A Conceptual Study on Cost Optimization for Recruitment in IT/ITES Organizations

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Abstract: This is a conceptual paper to study about the cost incurred in Recruitment, Selection and employment activities. Human Resource is a major for organization to obtain competitive advantage and can be very important in obtaining long term performance.

The limits of the recruitment process are the Cost, the choice made, time and legislation. Any organization looks for minimizing the human resources recruitment, selection and employment costs. This article presents the importance of cost in choosing the best practices of recruitment, selection, employment and integration of new employees in the organization, though, the cost is an important variable for analysis. In this article, the study is monitored in IT/ITES industry who invests more in Recruitment, Selection and employment activities.

And also it presents the costs and their consequences on activities based on Recruitment, Selection and employment.

These activities are related to Ethics, Low performance and results, Manpower planning and by choosing the wrong people and in directly affects the level of qualifications, knowledge and abilities, by growing the absenteeism. The direct and indirect costs of these processes and the direct consequences over the time management

1. Introduction

India is the world largest sourcing destination for the information technology (IT) and information technology enabled services (Its) industry accounting for approximately 67 percent of the US $ 124-130 billion market. India’s cost competitiveness in providing IT services, which is 3-4 times cheaper than the US, continues to the mainstay of its unique selling proposition (USP) in the global sourcing market. However, India is also gaining prominence in terms of intellectual capital with several global IT firms setting up their innovation centres’ in India. The organizations need to hire the most qualified candidates that it can buy at the best price. The organizations should choose candidates in recruitment and selection processes well trained, but now it is very difficult to find a good candidate with desired skills and ability. The efficiency of recruitment is crucial factor for the success of each and every organization.

Recruitment is a process of searching the future candidates and their simulation to apply for the vacancy. Peter Ducker mentioned in 1992 about the nature of recruitment that “any organization is competing for its essential resources: Qualifications and people knowledge should obtain success into global, dynamic and continues changing environment”.

2. Purpose

The purpose of this conceptual paper is to study the various costs incurred in Recruitment, Selection and employment. Personnel recruitment and selection suppose to acquire personnel and organization should fulfil the vacancies. The costs play a vital role in the recruitment process and effective recruitment ensures that the organization will indeed attract the most qualified applicants. Only through attracting alerting staff the organization create a sustainable competitive advantage.

Recruitment and Selection cost will increases with age and experience in speciality. The recruitment program should succeed to serve many goals and to avoid conflict in many situation with the correlation of costs incurred.

3. Objectives

The main objective of this conceptual paper is presenting the importance of the Recruitment and selection costs analyse and to measure them. By knowing those by the HR managers and HR specialists could take better decisions through understanding the impact of these costs that may have over the whole understanding in the organization about its failures and success. The
optimized research area in Recruitment is to obtain for qualified candidates with lesser costs.

If an organization has ten ways to recruit and attract thousands of the candidates, the organization only creates problems. In this case, the area is very high and very high cost in time and resources are involved, and processing is not effective. Another purpose of recruitment is to select professionals who will be persuaded to remain with the organization for a long enough time.

The cost of recruitment is assumed to be directly proportional to firm productivity (Pissaridies C.A., 2000)

The specific objectives of this conceptual paper are to;

- Study if the large organizations use the cost/benefit analysis in choosing Recruitment, Selection, Employment and Integration (RSEI) processes.
- Study if the managers are interested in using benchmark study of these processes.
- Study if they the organizations are choosing RSEI processes, depending upon the costs.

3.1 COST CLASSIFICATION:
The overall cost of human resources includes the acquisition costs and the development and learning costs (Flamholtz E.G., 1999):

The Acquisition costs: Direct costs (recruitment, selection) and indirect costs (employment or promotion from within the organization);

The development and the learning costs: direct costs (formal training, training on - the - job) and indirect costs (the time of trainers, the loss of productivity).

To be able to analyze them, these costs are distributed as (Bonte F., Bustos Y., 2004, Compton R.L et al., 2009):

DIRECT COSTS: Administrative expenses, security costs and expenses, with ads included, wages and fees to recruitment agencies, travel expenses, room rental, acquisition tests, medical examination costs, design costs jobs;

INDIRECT COSTS:

Costs of information time of learning to becoming fit o the job and personal contribution: time and cost of integration of new employs, costs of preparing the job description, personnel specification, time and pay costs of interviewers, the cost of time spent on administrative issues: placement announcements, collecting records, screening applicants, arranging interviews, reference checks, test administration, preparation of employment contracts, registration of new employees for their payment, the cost of low productivity of new employees until they reach the level at which they become effective. Recruitment is an investment whose cost directly or indirectly requires a quality verification results.

Recruitment costs include (Cassidy C., Kreitner R., 2010):

TANGIBLE COSTS:
Advertising (the time and consulting costs, writing, place and printing the ads), screening candidates, interviewing, testing, training, orientation, new employee setup, travel expenses;

INTANGIBLE COSTS:
Costs incurred in new employees for the low productivity, cost of rework for increased errors by the new person, increased supervision to coach the new hire, cost to pay experienced person to take on additional work during vacancy period, lost productivity from stress of team during vacancy period, cost of reduced performance by the person learning, the impact on employee morale.

Another classification of costs is made by Jean-Yves Le Louarn (2008), thus;

The cost on recruitment sources: the cost of advertising (made in magazines, newspapers, and on Internet); the agency’s costs (honorary paid to the agency); the cost of campus recruitment; the cost with the persons that recommend candidates; the costs of associations (subscription to professional associations).

Selection costs:
Choosing the best candidates, detained after pre selection, techniques involved are interviews, assessment centres, medical examinations, reference checks.

Formation costs: It includes the identification and analysis of training needs, designing a training program tailored to the need, put it in practice, evaluating the implementation of the program. Another classification of costs is made depending on time spending:
Costs with time spend by the operational personnel: Superiors of the vacancies, secretaries which establish meetings, colleagues.

Costs of time spend by the HR Personnel: Recruitment specialist, administrative services, medical and social services, payroll specialists, promotion and evaluation specialists;

Costs of time spend by other functional services: Budget control, accountability, organization, planning

THE CONSEQUENCES OF CHOOSING WRONG CANDIDATE:

To avoid these unexpected costs, must not improvise within the recruitment process, because the errors costs much more than money (Sutter P.E.,2007). Recruitment costs analysis has become over time a complex, lengthy and costly process. Recruitment errors have economic impact (only over the organization), social impact (that act on the organization and its image) and psychological impact (acting on candidates by losing confidence in themselves).

The economic impact of an inadequate employment on business in the organization cannot afford an ineffective recruitment method. Once made a mistake in recruitment and employment, the organization will not repeated again, due to the high costs and such a mistake could threaten the entire company’s performance.

Some consequences can be more efficient and expensive:

Time and effort management: The impact on such of recruitment destroys the team efforts, low the competencies level, and the lost time it cannot be recovered (Fourny Ph,2007); The attention accorded to the wrong candidate is bigger than that one for more candidates well – trained; time given to them would be better spent solving other issues; more training is needed for early detection of these people (Price A., 2000).

Productivity will suffer: Better employees will not work in a team with poorly trained staff; position held by them is not available for another better candidate (Price A., 2000).

Creativity will be lower: Mediocre candidates will not have innovative ideas, and if they are managers, they will block other people’s ideas because they do not understand (Price A., 2000).

The Image organization and public relationships: Hiring mediocre candidates will give a picture of weakness for the organization, colleagues and competitors, too, and the candidates with the same training will not be able to run for positions in the same organization (Price A., 2000).

Covering working time: Mediocre employees will have a greater number of absences and delays in solving problems. It requires extra training and staff to fill the absences (Price A., 2000).

Additional costs: It will be additional recruitment costs to replace them, the income will be lower; will increase the number of errors and complaints (Price A., 2000).

Hidden costs: Besides direct costs there are the “hidden costs” such as; losing the credibility of the managers, diminish the efficiency of the team work and of an organization, it will have negative impact over the clients and the organization’s image will suffer (Fourny Ph., 2007); it will increase the costs of discipline, recruitment and training.

Social Conflicts: Hire of a wrong person can lose other good employees, will increase the rate of unemployment, and will lead the organization failure (Fourny Ph., 2007);

A study made by Harvard University shows that 80% of the number of hires is due to the errors during the recruitment process. These mistakes are costly, one and a half of a probation yearly salary up to 10 times the annual salary of a performer; In general, the costs of recruitment are about 20-30% of gross annual salary of a future employee (Bonte F. And Bustos Y., 2004)

The costs of an incorrect selection decision are expected to be between 40% and 60% of the future employee’s annual salary (CCH a Walters, 2009) Besides the obvious costs, must be taken into consideration the hidden costs such as low productivity, business opportunities loss, dissatisfied customers, the continuity of the project, low morale of the employees and market share loss. Recruitment costs depend on the need for recruitment and the budget process. The amount allocated to this process will affect the options and the efficiency of the recruitment methods. for example, the posters and the search of the firm will cost several thousand dollars and there is no guarantee of an attraction of a substantial number of qualified candidates; on the other hand one of the most effective recruitment sources are employee referrals and involves low costs (Arthur D., 2006).The cost of recruitment and selection is easy to calculate if these processes are outsourced. If the organization is opening a store or a branch in
a new city, then you will need a large staff and will appeal to the outsourcing process (Dale M., 2007) to focus on other processes to obtain efficiency.

4. EMPLOYMENT COSTS:

These costs vary depending on the number of existing applications and employment rate, which consists of two broad categories of expenses: Fixed and Variable.

Fixed costs of recruitment are independent of the number of employees, made up for the most part of the administrative structure in charge of recruitment.

Variable costs of recruitment will be depending on the number of applications (if expenses selection: tests, interviews, correspondence) and the number of candidates actually hired.

Average costs of recruitment is given by the ratio of total fixed costs (CF) and variable (CV) and actual number of entries (Ni) operated in the period,

\[ Ca = \frac{(FC + VC)}{Ni} \]

Marginal costs are the expense of a commitment to be made to achieve one or more additional employment.

Employment process is very costly in money and in time, that is why we have to see that a few organizations give that importance, that it deserves it (Emery Y and Gonin F, 2009). That is why the organizations must pay attention before employment, and develop a retention strategy (even the job rotation).

5. INTEGRATION COSTS:

Hiring an employee is an investment from the organization, which determines the expenses to be calculated and assessed in relation to the efficiency of the new employee.

5.1 Entry costs in an organization incurred in the selection and hiring an employee may include expenditure on:

a) Salaries and other expenses involved, CAS, Unemployment. Operational staff busy with these activities: superiors dealing with these activities, superiors dealing with professional interviews and testing, future colleagues of the employee who talks and new employee guidelines;

b) Other expenses, such as those made ads for employment agencies specializing in recruitment fees (if the process is outsourced), transport workers, office materials and supplies used for testing, examination and correspondence.

5.2 Adaption costs: It is incurred when a person is hired it goes through three stages:

a) Information Phase: Entry begins with the person and company that is the time of its predecessor, presenting people who will work and information about the company and the position held. The duration of this phase can be up to a month, during this, time is consumed raw and there are many errors running.

b) Understanding Phase: This stage is the employee starts working for what was committed. There is a certain time before it will trade practice without making mistakes and without seeking help.

c) Proper Input phase: It takes place when the new employee has gained enough experience to reflect critically on the activities and has the initiative than they see in first phase.

6. Monitoring the Recruitment, Selection, Employment and Integration (RSEI):

Evaluation of candidates attracted by different methods of recruitment is considered good practice (Bach S., 2005). It is very important to assess qualitative and quantitative abilities of the candidates’ attracted. Only few companies do indulge in such sort of activities despite the benefits obtained.

While most managers are concerned about the total cost of salaries and benefits, they do not understand the changes taking place in HR may result in increased costs.

Some organizations would compare with other internal costs, but this comparison would be more effective if they would compare with other similar organizations. Information on human resource costs per employee is a common measure, which was calculated over 50 years.

Methodology:

Starting from the intangible activities are hard to quantify. The benchmarking model of (Bramham J. 2003), which it is said that every process can be
analysed, the model of (Philips J.J 1999) where are monitored the recruitment expenses and the recruitment process is analysed.

Benefits/Anticipated Outcomes:

Most of the organization does not evaluate the analysis cost of CVs, the cost of test administration, the cost of time acceptance/rejection of CVs, and the cost of sending letters/messages of rejection. All the organization calculates the salary benefit costs and preparation of employment contracts. They do not calculate the cost of low productivity of new employees, the cost of learning and cost of integration.

The large organizations do not use the Cost benefit analysis in choosing RSEI processes depending on the cost. From this we understand there is a clear link between the cost measure and the processes of the organization performance. If an organization improves its processes, it will be able to improve its activities and its results. Therefore it has to use the benchmarking process.

Recruitment, Selection, Employment and Integration (RSEI) processes helps organizations strengths and weaknesses in terms of demand and market conditions change. It also helps employees to develop their new standard to enhance their motivation. It allows the organization to achieve the performance levels which can be obtained by comparison with others.

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