MCQUAIG PRESENTS

THE COST OF A BAD HIRE

Calculate the costs

You already know that employee turnover costs money, but do you actually know how much? Between the job posting, the interview process, and the onboarding and training, how do you get a sense of what a bad hire really costs your company? There are several ways to break down the impact of the wrong hire.

To start, you can look at the total upfront cost:

- $14,900 was the average lost of every bad hire according to Career Builder in 2017[1]

- $15,000 is the average turnover cost per employee calculated by Work Institute in 2017[2]

$14,900

is the average cost of a bad hire

The closeness of those two averages makes a strong statement. But you are likely wondering how that number varies from one position to another. After all, not all positions are created equal so how do you figure out the costs of an entry level bad hire versus one in a more senior role?
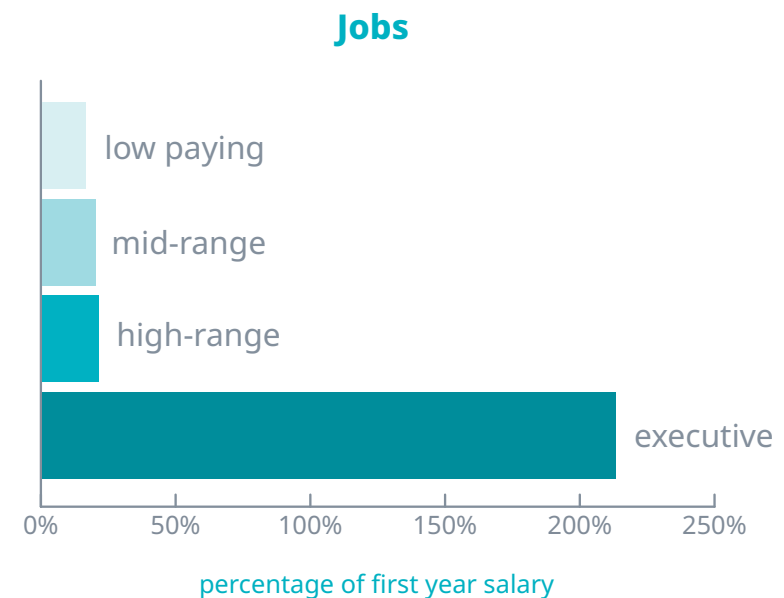
According to a recent Forbes article, the breakdown of turnover costs by organizational level is as follows[3]:

- 50% of salary for entry level positions
- 125% of salary for mid-level positions
- 200% of salary for senior executive positions
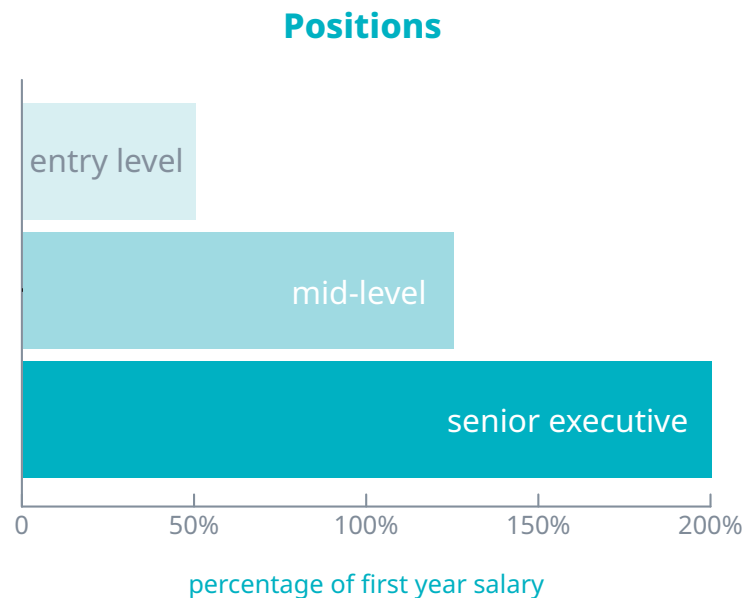
Ebi breaks it down slightly differently[4]:

- 16% of salary for low paying jobs, defined as less than $30,000 annually.
- 20% of salary for mid-range jobs defined as $30,000 to $50,000 annually.
- 21% of salary for high range jobs defined as $50,000 to $75,000 annually.
- 213% of salary for executive positions defined as $100,000 and above annually.

Positions

entry level

mid-level

senior executive

0   50%   100%   150%   200%

percentage of first year salary

Jobs

low paying

mid-range

high-range

executive

0%   50%   100%   150%   200%   250%

percentage of first year salary

Which means, if you complete that math, the costs you stand to lose are as follows:

Costs

low paying

mid-range

high-range

executive positions

$4,800

$6,000 $10,000

$10,500 $15,750

$213,000
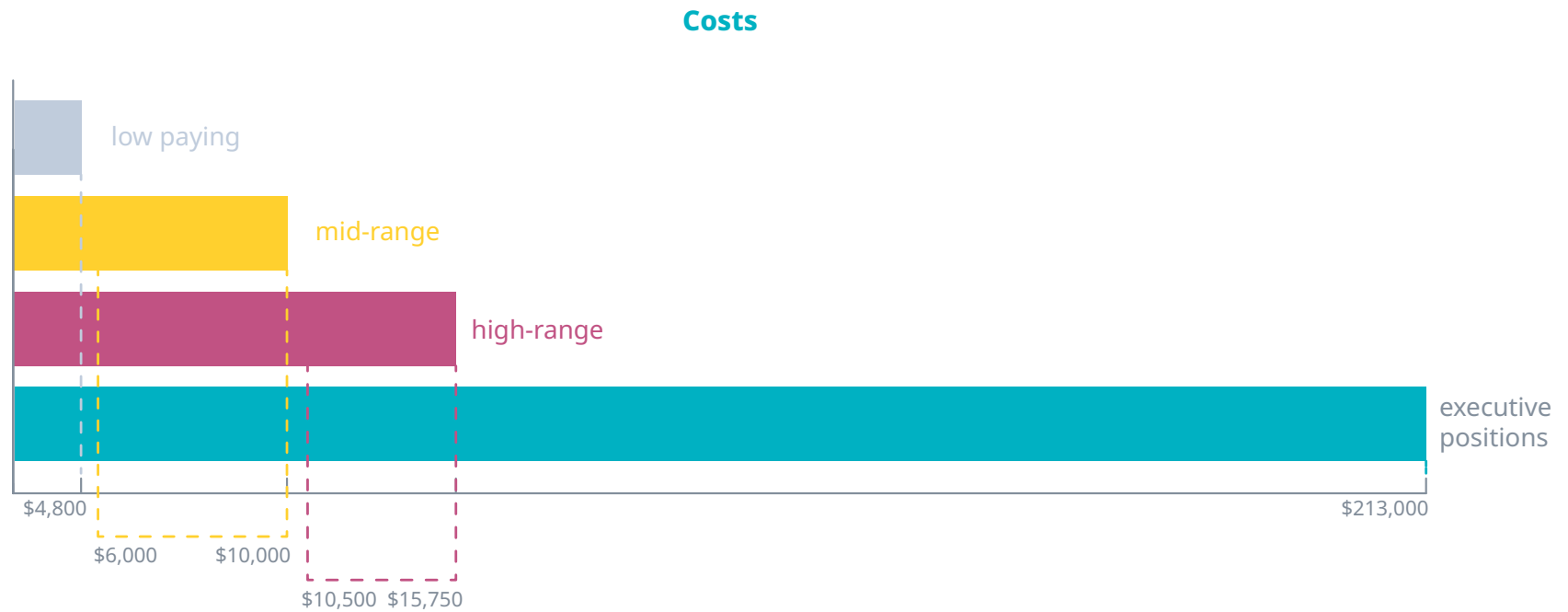
Looking at these numbers from a cost perspective is sure to make you uneasy. What is even more cringe-worthy is the fact these figures are for ONE bad hire. What happens if there are more? Even the most profitable of businesses cannot afford too many bad hires.

Breakdown of costs

Now that we know that the basics costs are, you're no doubt wondering where those numbers come from. How are they calculated? There are both direct and indirect costs associated with a bad hire that can be accounted for. If we start at the beginning of the process with filling the position, there are already a number of fees to include:

- **Ad costs**

- **Screening/interview time**

- **Recruiter fees**

- **Training costs**

- **Lost productivity cost**

- **Customer loss costs**

Ad costs

While there are some free job posting sites out there, the majority do charge you a fee for the listing. If you choose to promote it even further, of course that costs more. Depending on the scale and scope of your hiring campaign, which usually correlates to the level of the position you're hiring for, these promoted posts can add up.

Screening/interview time

Time is money and whoever is involved in the search process is spending valuable time to review applications, organize and conduct interviews, as well as discuss results. There are typically a number of stakeholders involved in the process and if you multiply all of their hourly wages by the time spent on these activities, that number climbs fairly quickly.

Recruiter fees

You may choose to have a recruiter do most of the legwork for you. **While they can help streamline the process and find you great candidates, they have a fee for their service as well**. Even the best recruiter can't completely replace the screening/ interview time that happens with stakeholders within your organization, therefore, you still have to account for both.

Between your posting, interviewing, and possibly recruiter costs, the numbers for your candidate search can grow quickly. According to SHRM, the total average cost per hire is as follows[5]:

• Non-executive: $4,425

• Executive: $14,936

But wait! You're not done yet. Once the employee sets foot in your organization, the costs continue to add up.

Training costs

This can be broken down into materials used as well as time spent by the trainer. If you send employees to a more formalized course, these may be lumped together. According to ebi, the average cost for training new hires is $984.[6] Again, keep in mind that number is an average. This means that some positions will require an even larger training budget.

Lost productivity cost

As noted previously, time is money, and again at this stage of the process there are many stakeholders involved. Time is spent by the manager working with the new hire, other employees both working with them and covering for them after they leave, as well as any HR admin time that is spent processing information for their entry and exit. You can apply the same formula here: Multiply each individual's hourly wage by the time spent during the on and off boarding of a new employee.

Customer loss costs

You may or may not incur these costs depending on the extent of the damage a bad hire may be responsible for. However, if the bad hire has a negative interaction with a prospect or customer, or even does something on the back-end that affects the customer experience, you may lose business as a result.

Avoid the cost of a bad hire

Now that we know all the pieces that contribute to the costs of a bad hire, how do you ensure this doesn't happen the next time you need to recruit? Luckily, you can tackle this issue from a number of different angles and, much like our evaluation of costs, it is helpful to start at the beginning of the process.

Clear requirements

How do you know if a candidate is going to be a good or bad hire? Well, that depends on what you are looking for. **That's why the first step to avoiding a bad hire should be to define exactly what a good hire is**. However, the likelihood of finding EXACTLY what you are looking for is very low, so you will need to prioritize each piece of criteria. What are the elements that are most important and what may be trainable? By nailing down these requirements, you are setting yourself up for making a successful hire.

Candidate assessment

How do you know how a candidate stacks up against your requirements? **Candidate assessments will clearly inform whether a candidate has what it takes to be successful or not**. Without this piece of the puzzle, it is difficult to know for sure how your candidate will perform. You are either taking their resume or their word at face value and with the costs outlined previously, that is a chance that you cannot afford to take.
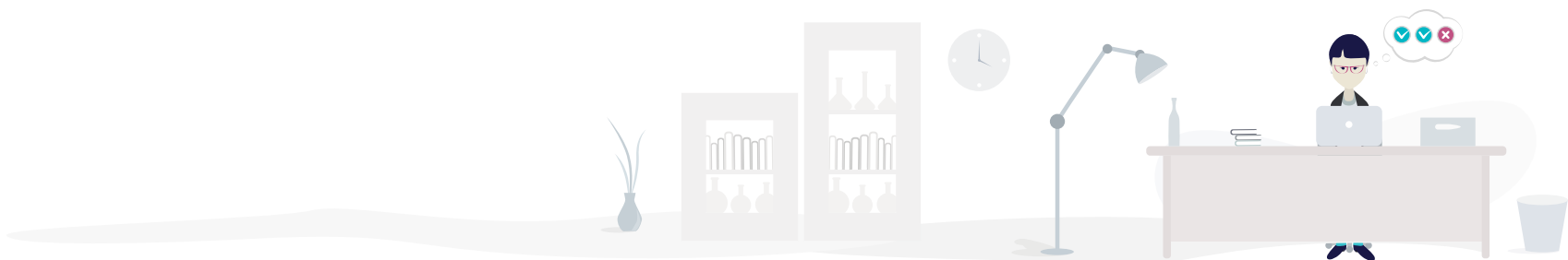
Structured, standardized and behavior-based interviews

The interview is your opportunity to probe deeper into gaps uncovered by the candidate assessments and understand how they have addressed relevant scenarios in the past. The information gathered at this stage will help you to predict performance and fit. A common culprit of bad hiring decisions is bias within the interview process. **To combat bias, it is important to ensure that all candidates receive the same treatment and are asked the same questions in the interview process**. Beyond that, each response should be evaluated using the same rating scales so that evaluations can be compared equally. When done properly, the interview will uncover any red flags in order to avoid making a bad hire.

Reference checking

Once you have a candidate who seems to meet your requirements, it is important to consult previous employers. There may be a lot of debate surrounding this step as candidates are not likely to provide references that speak ill of them, however, if you ask pointed questions, you can get the answers that you need. **It is best practice to re-phrase the questions utilized in the interview process to see whether previous employers are able to provide similar examples of past behavior**. This will confirm or contradict what you heard in the interview, and improve your chances of making the right decision.

The costs of a bad hire outlined above are a harsh reality check for any business. However, if you follow these steps, you can prevent those costs from being incurred and improve your bottom line. Even better, you can ensure you are adding the best people to your team to help grow your department and achieve the goals of your business. Everyone runs the risk of making a bad hire now and then but by following these recommendations, you can make sure it won't be you!

Notes

1   Nikravan Hayes, L. (2018). Nearly Three in Four Employers Affected by a Bad Hire, According to a Recent CareerBuilder Survey. Retrieved from http://press.careerbuilder.com/2017-12-07-Nearly-Three-in-Four-Employers-Affected-by-a-Bad-Hire-According-to-a-Recent-CareerBuilder-Survey

2   Sears, L. (2017). 2017 Retention Report. Retrieved from: http://workinstitute.com/retentionreport

3   Conerly, B. (2018). Companies Need To Know The Dollar Cost Of Employee Turnover. Retrieved from https://www.forbes.com/sites/billconerly/2018/08/12/companies-need-to-know-the-dollar-cost-of-employee-turnover/#55d7e8b8d590

4   Gladstone, J. (2017). The Cost of a Bad Hire [Infographic]. Retrieved from https://www.ebiinc.com/resources/blog/cost-of-bad-hire

5   Society for Human Resource Management. (2017). SHRM Customized Talent Acquisition Benchmarking Report. Retrieved from https://www.shrm.org/ResourcesAndTools/business- solutions/Documents/Talent-Acquisition-Report-All-Industries-All-FTEs.pdf

6   Gladstone, J. (2017). The Cost of a Bad Hire [Infographic]. Retrieved from https://www.ebiinc.com/resources/blog/cost-of-bad-hire