958 and $3,939, respectively). In addition, recruiters who staffed similar openings also had lower time-to-fill (28 days) than did recruiters who were assigned positions by business unit (39 days). This suggests that organizations can increase their staffing effectiveness by having recruiters focus on staffing similar positions. When recruiters focus primarily on staffing similar positions, they become more skilled at assessing technical talent and can dismiss unqualified candidates before the interview, saving managers' time. Recruiters can quickly increase their candidate pool because they have the time to locate niche recruiting sources that uncover passive candidates. Finally, recruiters who staff for similar openings can more readily deploy a candidate who was rejected for one position to another position more suited to his or her experience.

Table 3. Recruiter Assignment of Job Requisitions

Recruiter Assignment of Job Requisitions	Cost-per-Hire	Time- to-Fill
By job specialty or function	$2,958	28 days[8]
By business unit	$3,939	39 days

Source: 2011-2012 SHRM Benchmarking Database

Conclusion

The cost-per-hire metric is a favorite among HR professionals because it helps link their recruitment efforts to cost savings for the company. There are a number of factors that have been found to influence cost-per-hire, such as industry, organization size and recruiter assignments. These factors also influence time-to-fill measures.

Most organizations strive to create reliable and efficient recruiting engines to compete for talent. One way to increase efficiency would be to have recruiters staff similar openings and thereby lower recruitment costs and time-to-fill measures. This structure allows recruiters to become more adept at screening talent, so managers do not waste time interviewing unqualified candidates.

Additional research on time-to-fill and cost-per-hire is warranted, including a review of best strategies that optimize a firm's profitability by increasing an organization's cost-per-hire in order to lower time-to-fill measures.

Methodology

The 2011 SHRM Human Capital Benchmarking Study was conducted in order to collect metrics about human capital across various industries. The study collected data on human capital metrics such as succession planning, turnover, cost-per-hire, time-to-fill, and salary increases. In addition, organizational data, such as employee size and geographic region were obtained. Data were collected for 2010, along with expectations for hiring and revenue change in 2011.The survey was created by SHRM's Strategic Research Program and was reviewed by the SHRM Human Capital Measurement/HR Metrics Expertise Panel. The Panel is made up of U.S. and international SHRM members who are experts in the field of human capital measurement.

SHRM members who were HR managers, assistant or associate directors, directors, assistant or associate vice presidents, vice presidents, or presidents were included in the sample. The members had to meet the following criteria: have a valid e-mail address and business phone number, have not been selected to participate in a survey with SHRM in the past three months, and be residents of the United States.

This article was prepared by John Dooney, manager of Strategic Research at SHRM.

Endnotes
[1] Datta, D., et al. (2006). *HRM and firm productivity: Does industry matter?* Ithaca: NY: Center for Advanced Human Resources.
[2] Society for Human Resource Management. (2011). SHRM 2011-2012 Human Capital Benchmarking Report. Alexandria, VA: SHRM.
[3] Society for Human Resource Management. (2011). Benchmarking database [unpublished data].
[4] Society for Human Resource Management. (2007). *Symposium on Human Capital Analytics.* Alexandria, VA: SHRM.
[5] Collins, C. (2006). *The interactive effects of recruitment practices and product awareness on job seekers' employer knowledge and application behaviors.* Ithaca, NY: Center for Advanced Human Resources.
[6] Time-to-fill represents the number of days from when the job requisition was opened until the offer was accepted by the candidate. This number is calculated by using calendar days, including weekends and holidays.
[7] Significant at the .01 level
[8] Significant at the .01 level.