

# HURCONOMICS: METRICS FOR THE TALENT PIPELINE

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## Introduction

**Jim Collins** has famously said, *“People are not your most important asset. The right people are.”*

Talent management is an indispensable component of human resources. As a system it refers to the process of recruitment, development and retention of human capital and rests on the pillar of human resource planning that ensures the availability of right talents for the organization. In order to link the human resource activities with the organizational goals, workforce planning is a must because it helps in bridging the gap between the current and the required human resource. Managing talent is as important as that of managing finance in an organization. On the other hand, during lean economic times, attraction and retention of employees in an organization are enormously difficult.

Every company makes sure that it secures the best talent and hence the veritable race among recruiters to grab the best of the available lot. Talent management process, however, is incomplete without the development and retention of talent. Talent development for its part is a two dimensional process in the sense that it is beneficial for the company as well as for the employees. The importance of talent management can be well understood from the simple fact that companies incur as much as one –third of their costs for workforce management. To have an efficient talent management system companies should focus on the human resource metrics.

## Recruitment Metrics

Metrics can be defined as the standard measure to assess performance in a particular area. The major focus of metrics is to bring about continuous improvement

in the management system. In the business arena, metrics occupy a key position in determining the different management functions such as planning, organizing, staffing and directing. With respect to talent management, a new concept of human resource metrics, hurconomics (coined by T.V. Rao) has drawn some scholarly attention. It signifies that human resource metrics should be so employed as to foster a decision-making process that will in turn aid in reaping the benefits of increased organizational effectiveness. Hurconomics postulates that, it is also crucial to determine the objectives of measurement. According to Prosci, the world's largest provider of change management products and training, the metrics should follow the SMART acronym denoting the following objectives:

1. **Specific**- Target oriented
2. **Measurable** –Data Analysis
3. **Actionable** –Easy to understand
4. **Relevant**-Measure that are meaningful
5. **Timely** –Get the data when required

Recruitment is derived from the French word “*recrue*” that means to grow again. Recruitment has two phases, one is searching for the potential candidates who will be suitable for the job and the second is enticing them to apply for the job. The basic job of the recruiter is not only to fill the positions in an organisation but also to retain the talents.

Recruitment is not a one time job but is a continuous process. The human resource manager has to focus on creating a pool of talents with a futuristic view. Right measurements are required for recruiting the right candidates. Now the recruitment metrics determine the effectiveness and value of the recruitment process. It is the measurement of cost incurred and the expected outcomes in terms of money value. The renowned talent acquisition practitioner, Lowisz (2008) has said that metrics should be action oriented, predictive and tracked so as to generate benchmarks. The quantitative aspects of recruitment like time and cost and the qualitative attributes like efficiency, productivity are all to be included in the

measurement system. The metrics should not be considered as a separate category, but most human resource achievements are to be combined with the business results for their effective pursuit.

Human resource managers spend most of the time on recruitment and administration which implies the importance of working out cost –to–time metrics. Time-to-fill is related to the positions that are unfilled but does not include the long term turnover costs. Cost-per-hire and time-to-fill are the two major concepts that are used in metrics. The cost-per-hire takes into account the initial cost incurred while hiring a candidate.

According to T.V.Rao (2011) employers should focus on measuring the intellectual capital of the employees that comes under the intangible assets of an organization. In addition to it he emphasizes that the market value of the companies rests on the intellectual capital. The cost to the company (CTC) consisting of the total expenditure incurred by the company is germane to both the employer and employee point of view. Accordingly, the salaries, incentives, dearness allowance, house rent allowance, city and transport allowance are computed for calculating the cost to the company (CTC;  $X=X_1+X_2+X_3$ ).

‘Hunits’ which is T.V. Rao’s coinage for the metrics of human resource inputs by an individual are equivalent to the time (one hour) devoted by a person for an HR activity in the organization/society. CTC per minute calculation establishes the correlation between the time and the output.

The employee with a salary of Rs 1.2 lakh per annum costs 1 Re/min and a manager with an income of Rs 12 lakh per annum costs Rs 600 per hour to the company. The return expected from the employee by the company is known as opportunity cost.

**Flowchart 1. Cost to Time Computation**

*Real Cost of Time per hour = Cost to Company / Time (Number of hours of work/ yr)*

$$R-COT = X/T$$



*Opportunity Cost Factor = Annual Turnover / Annual estimated people costs*

$$(OCF) = (AT) / (APCTC/CTC)$$



*Opportunity cost of time (O-COT) = Real Cost per hour x Opportunity Cost Factor*

$$= R-COT \times OCF$$

Source: Rao, T.V. (2011). *Hurconomics for Talent Management* Pearson Education, South Asia.

As is well-known, hiring metrics like performance/quality of hire abbreviated as QoH have become important in organizations as they increase the quality of hiring and quality of service. The quality of hire can be viewed from different perspectives. One is whether the recruitment process is effective and the other is the quality of the candidate. All of which denotes how well the new candidate meets the performance standards fixed for the job role. The organizations must decide which is the parameter that has to be taken into consideration while using the term 'quality of hire'. In order to fill the talent pipelines, the human resource practitioners have to rely on the best ways of working out the human resource metrics.

Recruiting cost is subdivided into internal and external recruiting costs, bonuses and travel expenses. The internal recruiting costs are the fixed expenses consisting of recruiter compensation and benefits required to maintain the recruitment process. The external cost is the sourcing cost which consists of expenses involved externally in recruiting candidates (promotional costs). Recruiting efficiency measures how effective are the recruiters in doing their jobs. Submittal, interview and offer efficiency are the three types of efficiencies commonly related to recruitment. Submittal efficiency denotes how well the candidates fit the required job profile. According to Feuhne (2006), if the efficiency is found to be 75% the recruiters are said to have done a good job, that is to say, three out of four applied candidates reach the level of interview. Interview efficiency is a measure of the hiring manager's screening process. Offer efficiency is the number of candidates who accept the offers and join the job. Turn-over of new hires gives the data on the number of exits in a given period of time. All these efficiency metrics will be seen as vital tools for monitoring the recruitment quality. Data gathered through them can also be used to devise action plans for creating an efficient recruitment system.

It goes without saying that in order to survive competition, companies need to plan and execute talent management by following strategies like relationship management, empowerment, participation, succession planning, managing change and developing creativity in the workplace. To gain competitive advantage, however, companies should not only plan and execute the talent management strategies such as participation, succession planning, managing change and developing creativity in the workplace but also concentrate on the quantitative aspects of the talent management system. The performance of an organization depends on the talents that are available and the HR department plays a pivotal role in building the right talent pool. Performance management helps in effective use of men, finance and material while the best working atmosphere can tap the full potential of the individuals. Such an arrangement offers the best guarantee for achievement of goals of the organization. Here is the rationale for the cost benefit ratio which is the systematic way of determining if the investment is a sound and feasible one. Bordeau (1990) has highlighted the importance of such cost benefit analysis for human resources in helping make better decisions to overcome uncertainty. For

calculating the cost –benefit ratio for the human capital, the HR practitioners need to maintain inventories in terms of software for data input, processing and output of human resources known collectively as the Human Resource Information System. For an organization to be successful, recruiters need to hire employees who can adapt to changing environment, have a reliable and sound system of metrics and, on the part of the human resource professionals, maintain a repository of talent profiles.

## **Conclusion**

Forecasting the demand for human resource is a must for any organization and human resource planning forms the basis for HR forecasting. The proper match between demand and supply can alone help in reducing talent shortage. Recruiting employees with the correct skills can add value to a business. Companies should focus on a varying mix of recruitment sources rather than depending on the same sources. The right balance of quality, cost, time and employee satisfaction are the measurements that are required for recruiting the right candidates. The measures should act as a driving force for the company to achieve its strategic objectives.

It has become a dire need for organizations to calculate the return on investment (ROI) during recruitment as a huge amount of money, time and resources are involved in the process. Dismissal of a new recruit quickly is not advisable as the recruitment costs will already have been incurred. The selection of a wrong person can be expensive as there is wastage of productivity besides creating an adverse effect. Rectifying a poor decision can be time consuming and costly. Companies must review the return on investment during and after the recruitment process so that the results could be correlated to the attainment of their strategic objectives. Such a proactive approach can assure realization of reward. It is towards this end that human resource metrics can be a boon to HR professionals if used effectively and efficiently.

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