

THE METRICS STANDARD

Establishing Standards for Core Human Capital Measures

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NEW HIRE FAILURE FACTOR

Application	This measure will be most useful for organizations that are focused on the effectiveness of the recruiting function in hiring employees who will not terminate within a very short time frame.
Description	Terminations of low-tenure employees as a percentage of total hires during the reporting period.
Formula	$\text{Terminations.Short Tenure} / \text{External Hires} * 100$

Interpretation New Hire Failure Factor represents one perspective on turnover levels within new external hire populations. As an alternative to viewing termination rates within various tenure levels, New Hire Failure Factor instead compares “short tenure” terminations to the number of external hires made within the period.

The turnover of a very short tenured employee may be due to any number of factors, such as poor organizational fit, poor understanding of the position, poor onboarding, or inadequate qualifications to perform the job duties. While some of these factors manifest themselves post-hire, many of these factors are seen as at least somewhat controllable within the recruiting process. For example, while it may be the employee’s own misunderstanding of the position that caused a termination, an organization might determine that the recruiting process did not properly describe the position for the applicant. In this way, New Hire Failure Factor can be used as an indication of recruiting effectiveness.

A similar, commonly used metric is Termination Rate—< 1-Year Tenure, and many variations on this metric are possible. While termination rates compare short tenure terminations to average headcount, New Hire Failure Factor compares them to hires made during the period.

Data Sourcing Organizations may calculate tenure using a hire date, though many calculate tenure using an adjusted hire date that may include tenure from previous periods of employment with the organization. For this measure, however, tenure of current employment is preferable to adjusted service tenure. Organizations typically source hire and termination data from job tables within an HRIS.

This measure requires the organization to define “short tenure.” Employers implementing this and other measures may think of short tenure as a tenure level at which employee contributions have not exceeded the organization’s investment in hiring and training. Most organizations define short tenure as either 30 days for non-exempt and 90 days for exempt employees, or 90 days for non-exempt and six months for exempt employees. Other permutations may be used based on the organization’s own context.

Considerations

Analysis	Limitations
<p>Organizations may analyze New Hire Failure Factor by a large number of subgroups and characteristics to identify high- or low-result pockets within the organization and further investigate recruiting and onboarding process gaps. Common dimensions used for such analysis include age, job family, job function, organizational unit, employment level, ethnic background, and gender.</p>	<p>One important limitation of New Hire Failure Factor is that from time period to time period the terminations considered in this measure may not be part of the same group of hires considered by the measure. In other words, the numerator and denominator of this measure are not perfectly temporally matched. Also, there is no easy way to perfectly differentiate terminations that represent failures in the recruitment process versus failures in onboarding or other factors controlled more by the management of the organizational unit rather than the recruiting process. Lastly, this measure does not, without further analysis, distinguish among the various reasons employees terminate.</p>

Targets Because New Hire Failure Factor represents organizational costs of turnover and, to some extent, a failure in the recruiting process, most organizations will target moving New Hire Failure Factor results toward the 25th percentile or lower within a relevant benchmark group. Certainly, organizations might have higher targets if they expect temporary fluctuations (e.g., reorganizations) or if they are working from a very high result gradually to a lower level over a period of years.

Variations	Related Measures
<ul style="list-style-type: none"> • New Hire Failure Factor—Exempt • New Hire Failure Factor—Involuntary • New Hire Failure Factor—Managers • New Hire Failure Factor—Minority • New Hire Failure Factor—Non-Exempt • New Hire Failure Factor—Voluntary 	<ul style="list-style-type: none"> • Average Interviews per Hire • Average Termination Value • Employee Retention Index • Interviewee Offer Rate • Market Compensation Ratio • Market Opportunity Index • New Hire Performance Satisfaction • New Hire Satisfaction with Recruiting • New Hire Turnover Contribution • Offer Acceptance Rate • Organization Tenure Staffing Breakdown • Recruitment Cost per Hire • Termination Rate—< 1-Year Tenure (variation) • Turnover Cost Rate—< 1-Year Tenure

Source: CLC Metrics research.