



## Which Method Helps Us Prove the Financial Return of Adding New Staff?

**Q:** Can you suggest a standard methodology to prove financial return on the costs of adding a position, including recruiting, salary and benefits? How could a department manager make the financial case for bringing new people on?

—*Number-Crunching Our Headcount, consulting/legal, Los Angeles*

**A:** The return on investment from adding a new position to your organization can be projected based on dollar amounts assigned to the various activities and outcomes resulting from that new hire.

**Assign dollar values to benefits.** The first step is to assign dollar values per appropriate calendar period to the benefits you expect to receive by adding this position. You must determine the period of time most appropriate for this position and your organization. It might be a month, a quarter or a year. That includes numerical answers to the following questions:

1. How much revenue per calendar period will be directly generated as a result of this position?
2. How much money per calendar period will this position save your organization in terms of increased efficiency?
3. What improvements in productivity, quality, and customer service will result from this position and what is the value of those improvements per calendar period to your organization?

The sum of these figures is the value your company will gain by adding this position.

**Assign dollar values to costs.** Contrast that with how much it will cost you to add this new position. Consider the cost of recruiting, interviewing and hiring the person. Include travel, relocation and training expenses, as well as hidden costs such as lost productivity during the process. The following formulas are useful in assigning dollar values to the costs of hiring a new employee.

1. Number of advertisements multiplied by the price per ad equals your advertising cost.
2. Number of hours it will take to recruit and screen applicants multiplied by the hourly compensation of all the individuals involved in the recruiting and screening process yields your administrative cost.
3. Cost of travel by automobile or airline (plus the cost of meals and lodging) multiplied by the number of candidates you expect to bring in for interviews equals your travel costs.
4. The number of interviewers multiplied by interview hours and multiplied again by average hourly compensation of the interviewers equals your interview costs.
5. Cost of moving employee and family gives you your relocation costs.
6. Number of hours a new employee spends in training multiplied by that person's hourly compensation equals your training costs.
7. Weekly compensation, including benefits for this new position, multiplied by the estimated number of weeks it will take to recruit and hire the new employee produces your lost productivity costs.

The sum of these seven costs—advertising, administrative, travel, interviews, relocation, training and lost productivity—equals your cost of hiring. Add the cost of hiring to the annual compensation for the new position to get your initial investment.

Compare your initial investment with the value your company will gain to determine the financial impact of adding the new position.

**SOURCE:** Deborah Millhouse, [CEO Inc.](#), Charlotte, North Carolina, June 26, 2006.

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