Shadowmatch®

RETURN ON EMPLOYMENT

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Return on Employment

Introduction

In most companies, the return on the cost of employment is never discussed. In some instances, finance has never even presented senior executives with a return on employment index. This is a challenge because salaries are (in most companies) the single highest expense item on their financial expense list. When the business faces difficult times, and they have to cut costs, they normally start with a 'headcount freeze'. This is an instruction not to appoint any new employees unless it is business critical. It is during this phase that employees become uncertain and they hunt for new jobs. Who gets a new job first? The ones who are best qualified and most skilled. This is, in many instances, a direct financial loss to the business and in most instances, the losses are not calculated.

What must be calculated?

The first calculation is to determine what the return on employment index is when an employee who has resigned, has to be replaced. It is a challenging task and the fact that finance departments are reluctant to do it, is to be understood. To be precise, the investment the business has to make to fill the vacancy must be calculated against the income generated by the new employee in order to determine how long it takes to reach the break-even point and the financial returns are more than the investment.

An abbreviated overview of the calculation.

The following information must be available as a minimum. The purpose of this publication is to outline the broad method, not the detail and algorithms used to determine all the cost components.

Calculate the investment necessary to get the new employee fully competent (all calculations are for the first year of employment):

1. Cost to write a job specification.
2. Cost to write the job advertisement.
3. Cost of advertising the vacancy.
4. Cost of screening applications.
5. Cost to conduct interviews (if internal employees do this, calculate the cost of their time against their salaries, as the minimum).
6. Cost of psychometric assessments, back-ground checks and qualification verification.
7. The annual cost to company for this position (all benefits included in financial terms).
8. Floor space allocated for this job in monetary terms.
9. All technology provided to the individual to do the job. These include equipment such as computers, furniture, communication services (telephony, internet, virtual meeting equipment, etc.) (Also include the proportional water and electricity cost here).
10. Proportional training facilities costs for the training that will be necessary.

11. Proportional allocation of full cost to company of training staff necessary to get the new employee fully trained and competent.
12. 10% of the cost to company of every employee with which the new recruit will engage every day. This is to take into account the losses as a result of new employee dependency. (For Information System Developers, it could be as high as 25%).
13. Cost of travel and parking provided to the new employee.
14. If applicable, the cost of clothing (uniform).
15. Stationary.
16. Food, or where applicable, the proportional cost of subsidized food.
17. Proportional cost to company of the full management contingency above this new employee in terms of seniority.
18. The proportional cost for shared services such as security, human resources, cleaning services and employee entertainment and functions.
19. All bonuses paid to the employee in whatever form it might be.
20. All compulsory costs incurred for employing people such as workplace safety insurance, employee danger exposure insurance, etc.

Profit Contribution Calculation

Calculate the proportional direct financial contribution of this job to the annual profit of the business for the year following the year of employment. For some jobs this is easy, for some it is more challenging. Herewith just a few examples:

1. Sales people: Annual pre-tax profit generated from the sales of this individual.
2. Production people: Proportional portion this employee contributes to total production-based profit.
3. Specialists and professionals such as engineers, pilots, medical doctors, etc.; What can this individual earn in a private practice annually?
4. Support staff: Human resources, cleaning services, security, quality control, marketing, etc.; What will the proportional financial loss be for the business if this job doesn't get done?

For the above, there are standard mathematical algorithms available that can be used to calculate, with a high level of accuracy, what the financial contribution of a specific job is to the profits of a business. Industrial engineers can provide this information.

The last on the list is probably most critical: in terms of time, how many weeks or months does it take a new employee to become fully competent in doing this job without any dependency on anybody in the business and, what is the risk (as a percentage) of a new employee to resign within the first year? This answer must be processed as a cost attached to risk and production-slack (production-slack happens during the time a new employee is not fully productive in the job).

Once all of the above information is available, someone with relative good mathematical skills can run the numbers and determine exactly how long it will take, from the date of employment to the date of break-even. In some companies and in relation to some jobs, the return on investment date never materializes.

Conclusion

The return on employment index of a business is a function of recruitment. It is not the purpose of this paper to explain the complexities that culminate in the success or failure of a recruitment process. The Shadowmatch team has, during the research phase as well as the first five years of the product being live, followed successful recruitment and return on employment cost indexes with many different clients. It has also been done in collaboration with the team who developed a system that analyses the functional and sustainable design of a business. The results were used to build and refine a calculator that is conservative, maybe a bit generic, but surprisingly accurate. The calculator was challenged by one of the global audit companies, vetted and found to be accurate within 10% of real figures for most jobs.

Shadowmatch has been developed to change the way companies recruit and develop their people to maximize their return on employment cost. The uniqueness of the system, and the completeness of its capabilities, makes it the one system that enables success in the workplace. We are proud of the fact that, to date (2018), nobody could find a system as comprehensive and as robust as Shadowmatch. Specifically, with the aim of an improved return on investment index.

This paper was authored by Pieter de Villiers, Founder and Author of Shadowmatch. It was first published for training purposes in 2004. It has been reworked during 2018 with the aim to update the Return on Investment Calculator. The same principles will be applicable and it is now published as support reading for users of the Return on Investment Calculator currently available on the Shadowmatch.com website.

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