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Calculating the cost-per-hire for new employees

The amount of money an organization spends to fill one position is known as cost-per-hire. It helps a company forcast expenditures in the human resources department. There are several different ways to calculate cost-per-hire.

The Cluff-EMA Formula

Gary Cluff of the Employment Management Association (EMA) developed a formula based on five categories: internal costs, external costs, company visit expenses, direct fees, and supplemental data collection.

Internal costs are costs associated with in-house recruitment staff and external costs are fees associated with external recruiters and consultants. Company visit expenses include the cost of interviewing, reference checks, employment testing, and travel costs associated with inviting recruits to visit the company. Direct fees include advertising costs, job fairs, agency search fees, and college recruiting. Supplemental data collection covers costs associated with collecting data to determine the effectiveness of the recruitment program.

The sum of all the costs to fill one position that are associated with the five categories is the cost-per-hire.

The Saratoga Model

The Saratoga Institute's formula focuses on the external costs of recruitment and selection. To follow the Saratoga Model, sum up the cost of advertising, agency costs, relocation costs, and recruiter costs for one position. Then add 10 percent to the sum of the external costs to cover any internal costs. This figure is divided by the number of hires made to determine the cost-per-hire.

The NACE Formula

The National Association of Colleges and Employers' (NACE) formula is designed to determine costs associated with college recruiting. There are calculations for six different cost categories under NACE's formula. The first category is the cost associated with the college recruitment office and the second category is the cost for pre-recruiting activities. The third category is the cost of recruiting trips for recruiters. The fourth category is the cost for candidates' visits. The last two categories are hiring and relocation costs, and the cost for advertising. This formula is not applicable to public sector organizations that do not emphasize college recruiting.

Staffing Supply-Chain Measurement

This approach comes from the work of Boudreau and Ramstad at the Center for Advanced Human Resource Studies at Cornell University. It focuses on the dollar value, as well as the fit between the recruitment program and the overall HR strategy.

The first stage is to identify the staffing processes for evaluation. According to this model, there are six major steps in staffing: planning, recruiting, screening, selecting, offering and on-boarding.

The second stage is to define the desired outcome of each step of the staffing cycle. There are seven measurable outcomes to consider: the cost of activities, time of activities, volume and yield, diversity, customer satisfaction, quality attributes of the talent, and the value of impact of the talent to contribute to the organization.

Volume and yield considers the total number of applicants, number of offers made, and number of offers

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Calculating the cost-per-hire (continued)

accepted. Diversity assesses how well the organization complies with regulations set forth by the Equal Employment Opportunity Commission. Customer satisfaction refers to how the recruitment program is received by applicants and hiring managers.

Which Formula Should I Use?

The EMA formula, Saratoga Model and NACE formula give a monetary estimate of cost-per-hire and the staffing chain model gives a broader, non-monetary strategy. There is not one best model to follow. The cost-per-hire is merely one factor to consider. The quality of hire is much more important.

Technology has changed recruitment strategy and cost-per-hire projections may become outdated as technolgy further changes the staffing process.

For more information, contact CTSI at 303-861-0507.