

## What is the True Cost of an Employee?

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When I am in a 'sales' situation explaining the benefits of outsourced accounting or a part time FD, one of the thorny issues I have to deal with is the question, "what is the real cost of an employee?". In fact, just the process of looking at outsourcing part of a business process is healthy because establishing the cost of an employee is one of the central questions that a business manager needs to know the right answer to.

Once a business manager knows the real cost of an employee they can then answer the even bigger question, "what is the value of my employee?"

Finding the answers to these two questions is not as difficult as one might think, but what may surprise is how cost effective outsourcing some parts of the business really is.

In order to calculate the cost of an employee we need to look at the true cost of employment and the cycle of employment. First the individual must be recruited and inducted; secondly they must be trained both through formal and on-the-job training; and thirdly there is a period of getting up to speed. Once up to speed there is the cost of managing that individual, setting objectives, appraising performance against these objectives whilst bearing the burden of personnel and administrative costs of holidays and sickness, etc.

An employee also requires certain tools to do the job. They need a desk, phone, mobile phone computer, software, a network to store documents, a printer and paper to be able to print documents off and general stationery. Our employee also needs internet access and a clean safe environment in which to work.

### Recruitment costs

Let's assume our new accountant earns £60,000 per annum. At the moment average recruitment rates are around 20%, so the cost of recruitment is £12,000 isn't it? But, our Manager has also produced a job specification, briefed a recruiter and looked at 10-20 CV's; they have probably conducted four first interviews and a further two second interviews. This process has plausibly taken three days in total. In order to get an accurate recruitment cost we must include the real cost of the Manager's time and the opportunity cost (the cost of not doing the tasks that should have been done during these three days). Using a manager rate of £500 per day a further £1,500 should be added to the recruitment fee for the Manager's time, but the value of this non-productive time, including opportunity cost, is probably closer to £3,000. The cost of recruitment is therefore £15,000.

I have seen many financial controller CV's, I would say that the average length of employment with any one employer is probably three years. On an annual basis the recruitment fee per year of productive service is £5,000.



## Getting up to speed

In terms of training and induction, the heaviest load will be the first three months. There is usually a month's handover with the member of staff being replaced at zero productivity. The cost of getting up to speed is therefore £5,000 (plus NI and loaded costs).

## Tools for the job

The cost of office space, rent, rates, service charges, utilities, reception, photocopier, fax, is about £50 per square foot in the South East; an average desk space per person is about 75 square feet per person. So the cost per annum is £3,750 per person.

## Productive time

The other issue that employers fail to take account of is the actual productive time of an employee. There are 260 working days in the year, however after holidays (say 25 days) bank holidays (8 days) sickness, company meetings, appraisals and training days it is unlikely that there are more than 220 working days.

## Employee management

The final issue is what is the cost of managing and developing an employee? This includes the cost of appraisals, setting objectives, informal one-to-one meetings to discuss career aspirations or providing feedback on progress. This is likely to absorb at least three days of management time (£1,500 cost or £3,000 opportunity cost) across the year and much more than this if issues arise.

## What is the true cost of an accountant?

The true cost of a £60,000 accountant is actually closer to £100,000 or £445 per day during their first year. So what is the cost if you incur all the recruitment and training costs and then you find out after six months that you have recruited the wrong person?

I feel another blog coming on.

(See table overleaf for my full calculations)

	Year 1 cash outlay		Costs incurred every year		One off costs spread over 3 years		P&L cost per year	
<b>Salary</b>	£	60,000	£	60,000			£	60,000
<b>NI</b>	£	8,280	£	8,280			£	8,280
<b>Recruitment</b>	£	12,000			£	4,000	£	4,000
<b>Recruitment process</b>	£	3,000			£	1,000	£	1,000
<b>Getting up to speed</b>	£	5,000			£	1,667	£	1,667
<b>Training</b>	£	1,000	£	1,000			£	1,000
<b>Management</b>	£	3,000	£	3,000			£	3,000
<b>Laptop</b>	£	1,000			£	333	£	333
<b>Mobile</b>	£	250	£	250			£	250
<b>Phone</b>	£	100	£	100			£	100
<b>Office space</b>	£	3,750	£	3,750			£	3,750
<b>Furniture</b>	£	500			£	167	£	167
		<u>£ 97,880</u>		<u>£ 76,380</u>		<u>£ 7,167</u>		<u>£ 83,547</u>
<b>Working days</b>		220		220		220		220
<b>Cost per day</b>		<u>£ 445</u>		<u>£ 347</u>		<u>£ 33</u>		<u>£ 380</u>