

COST EFFECTIVE RECRUITING

A typical small to midsized company doesn't have much fat so watching and controlling costs is an everyday part of life. One cost under routine scrutiny is the cost of recruiting. Most of the largest costs of talent acquisition are hidden in variations in new hire performance and management time spent trying to do it yourself. Cost effective recruiting involves attending to these real costs, not just the direct cash outlays. In this article we will help you understand what is driving your cost of recruitment and help answer the question: "Is there a better and cheaper alternative?"

The Biggest Cost: Variation in New Hire Performance

The biggest cost an organization can incur in hiring is getting a poor performer. Hiring a person is not like buying a physical asset (like a PC) because the variability in new hire performance is so much greater. You may calculate that a Dell notebook will have a lower total cost of ownership than an HP notebook or vice versa; but you won't go far wrong with either brand. The same can't be said for hiring. It's easy to go very wrong with a hire and the costs of making a sub-optimal choice dwarf all the other cash costs involved in recruiting.

The obvious wrong hire is the one you fire or who resigns after a couple of months. All the direct and indirect costs of hiring and onboarding have to be incurred a second time to

replace the failed hire. However, the largest cost to your organization is not the obvious failed hire; it's the poor hire that is slow to learn the job, never performs very well, doesn't fit the culture of the company and is certainly not bench strength for the next level up. This type of person will cost your organization money month after month and most likely will become a turnover statistic.

So the CFO's number one question when looking at controlling hiring costs has to be "Are we reliably following the right hiring process to ensure that we are attracting and hiring only top performers?"

The Second Biggest Cost: Wasted Management Time

The second biggest cost for organizations that don't have a specialized recruiting department is the cost of management time. Does the plant manager end up spending a couple of hours crafting a poorly written job placement ad instead of looking at ways to cut defects or improve productivity? Is the sales manager spending the afternoon sorting through 50 unqualified resumes instead of shadowing a rep on a sales call?

Recruiting is time consuming and if your managers are spending time doing work that a specialist could be doing faster and better then that is a waste of an expensive resource. It's not just the cost of a manager's salary that is

of concern; it's that they are distracted from leading their department, being productive and adding value.

The CFO's second question is "Do we have the right people working with the right hiring process to ensure that we are attracting and hiring only top performers?"

The Final Set of Costs – Direct Cash Outlays

The direct cash costs of recruiting are highly visible and are mainly sourcing related (e.g. the newspaper ad, the job board ad, the cost to attend a



job fair) or agency fees (if you use a search firm). From an accounting point of view what is nice about these costs is that they are easy to track but they are difficult to define in terms of receiving value for money spent. Value here should be defined by a great quality of candidate response not a great quantity of responses. Would you rather attract five candidates with the skills, knowledge and behaviors to be a top performer than 50 candidates who are far from

qualified? Time spent implementing a poor process to attract poor quality is a wasteful and costly burden on your recruiting staff and is unproductive.

The risk is that in trying to reduce these visible costs, organizations inflate the less visible costs. If cutting back on sourcing or employment agency expenses leads to lower quality of hire, longer time to hire or more management time spent on recruiting then it is a false saving.

The Argument for Outsourcing and Agencies

As we've discussed, if you look at the income statement you won't see the two biggest costs involved in recruiting (poor quality of hire and the time your managers spend running an inefficient recruiting process); what you may see is the cost of using a recruitment process outsourcer (RPO) or employment search agency. Is this a cost to be avoided?

The argument for using third party service providers in recruiting is the same as for any other aspect of the business: very often a specialized third party has the expertise, a finely honed process, an investment in technology and the

economies of scale to do the work better, cheaper and faster than you can do in-house. One shouldn't underestimate the value a third party can bring to recruiting. A good search firm is up-to-date on the latest search tools, they have a modern applicant tracking system, and they are well trained in sourcing and selection. In particular, if they really are experts in this area then they have access to passive candidates that your firm just won't have. Passive candidates are people who are not actively looking for a job but can be lured to the right opportunity. Professional recruiters invest a lot of time in building a network of high quality passive candidates, something very few organizations can do in-house.

If a third party can deliver top quality candidates then chances are they are saving you a lot of money not costing you a lot of money.

What About Your HR Department?

As soon as we talk about recruitment outsourcing or employment agencies someone will say "Shouldn't our HR person be doing all our recruitment?" The quick answer is "No, maybe not". Let's understand why.

If you talk to full-time recruiters working in a Fortune 100 company they'll take pains to explain why their job isn't anything like HR. A good recruiter has a singular, aggressive, sales like approach quite removed from the multi-disciplinary process oriented style of a great HR professional.

If your organization has a single HR generalist then they will certainly know something about recruiting, but they won't be an expert. It's also unlikely that they've been allocated sufficient time to do a thorough job of sourcing and selecting candidates. Depending on your needs an HR generalist may be able to handle most duties effectively, but for many companies it's asking too much for them to create and implement an effective recruitment process. Drawing upon the expertise and resources of outside service providers can assist to fill in the gaps in the process and produce better results. This is a far better option compared to making a bad hire and compromising your productivity, performance and profitability.

What to Do?

Recruiting is a tough area for CFO's to tackle because the most visible and easily calculable costs are not the most

