

# Measuring the ROI on Labour Spend

This piece looks at how Labour is measured in today's procurement circles and is designed to provoke some thought around why the acquisition of Labour is often seen as problematic and how looking at it from a Return on Investment (ROI) perspective may help to effect some positive change. This article is a continuation of the previous one published in the March 2012 edition of Procurement Professional<sup>1</sup>, which confronted the issue of Labour being categorised as an in-direct spend.

The previous article proposed that whilst all Labour spend is traditionally treated as in-direct spend item, it should, depending on the specific operations of the employer and the criticality of a role or the specific skills of the person occupying that role, it should be re-defined as direct and/or critical spend and viewed as strategic spend rather than a transactional cost. This then led me to question the whole spend labelling process, suggesting that in order to make it more robust and outcome focused the labels of critical and non-critical need to be used in conjunction with the standard direct and in-direct terminology.

Having witnessed at close quarters the way in which businesses spend their money on Labour 'their most critical asset' (their words not mine), it has always struck me as incredible that there are no robust or, in most cases, **any** measurables put in place to assess whether the 'critical asset' (a person in this case) that has been acquired actually produces a return on the investment made.

Category Managers and HR professionals do measure **recruitment** performance, but current measurements only represent the transactional/acquisition process and costs of Labour and have nothing to do with the performance of the asset after it has been acquired.

Businesses live and die by the ROI they receive from their assets so understandably finance and procurement departments spend a good deal of time monitoring and measuring the ROI from the assets they have acquired. However, when it comes to Labour the measurements seem to stop at acquisition.

It is inconceivable, for example that Qantas would make a procurement decision of a critical asset such as an aircraft, based purely on the acquisition cost. They would be more concerned with the ongoing and total cost of ownership and what return this asset would deliver to the business, i.e. reliability, fuel economy, payload, maintenance cost, brand enhancement, product lifecycle.

Organisations appear to be stuck in their own myopia, comforting themselves with the fact that they have Labour spend control because their recruitment fees are low (low transaction cost), the supplier panel has been reduced (low admin costs) and risk has been mitigated by checking the supplier's insurances, environmental, diversity and OH&S policies. They also insist that recruiters guarantee the performance of a person they have chosen to hire, whilst in most cases taking no responsibility for the referencing or checking of references themselves. Whereas would you acquire a critical asset based on a reference provided by the supplier of the goods?

With recruitment firms businesses are trying to mitigate all of the hiring risk to the supplier. The suppliers in this case do not actually manufacture the product they provide and have no control over the speed by which the client hires the candidate or what happens to the individual the moment they start work with their new employer.

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<sup>1</sup> Article can be viewed for free in the market report section of [www.jigsawsearch.com](http://www.jigsawsearch.com)

In most cases where procurement influences the control of goods and services, the contract is set with suppliers who either make the product or guarantee a performance and even with other third party agent based services, there is a clear demarcation between the brokering service and the product itself.

For example if you are using a Travel Agent to source a flight, they present the carriers and the costs and you pick one, just as a recruiter (chosen by an employer) presents candidates and the employer chooses one (based usually, as discussed on the transaction cost). However if it was a bad flight we don't blame the agent that booked the flight we blame the carrier, but with Labour it is somehow the fault of the recruiter for the hiring decision the employer made. If the recruiter had chosen who the employer was to hire then that would be different, and a case for the recruiter to be responsible for the risk attributed to the hiring decision would be justified.

If employers want suppliers to take responsibility (rather than punishment) for the quality of the products they are brokering (and I believe they should) then they have to change the relationship they have with their suppliers from adversarial brokers to talent management partners. They need to be measuring the value of the candidate in the role i.e. the Total Cost of Ownership (TCO) and more importantly the ROI as opposed to merely the cost of acquisition.

The fact that businesses are ill-defining Labour can also be seen in the way in which they assume that supplier delivery is commoditised (and therefore can be acquired using the same terms and costs), but view their own Labour needs as being specific to their own unique technical and cultural needs.

In effect businesses are trying to buy a niche product (a person) on a commodity basis and often without any consideration for the current market dynamics. When sourcing any other critical asset, before they go to market a business would assess whether the product they want exists and if so how much of it is available, what the cost is, what is the quality is and who can supply it, but with Labour the assumption that the product they do want does exist, is always available at the price they want to pay and that their chosen supplier can access it!

Labour category strategies in the white collar space fail to measure new appointments as an asset. Too much emphasis is placed on the recruitment transaction price, no attention is placed on measuring how long the hire stays with the business, what they achieve in the role and how they progress (promotional activity). This is how category managers who truly understand the intricacies of Labour (back end costs and front end revenue generation, the key to any business performance) can turn recruitment cost into a tangible profit over the long term.

White collar professionals in critical roles are an asset and need to be financially measured as such. Most assets depreciate over time and people are one of the rare examples where they can appreciate annually through training, experience and learning to manoeuvre through your business politically and culturally leveraging increased skills for further business gains.

The cost of appointment needs to be depreciated or appreciated over the length of employment and business benefits which the employee achieved allocated against the cost of hire and over time demonstrating a profit and a ROI. Other invested costs such as training, repeated hiring for the same role, lack of down stream succession planning etc. could and should also be factored in to Labour performance measurement.

Businesses can not continue to bemoan the quality of the service they are given, when they are setting the measurables for success on transactional activity. Failure to do so leads to an unsophisticated supplier base and leads to more focus on risk management rather than risk eradication all of which are highly prevalent in the Recruitment/Labour industry.

If organisations start treating Labour as a critical asset rather than simply labelling it as one and start to measure the ROI and total cost of ownership of the labour they are procuring, they will in turn pass these key performance indicators back to the recruitment market and start changing the way in which recruiters are assessed and remunerated. This will in time lead to recruitment companies having to change their method of working and ultimately change the service they deliver in line with the new way in which they are being measured. Secondary Heading

Organisations were very much in demand to candidates if they were "strategic" with their outlook on procurement and sufficient buy-in was evident from 'C' level management although in practice very few companies in Melbourne can claim to have such an advanced procurement department with truly high level support so there is still a way to go before a higher percentage of candidates can get their ideal procurement environment. Jigsaw Search are actively targeting 'C'

level stakeholders to advance the number of big picture roles in the region as well as across the wider Asia Pacific region.

22% of interviewed candidates were happy to relocate to other states or internationally which is a symptom of the attractive salaries available in the Resources sector and an increase in local competition for the excellent roles. Excellent meaning top tier or market leading organisations.

Of the interviewed candidates in this period, the young to middle aged contingent were very focused on earning potential and it was interesting to note that a large number of more experienced candidates were willing to be flexible on remuneration for sake of a better lifestyle.

Work/life balance across the board was enormously popular and more organisations seem to be embracing this although Victorians seem by nature to be very hard working.

One very interesting fact was that of the interviewed candidates, some 20% or more named specific organizations they would definitely not want to work for. This trend suggests branding and marketing activities are necessary for some businesses if they are going to attract the top procurement talent. We believe it is necessary to invest in attraction functionally, not just generically to convince procurement talent that it is an employer that values their people. Companies speaking of transformation though then need to deliver on their promises. 95% of customers were in need of CV advice either from a format or content perspective and we feel that applicants in particular could do more to market themselves with respect to their paper based value proposition in this region.

