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## *Critical openings are exactly that*

### **IN TODAY'S MARKETPLACE, ORGANIZATIONS NEED EVERY OUNCE OF COMPETITIVE ADVANTAGE – INCLUDING THE VERY BEST PEOPLE**

**N**O ONE WE KNOW is hiring for the fun of it these days. McKinsey's latest global economic and hiring outlook finds hiring expectations to have cooled in the past six months, with more top executives around the world expecting their workforces to stand pat than to increase. The percentage of respondents expecting their workforces to decrease has grown as well.

This, however, is not to imply that hiring will grind to a halt.

Positions open up all the time for a variety of well-known reasons – ranging from involuntary terminations to voluntary departures and retirement. Not every one of those positions needs to be filled today, or perhaps ever; it's conceivable, for example, that the Accounts Payable Department can make do with fewer clerks. But when a key team, department or division loses a major player, that vacancy cannot go unfilled without important consequences.

In addition, new positions get created to take advantage of new products and markets and/or to respond to new imperatives. The current economy, for instance, is depressing mall traffic – but consumers continue to troll online, seeking bargains. The retailer without a top expert in new-media marketing is losing a crucial sales opportunity, not to mention building relationships with an entirely new breed of consumers.

For all those reasons, few companies today are implementing hiring freezes, and even fewer mean it. Clearly, every hiring decision should receive careful scrutiny, but critical position openings are exactly that: critical to the organization's contin-

ued well-being and growth. The problem in many human resources operations is that corporate management seems to want champagne talent on the proverbial beer budget.

As a result, HR departments are awash in e-mails from India and elsewhere offering to present several dozen candidates overnight for the flat fee of \$6,000 if one of them is hired – that sum of money going further in lesser-developed nations than in more developed ones. Meanwhile, discount recruiters of less-distant locations offer to trim their fees from traditional percentage rates, while third-party vendor management firms offer to relieve Human Resources of negotiating with recruiters at all. Unfortunately, the truism that “you get what you pay for” continues to hold true.

Conversely, very large employers may have spent serious money on sophisticated enterprise software designed to track and store a wide variety of applicant data, yet such programs aren't much good at flagging leadership ability or at evaluating the relative proficiency of job candidates with identical skill sets. Worse yet, they are limited to those individuals who have come in contact with the corporation, while missing all the “passive” candidates who are not actively seeking new employment.

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#### **The Cost of Making a Bad Hire**

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**T**O BE PERFECTLY BLUNT, all the measures above are designed to achieve one objective: eliminating or reducing the recruiting fee. Few object to the job that professional search consultants do in finding hidden treasure; the rub is having to pay for their services.

When discount research and do-it-yourself recruiting turn up Ms. or Mr. Right, the holders of the corporation's purse strings may in fact have saved a search firm's fee. But what percentage of the true cost of hiring was actually saved? And what if a bad hiring decision was made: how much did that cost?

There have been various studies done of the cost of hiring, and most come in at roughly three times the individual's starting salary. Imprecise as that figure may be, it does reflect a surprising number of direct and indirect costs.

**Direct costs** include:

- The hourly salaries of those involved in deciding to create or fill a position, preparing and reviewing the job description, determining the best means of recruitment, reviewing résumés and candidate submissions, conducting telephone screens and face-to-face interviews, deciding to hire or not to hire, providing orientation and training, etc.
- Background investigations and reference checks.
- Travel, meals and accommodations for all interviewees.
- The compensation package (including salary, signing bonus, benefits, relocation expenses, memberships and other perks, etc.).
- Legal review of the offer letter and any employment contract.
- The placement fee, if any, and related out-of-pocket expenses.

The final bill rises in direct proportion to the number of candidates who need to be identified, screened, interviewed and offered jobs. In other words, inefficiency carries a big price tag.

**Indirect costs** are more difficult to quantify but are significantly more important. They include:

- Lost revenues and savings (sometimes referred to as "opportunity costs") for every day the position remains open. (Higher-level positions have greater opportunity costs and typically take longer to fill.)
- Lost productivity and morale as other employees try to "cover" the open position.
- Lost productivity from time spent interviewing candidates for the position.
- Project slippage and other unintended consequences.

Here again, inefficiency costs money.

Worse yet, if an inefficient hiring process ends up putting the wrong person in the job – who either quits or is fired – then the cost cycle begins anew.

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## **Might Professional Search Reduce the Cost of Hiring?**

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**P**ROFESSIONAL SEARCH CONSULTANTS generally bill an employer a fee based upon a percentage of the successful candidate's first-year compensation package -- typically a third or less, depending on a range of variables.

That fee may seem large in the absolute, but it is a small portion of all the direct and indirect hiring costs. For that fee, the employer receives a number of valuable benefits, including:

- Elimination of all the "grunt work" involved in identifying and attracting qualified candidates.
- Access to passive candidates who are not actively seeking employment.
- Much greater efficiency, since talent acquisition is the search consultant's only business – not a sideline.
- Knowledge of the employment market and what it takes to attract the best people.
- The ability to represent the employer in a highly confidential and professional manner.
- The skill to resolve last-minute differences between what the employer wants to offer and what the preferred candidate hopes to receive.

Thus, the search consultant and his or her firm are able to save time, produce superior candidates and save the employer money.

With the worldwide economy in precarious shape, competitors in the global market need every ounce of advantage they can muster. In the staffing arena, that means reducing non-essential jobs while making sure that critical positions are filled with highly skilled, energetic leaders – those individuals who can make a genuine difference in organizational performance.

—George Snider

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