

Calculating Recruiting Process ROI

INFORMATION AND TOOLS TO HELP YOU BETTER UNDERSTAND AND CALCULATE THE COSTS OF RECRUITING, AND HOW TECHNOLOGY CAN IMPACT RESULTS

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Executive Overview—What your Customers Worry About!

“Most [internal] recruiting departments currently get by with a minimal use of metrics—and the metrics that they do utilize are insignificant from the strategic standpoint.”

— Dr. John Sullivan

The Future of Recruiting, Part 5, Metrics Dominate Decision Making in Recruiting, May 24, 2004, eredaily.com

Human capital management has emerged as a core competitive advantage to any and all businesses. Optimizing the recruiting process—the ability to attract, recruit, hire and retain top employee talent—has become a fundamental strategy for industry leaders. The Human Resource (HR) technology investments and the annual recruiting budgets these firms allocate towards the recruiting process, and ultimately, the management of their human assets, continues to differentiate them in their respective industries.

The evolution of various HR-centric technologies continues to be a key driver in allowing such organizations to create the recruiting processes and programs necessary to accelerate and better measure their human capital performance, as well as the performance of the vendors they work with. With the ability to understand and measure the effectiveness of recruiting programs over the life-time of individual employees, organizations can adapt, change and optimize these programs, and thus improve the overall performance of their business.

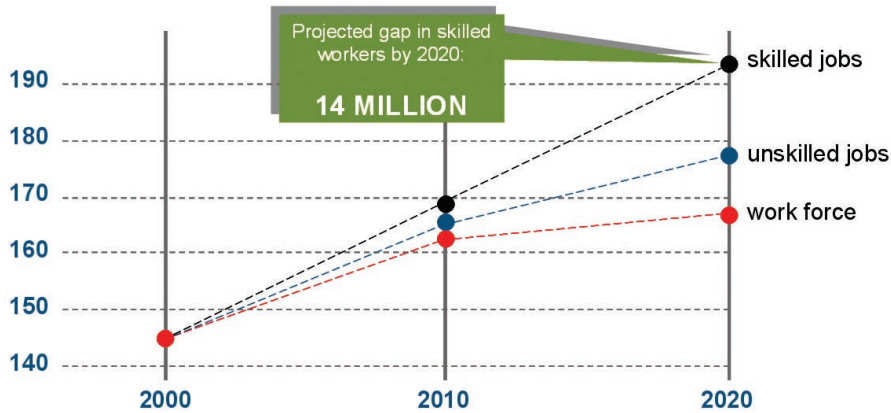
Investments at each key point of the hiring process aid organizations in achieving their business goals. In order to optimize performance, organizations must carefully evaluate the effectiveness and Return on Investment (ROI) of everything in the process.

This paper will focus on how recruiting and staffing firms can evaluate the ROI of recruiting process and how the implementation of various technologies throughout the recruiting process can positively impact the ROI of the overall service they provide to their clients. Topics that will be specifically addressed include:

1. The Importance of Effective Recruiting
2. The Recruiting Process and its Bottlenecks
3. Stigmas associated with HR Technology
4. The Importance of Getting into the Boardroom
5. Recruiting Process Elements to Monitor and Track
6. Best Practices in Evaluating Current Processes, Tools and ROI
7. HireDesk Deployed Core Technologies
8. A recruiting process ROI checklist (see Appendix A)

Importance of Effective Recruiting

Over the next 15 years, a dramatic short fall in the availability of both skilled and non-skilled labor relative to requirements is expected to occur. The graphic below indicates this workforce deficit could top 14 million employees by 2020.



Sources: David Ellwood/Aspen Institute's Domestic Strategy Group; Anthony P. Carnevale and Donna M. Desrochers, Educational Testing Service.

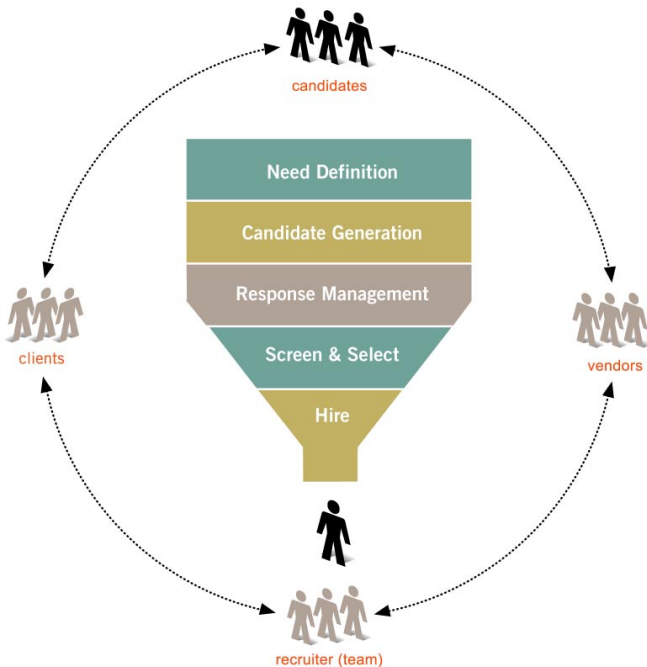
The impacts of this trend on businesses today are numerous and include:

1. The use of ineffective technology can prevent, stall or slow the recruitment of top quality candidates having a crushing effect on firms not able to effectively manage a candidate pool of top people.
2. Recruiters may rush to present the wrong people and as such, lower client satisfaction with poor quality
3. By retaining sub-standard contractors / candidates recruitment firms may be doing irreparable damage to their business weakening their position in the market.
4. Firms lose competitive positioning due to their inability to maintain a top quality candidate's pool.
5. Access to top quality candidates is limited to organizations who have a top brand presence, leading technology and great job opportunities.
6. Access to high performing recruiters to manage these critical relationships will dry out as the challenges mount for firms that do not solve the problem.

In sum, all of these impacts lead to losses affecting the top and bottom line.

Recruiting Process and Bottlenecks

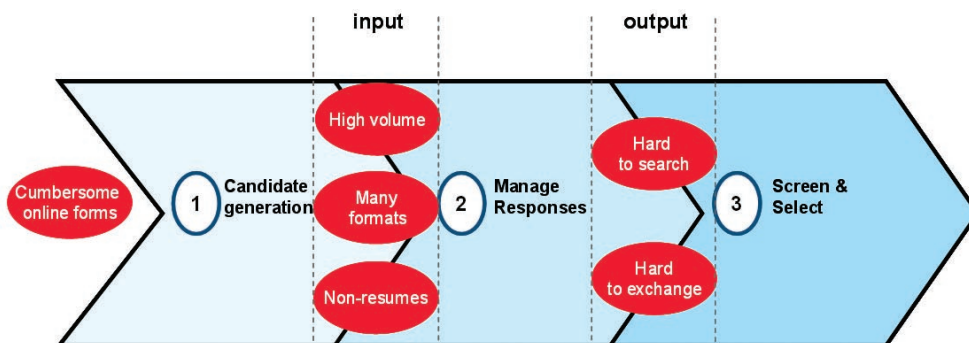
The recruiting process is defined as the process by which an organization identifies creates and defines a position and then identifies the candidates appropriate for a given job description and moves them through a process by which they are selected for the job or not. These steps are indicated in the graphic below.



1. **Need Definition** – The definition of a role, job description, qualifications, experience and other key attributes desired by an employer
2. **Candidate Generation** – The ability to bring enough of the right candidates to the table that meet the criteria for a specific job description.
3. **Response Management** – Correctly communicate with candidates and ensure the seamless progression of candidates to the next step or out of the process.
4. **Screen and Select** – The ability to identify quality candidates quickly, interview or screen them efficiently against the requirements, and then selecting the appropriate candidate(s) to a short-list.
5. **Hire** – The final step in the process where an employee negotiates and signs an employment agreement.

FRONT END RECRUITING PROCESS

As indicated in the graphic below, the recruiting process covers the first three steps in the overall process. The problem areas in these three steps are indicated by the terms highlighted in red below. Each represents an area in the process where the Return on Investment (ROI) associated with the technology selected to assist in these steps can be adversely affected.



The issues and their impact on ROI are discussed in the table below:

ISSUE	DEFINITION	IMPACT ON ROI
1. Cumbersome Online Forms	<ul style="list-style-type: none"> • Use of forms for job applications. • Do not allow upload of resumes. 	<ul style="list-style-type: none"> • Long application processes cause candidate drop-off. • Passive candidates opt-out immediately.
2. Large Resume Volumes	<ul style="list-style-type: none"> • Too many resumes to process effectively or efficiently. 	<ul style="list-style-type: none"> • Costs of inputting data. • Miss quality candidates. • Separate pools of candidates not included in database. • Wasted consultant time on reviewing low quality applicants.
3. Many Formats	<ul style="list-style-type: none"> • How to process electronic resumes in multiple formats? 	<ul style="list-style-type: none"> • Inability to do so causes candidate frustration and loss of quality data. • Can cripple industry segments such as graphic design and finance.
4. Managing Paper/Fax based resumes and applications	<ul style="list-style-type: none"> • How to process paper and fax resumes cost effectively? 	<ul style="list-style-type: none"> • Inability to do so causes candidate frustration and loss of quality data. • Costs of inputting data. • Miss quality candidates.
5. Difficult To Search	<ul style="list-style-type: none"> • Is data entered in a common database format (structured) that allows easy searching and matching? 	<ul style="list-style-type: none"> • Slow search causes loss of target candidates. • Missed candidates.
6. Difficult to Exchange Candidate Data	<ul style="list-style-type: none"> • Data is not easily exchanged between applications and cannot be quickly accessed. 	<ul style="list-style-type: none"> • Lost data and candidates. • Low desire to review all high quality candidates.
7. Multiple Hiring Managers	<ul style="list-style-type: none"> • Large numbers of open positions to fill. 	<ul style="list-style-type: none"> • Slow fulfillment. • Lost productivity. • Increased missed opportunity cost.
8. Poor Reporting	<ul style="list-style-type: none"> • Do not have a clear understanding of how well your recruiting process is operating. 	<ul style="list-style-type: none"> • Cannot optimize your processes. • Do not know what issues to address.

Stigmas With ROI and HR Technology

“ROI, TCA, TCO? Many technology companies, especially those that offer complex or expensive solutions, have developed Return on Investment (ROI) tools for their sales organizations. The goal is to provide a way to offer prospects a factual, economic basis for making a purchase decision. Unfortunately, very few companies are able to prove a real impact with this important approach to selling.”

— Crimson Consulting Group, “Why ROI Doesn’t Work.”

This overall stigma manifests itself in several ways including:

1. Vendors do not understand the entire recruiting process and miss critical steps in their analysis and are therefore their application is incomplete.
2. Vendors only provide anecdotal evidence regarding solution performance and have no real data available to support their ROI arguments.
3. The ROI models provided by vendors are theoretical.
4. Vendor models are too complex and take too long to complete.
5. Vendor models do not use real data inputted by a client.
6. Vendor models fail to address the critical business issues of executives in client organizations.

As a result, many client organizations can be leery of the approaches by many technology companies regarding the performance and direct financial impact of their software in application.

In response to this, technology vendors must be proactive and address the above stigmas in an open way using data from a client organization in a simple and logical ROI model.

The Importance of Recruiting Process ROI in The Board Room

As process investments and investments in HR technology become more important to the overall competitiveness of the business, so too does the scrutiny paid by executives to the effectiveness of expenditure in these areas. As a result, Recruitment and Staffing executives must have the ability to monitor and track the effectiveness of the various tools and processes employed at each step of the recruiting process in order to justify their continuance. In addition, these executives must be able to show they are optimizing the ROI at each step in the process, and the impact of technology decisions over the long term. Vendors selling tools, services and products that assist organizations throughout the recruiting process must ensure they are able to justify the investments in their offerings, as well as assist executives in both the understanding and justification. The ROI models must consider not only short term financial impacts, but also longer term qualitative impacts on an organization's top line performance. This is extremely hard to measure, and the results take months to manifest.

Recruiting Process Elements to Monitor and Track

The following are critical issues to monitor, track and continually improve upon as they relate to the recruiting process:

ISSUE	DEFINITION	IMPACT ON ROI
1. Time-To-Hire	The total time it takes to hire an individual from the time the position is posted.	<ul style="list-style-type: none"> • Longer hiring times cause lost productivity and significant opportunity costs, and negative ROI • Competitors may win the contract before your better candidate is even presented.
2. Cost-Per-Hire	This metric relates to the total cost associated with any given position and hire. Costs to be considered are advertising, recruiting, resume processing, candidate identification and screening, candidate interview time, travel costs (if relocation is involved), assessment testing, and hiring administration.	<ul style="list-style-type: none"> • The larger the cost per hire, the larger the negative impact on ROI. • Insufficient use of technology can add significant general and administrative costs to the cost per hire. • On contingent assignments this is even more critical as you are out of pocket for all expenses if you do not get the hire.
3. Quality-Of-Hire	How satisfied an organization is with the individual they have hired and the satisfaction of the individual with the hiring company? This is often evaluated against criteria such as job performance, fit within the organization's culture, teamwork, leadership, and management requirements.	<ul style="list-style-type: none"> • A good hire will enhance the overall performance of an organization, especially if in a leadership position, thus improving ROI. • A poor hire can create multiple issues in an organization and severely impact ROI.
4. Recruit Source Effectiveness	Organizations employ multiple sources for finding candidates. Tracking the number of candidates generated by source relative to their cost is critical in optimizing the recruiting process and ROI of each candidate source.	<ul style="list-style-type: none"> • Use of the most effective sources will improve recruitment process performance and hence, ROI.

Best Practices in Evaluating Current Programs, Tools and ROI

A number of best practices are available for understanding and optimizing the ROI of current recruiting processes and tools. These are presented below.

FRONT END RECRUITING PROCESS

ISSUE	BEST PRACTICES TO IMPROVE RECRUITING PROCESS ROI
1. Cumbersome Online Forms	<ul style="list-style-type: none"> • Implement electronic resume processing to speed online applications. • Standardize resume data extraction to optimize effective data integration, exchange and searching applications. • Do allow upload of resumes—this has to occur in order for data extraction technology to be optimized. • Output data into HR-XML format for easy standardization of data into candidate databases for better searching and matching.
2. Large Resume Volumes	<ul style="list-style-type: none"> • Implement electronic resume processing to speed online applications. • Utilize common data formats and data base schemas to optimize data usage and value. • Too many resumes to process effectively or efficiently through internal resources.
3. Many Formats	<ul style="list-style-type: none"> • Utilize technologies that accept and process multiple resume formats and languages.
4. Paper/Fax based resumes and applications	<ul style="list-style-type: none"> • Use third party paper/fax resume processing services that optimize the relationship between cost/resume and data quality.
5. Talent Pool Difficult To Search	<ul style="list-style-type: none"> • Implement and utilize resume database search technologies that operate quickly, require little experience to use little maintenance and that provide ranked candidate short lists.
6. Difficult to Exchange Candidate Data	<ul style="list-style-type: none"> • Implement technologies that use common data exchange formats such as HR-XML.
7. Multiple Hiring Managers	<ul style="list-style-type: none"> • Leverage a candidate management system that allows for simple and effective communications with hiring managers.
8. Poor Reporting	<ul style="list-style-type: none"> • Utilize a candidate management application that delivers comprehensive reporting on business performance metrics, recruiting effectiveness and recruiter productivity.

BOARD ROOM BUY IN

ISSUE	BEST PRACTICES TO IMPROVE RECRUITING PROCESS ROI
1. Understanding the process	<ul style="list-style-type: none"> • Interview individuals involved in the recruiting process to better understand their entire recruiting process. • Offer models that can be modified to gain a clear picture of overall costs and impacts. • Offer solutions that optimize the process and hence, ROI.
2. Numbers are not believable	<ul style="list-style-type: none"> • Develop before and after studies with customers as part of the justification process. • Use these numbers as part of an aggregate data offering.
3. Tools to help executives sell	<ul style="list-style-type: none"> • Use executive contacts to understand key business issues. • Create and offer logical ROI models that enable clients to enter their own data into and determine the resultant impacts. • Provide models in word processor or spreadsheet format.

BENCHMARK TRACKING AND REPORTING

ISSUE	BEST PRACTICES TO IMPROVE RECRUITING PROCESS ROI
1. Time-To-Hire 2. Cost-Per-Hire 3. Quality-Of-Hire 4. Number of Open Job Orders Outstanding 5. Recruit Source Effectiveness	<ul style="list-style-type: none"> • Determine items critical to business success. • Measure pre/post process or technology implementation. • Compare against industry leading benchmarks • Have vendors work to provide models and tools for collecting and evaluating data. • Report performance regularly as part of standard management reporting package. • Develop programs to address process. deficiencies in individual benchmark areas.

SOFTWARE SOLUTION SELECTION

ISSUE	BEST PRACTICES TO IMPROVE RECRUITING PROCESS ROI
1. How to select a Solution	<ul style="list-style-type: none"> • Vendor must demonstrate competence and expertise. • Vendors must demonstrate a comprehensive understanding of your business issues. • Vendor must have an installed, referenceable customer base. • Vendor offers a logical ROI model and checklist*.

**Please see Appendix A for a ROI Model Checklist.*

HireDesk Solution Overview

HireDesk delivers candidate management solutions designed to optimize your recruiting process ROI through improving quality-of-hire and time-to-hire, and reducing overall cost-to-hire. The following are key aspects of HireDesk's solution:

1. Candidate and activity management

Comprehensive and accessible information on each candidate is critical to the speed with which a job order is completed. Every candidate in your Talent Pool is represented by a "Talent Profile". The profile is a collection of vital information such as job history, skills, education and location. Armed with this easily accessible information, the recruiter is empowered to match the candidate with the right job opportunity.

2. Client Relationship management

In addition to building strong relationships with Talent, creating strong, long-term relationships with hiring managers is equally important. HireDesk provides all the functionality a recruiter needs to track and manage complex relationships with hiring managers. This includes communications, management of multiple open positions for multiple hiring managers, applicant status management including and keeping hiring managers engaged throughout the process.

3. Resume Processing and Storage

The HireDesk solution provides an industry leading resume processing and storage mechanism. All extracted resume data is delivered into the candidate management database, and recruiters can access candidates based on specific skills and experience, save candidate profiles and resumes to specific job requisitions, and save candidate records to established electronic file cabinets created, based on your recruiters' needs. HireDesk accepts resumes submitted in 80 different electronic formats, whether online or via email, as well as hard copy submissions.

4. Resume search

The HireDesk solution and search capability allows you to create an unlimited, searchable Talent Pool. With more information at your finger tips, mining the information becomes more important than ever. HireDesk's advanced, intelligent search capabilities are designed to address the specific business requirements of recruiting professionals. Through a single, easy-to-use interface recruiters can mine the Talent Pool and external data sources for target candidates and key client information.

5. Sources of hires

Source of candidates and hires can be customized and recorded on multiple levels of detail for tracking of your advertising/agency/program effectiveness. Source data can originate from candidate, vendor and/or recruiter. Source can be used as criteria when searching for candidates in the database.

6. Manage employee referral programs

HireDesk recognizes the fact that a successful Employee Referral program can be your greatest source of quality candidates and deliver your best cultural fit for new hires. HireDesk can assist you in enhancing and automating your existing Employee Referral Program, enabling you to expand and manage the program while utilizing your program and employee interest for optimal results.

7. Job posting and requisition

HireDesk automates all aspects of the job posting and requisition process. This helps the recruiter achieve optimal quality-of-hire by effectively managing the Candidate Generation, Response Management, Screening and Selection hiring phases.

It also helps HR define how the team will collaborate to fulfill a job requisition. HireDesk's comprehensive solution provides a cohesive set of data that can be used for reporting of job status, improving candidate communications, and reducing repetitive administrative tasks.

8. Management reporting capabilities

HireDesk Report & Measurement Manager allows HR managers to keep close tabs on the status of their department's hiring responsibilities and results. This feature set allows managers to run a wide variety of reports to see how various aspects of the department are functioning, which strategies are succeeding, which staff members are over- or under-performing, which hiring managers are most active—and other crucial metrics.

Conclusion

The employment/deployment of technologies that allow for the improved tracking and reporting of recruiting process performance against key benchmarks and industry data will allow executives and line managers to make better decisions on how to improve the return on investment for time-to-hire, quality-of-hire and cost-to-hire. As a result, organizations will hire a larger number of more highly skilled and better-suited individuals faster, at less cost, thus enabling them to achieve their desired productivity and performance objectives. The increasing value of advanced human capital management will continue to force organizations to adopt the tools and attention to recruiting process ROI that delivers competitive positioning, advantage and differentiators for on-going success.

About The Authors

Peter Clare

Peter has several years of experience in consulting with organizations on the alignment of technology with business practices focusing on the recruiting industry.

Don Darrah

Don has over 15 years in the human capital management industry with a primary focus on the sourcing, recruiting and staffing functions within this industry. Don has applied his experiences as a recruiter and hiring manager to the development of recruitment best practices used by recruiting and staffing firms as well as by many of the Fortune 500.

Imre Togyi

Imre is a 16 year high-technology sales and marketing executive with experience spanning start-ups through to multi-national and global organizations. He is a long-time user on-line technologies and tools for corporate recruiting and on-going candidate management.

Sources

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3. Crimson Consulting Group, “Why ROI Doesn’t Work?”, White Paper, May, 2005.
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Appendix

The checklist below provides a listing of the data required to complete a financial ROI calculation regarding the effectiveness of your recruiting process. Please contact HireDesk to receive the accompanying Excel tool.

CHECKLIST ITEM	DATA
1. How many employees are in your company?	
2. How many individuals did you place in your last fiscal year?	
3. How many individuals do you intend to place in this fiscal year?	
3. How many individuals do you intend to place in this fiscal year?	
4. How many individuals do you intend to place in the next fiscal year?	
5. How many career fairs does your organization attend annually?	
6. What is the annual expenditure on third-party vendor services such as background checks, DMV, credit checks, pre-screening services, surveys?	
7. If applicable, what is the annual IT cost for your business?	
8. How many resumes are processed annually?	
9. How many applications are processed annually?	
10. How many FTEs are allocated to the processing of resumes and applications?	
11. What is the average, fully-burdened, hourly rate paid to the personnel that process resumes and applications?	
12. How many documents (resumes and applications) can an individual process per day?	
13. What would you say is the approximate percentage of the total resumes received from each of the following sources: <ul style="list-style-type: none"> • Unsolicited? • Recruitment print advertising? (newspapers, magazines, etc.) • Outside staffing firms? • Job Fairs? • Campus recruitment? • Web advertising/posting boards? 	
14. Of the resumes received, what percentage are received: <ul style="list-style-type: none"> • In paper form (this includes fax)? • As web response via an online application? • Via corporate e-mail as an attached file? 	