This is **Part 1** of a series of articles by Romney Rawes, Chairman and Founder of the RIB Index. They were originally published in Recruiter Magazine to open up awareness and debate on the importance of good measurements within a successful recruitment business.

CONFUCIUS, HE SAY (ALLEGEDLY!) "WHAT GETS MEASURED, GETS DONE!"

Sound measurement is an essential in good recruitment practice.

Achieving better performance through better motivation from better measurement.

Probably the single most important task for the managers of a recruitment business is to motivate the fee earners to generate high revenues. This is well explained by what I have, for many years, called "The Driving Wheel" of Sales Management. There are four spokes to the wheel, all totally inter-related and inter-dependent. The first three are common enough – Target, Reward, Motivation. In essence, you *Motivate* the fee earner, having set/agreed the *Target*, by providing *Reward* for its achievement. However, unless the fourth element is available, it will not work, namely *Measurement.* The trouble is that many recruitment businesses only take the trouble to measure the revenue and spend little time or effort on the other elements that help to drive those revenues. The *Measurement* spoke in the wheel should be used to drive the other spokes, and thus make them more effective.

By only measuring the financial outcome, namely the permanent fees or temporary margins, all sorts of opportunities are being missed. Every recruitment business will measure this financial outcome, whether or not it relates the earnings of the staff to achievement of certain levels (eg by means of a Commission system), if only for accounting purposes. So what else can be done to enhance the measurement and thereby achieve better results?

If it is only a historic metric, measured weekly or monthly, certainly in total but also usually broken down by fee earner, many tricks are being missed. Without, at this point, getting into whether you have Commission payable on an individual or team basis, or a combination of both, you need to make it work for you instead of simply being an (essential) accounting figure. Most people recognise the need to have goals to achieve improved performance.

These goals should be "**SMART**" – **S**pecific, **M**easurable, **A**chievable, **R**elevant and **T**rackable (or, as some prefer to apply it, **T**ime specific). Thus setting the goal of "significantly improving our Sales this year" only meets the "R" criteria (and possibly the "A"). If instead, the goal became "improving our Sales during the next 12 months by at least 10% against last year's figures" it becomes SMART and much more effective. But even now "Sales" is a potential problem – better it were replaced by "Gross Profit". What if the temporary business achieves the target 10% in turnover terms, but at the expense of lower margins, thereby actually reducing the Gross Profit? Using "Sales" may have been SMART, but it wasn't clever!

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Consider these questions in relation to the new, SMART Gross Profit goal:

1. Do you have the figures for last year set up, so that the base against which the 10% is to be achieved is clearly and readily available to those who are supposed to deliver the goal?
2. Will you "publish" the 10% uplift figures as the goal, each quarter in advance?
3. Will these overall figures also be broken down for each individual fee earner?
4. Will there be any correlation between the achievement of the total or individual goals and the earnings (and/or other rewards) of the contributors?
5. Gross Profit is certainly measurable; again, is it broken down by individual (this may need clarification if there are to be "splits" between fee earners)?
6. As you have a timeframe (12 months) the Trackable element comes into play. How will you portray the achievement (ideally visually) of Actual against Goal as you go along?
7. Is this 10% uplift Achievable in month 1? It may well be so, but try to ensure that there are some logical reasons to support this element, eg "the last 3 months have averaged a 9% uplift."

From this it can be seen that providing a reasoned, measured backdrop can enable the goal to be more likely to be achieved. Indeed, it would form an initial element for establishing a budget – yet another example of measurement driving results, by having something to benchmark actual figures against.

Finally, all this has been based on the financial outcome as the *Measurement*. Why not include the activities that drive that outcome in the *Measurement*? So, if you measure and record over time (for establishing trends and ratios) the essential activities that are required to achieve the financial outcome, once more the *Measurement* can drive the improvement of performance. All these are often referred to as "**KPI**'s" – **K**ey **P**erformance **I**ndicators.

So, for example, it might be regarded as essential that permanent consultants should register X Candidates, find Y Vacancies, and make Z First Interviews for their candidates with their clients. So they measured and recorded. Once you have the ratios between these three activities and the subsequent placements, driving results becomes easier.

Thus, if the permanent consultant is targeted to produce £8,000 fees per month and we know (because it's also measured!) that the average permanent invoice value is £2,000, they need to produce four placements a month. If we know that we have a 5:1 First Interview to Placement ratio, a 10:1 Candidate to Placement ratio and an 8:1 Vacancy to Placement ratio, we know that there are logically compelling reasons for the Consultant to recognise they need to generate 40 Candidates, 32 Vacancies and 20 First Interviews per month (10, 8 and 5 respectively per week; or 2, 1.6 and 1 each day). Set up the wherewithal to track this daily and cumulatively during each week.

Now the trick is to motivate the achievement of the KPI's you choose – back to my Driving Wheel. You now have the *Targets*, you *Measure* (daily, weekly and monthly, by fee earner) to enable *Reward* (not necessarily financial!) and thereby *Motivation* is achievable.

Monthly management accounts should give you more than historic bean counting.

The "Starter for Ten" is regular, timely (i.e. within 2-3 weeks of the month end) Management Accounts, with full Profit and Loss Account and Balance Sheet. Whether these are prepared in-house or through some form of outsourced facility (eg the Auditors), all too often I come across such accounts which are prepared to a normal generic format (eg Sage), rather than being framed for use in a Recruitment business. This is particularly important in the Trading Account (i.e. the P & L account down to the level of Gross Profit) where the business offers a temporaries or contractor facility. First, Gross Profit should be struck by adding Permanent fees, less rebates and credits, to Temporary/Contractor Sales, less the payroll cost (including all WTD) of that revenue ("Margin"), plus any other revenues billed to clients, less any direct costs of that revenue (eg *Client-paid* Advertising billed, less the costs of that advertising). This is Gross Profit ("GP"). It should not be reached after having also charged Consultants' payroll costs or *Candidate generation* Advertising; these form parts of the Overhead.

It is essential that Sales, or Turnover, is split between permanent and temporary. Also, whether as part of the Accounts or as a memo item, the Margin Percentage on Temporary revenue (ie the Margin, divided by the Temporary Sales, times 100) must always be available.

So, given we now have a monthly P & L a/c shown in a recruitment business format, we need additional management information. For example, also measure the following:-

1. Identify the number of working days in the month.
2. The Temporary revenue needs to be split down, to show Margin per hour worked, Margin per Temp per week, and Average hours per Temp. There are more, but let's keep it relatively simple!
3. What is the percentage of Rebate to Perm billing? Be sure to distinguish between Credits (i.e. a simple adjustments to the value of the invoice) and Rebates; the latter is a key indicator of the quality of your service.
4. Establish the overall, then individual, GP per fee earner.
5. Calculate some valuable averages and then track trends – eg ave. invoice value; ave. placement salary; then ave. fee as % of ave. salary.
6. Identify normal advertising (i.e. Candidate generation advertising at our expense) cost, whether on the Web or in the media, and express it as a percentage of GP.
7. Staff payroll costs as a percentage of GP.

Having measured all or some of these, so what? What are you benchmarking them against? In most recruitment businesses simply internal budgets targets or goals. Budgets provide a valuable benchmark, but external validation of performance will enhance this, hence the shortly-to-be announced industry-specific benchmarking initiative – Recruitment Industry Benchmarking. Watch this space!

Measure, Manage and Maximise your performance with RIB, www.ribindex.com

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