



BAD HIRES AND INDIRECT COSTS:

UNDERSTANDING THE CONSEQUENCES OF A BAD HIRE



Guide Overview:

To some employers, a thirty-minute interview or a days' assessment centre is enough to spark a decision, but it's not necessarily always the right one. Some employers seem to underestimate the accumulative sum of the more intangible overheads that can arise due to a bad hire.

This guide explores 4 indirect costs of a bad hire, the latter often being misvalued by hiring managers and employers:

Included in this guide:

- Industry and National statistics
- In-depth analysis of 4 key indirect costs
- Lost salary calculations based on industry averages
- Tips on avoiding a bad hire



In an ideal world, employers would be able to hire individuals based on their merits alone. To some employers, a thirty-minute interview or a days' assessment centre is enough to spark a decision, but it's not necessarily always the right one. The reasons for this vary, from an improper fit between company culture and the individual to a lack of genuine experience or qualifications. Whilst the obvious costs of recruiting prevail (administration, benefits, training etc.), some employers seem to underestimate the accumulative sum of the more intangible overheads that can arise due to a bad hire. To put it simply, it is not just the amount spent on advertising the position or general administration costs.

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1

EMPLOYEE AND COMPANY MORALE:

Positive employee morale can drive motivation levels and encourage a surge of high productivity within a team, or individually.

“**95%** of surveyed employers stated that a bad hire negatively impacted workplace morale | **Career Builder**”

Depending on the seniority of a newly-appointed bad hire, the negative impact on company morale can be significant. Faced with a bad hire's poor management style, a team's productivity and energy levels can quickly diminish and can result in a de-motivated, lethargic work ethic.

Company morale is often delicately balanced and it only takes a slight change in office chemistry to tilt the equilibrium. Adding a new member of staff to an already carefully crafted workforce can have this effect and damage the atmosphere on the office floor. If a bad hire is working at below capacity - due to a lack of skills or motivation - this can quickly have a knock-on effect to the rest of the workforce.

If your existing employees are asked to do more to cover for a struggling colleague, yet still receive the same salary, it can cause tension and potentially conflict. With this in mind, if a bad hire struggles to fit into existing teams, it may disrupt the current work atmosphere and possibly even influence those who previously enjoyed working at the company to find work elsewhere.



2 SUPERVISING AND MANAGEMENT TIME:

Time is of essence in the increasingly competitive world of commerce, especially when productivity volumes are high.

“...a bad hire forces supervisors to spend **17%** more time overseeing the employee's work, as opposed to doing other tasks | **Career Builder**”

It's inevitable that the majority of new employees will receive a degree of handholding and helicopter supervision in order to settle in. Either way, someone's time is being sacrificed. An incompetent employee may require additional supervision or training, an expensive process for an under-performer.

In the long-run, this could steer high-level managers or employees away from revenue-generating tasks in order to focus on coaching inept workers. To put this into perspective, a recent survey conducted by Career Builder found that a bad hire could force supervisors to spend just under one day per week as additional micro-management, around 48 working days in a calendar year.

To refine this further, if we take a team manager that has an annual salary of **£35,000**, the accumulative sum of wasted earnings spent on additional supervision would be around **£6,462 per year** or **£25 per working day**.



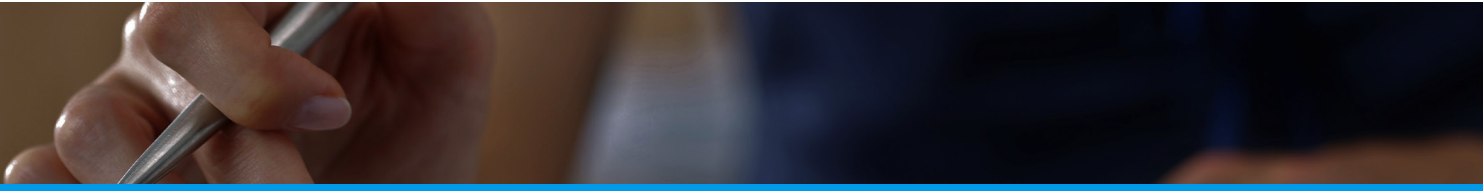
3 CUSTOMER, CLIENT AND BUSINESS REPUTATION:

A bad hire could have severe repercussions on client satisfaction. In some cases, repetitive errors and unsatisfactory customer service from a bad hire can lead to a loss of business and a souring of previously strong client relationships.

“**18%** of employers said a bad hire negatively impacted client relationships and **10%** attributed it to a decrease in sales | **National Business Research Institute**”

As explained in one of the previous intangible costs, employee morale can decline as a result of a poor recruitment decision. As morale decreases, staff turnover is likely to increase and can give the business a bad reputation for office environment. In an era of increasing transparency, job hunters are able to easily determine what it's like to work for a specific company, so this may ultimately reduce a businesses' chance of employing prospects and the best talent.

What's more, the individual that initially employed the bad hire may also risk losing respect and a level of professionalism from their colleagues and managers. If the individual establishes a pattern of bad hires it may jeopardise his/her position at the company, which can cause further unrest between those who may have worked under the individual and higher management, influencing an element of internal conflict and a de-motivated workforce.



4 PRODUCTIVITY:

The loss of productivity from a bad hire is one of the hardest costs to quantify, but it can also be one of the most impactful. If an employee isn't well-suited for the job, has a bad attitude or is simply incompetent, the time they spend not working could significantly affect the bottom line.

“...as much as **10%** of employee turnover is due to bad hiring decisions | **42 Hire**”

Naturally, a new employee is unlikely to be fully productive in the early days of employment due to a variety of factors, i.e. learning company policies and practices. This 'getting up-to-speed' period, however, can prove to be extremely costly. Unsurprisingly, the difficulty in establishing a figure is one of the main reasons that this cost goes undetected.

If the candidate doesn't possess the right skills or knowledge for the job, we can assume that the timeframe to get them to full productivity would be extended (if indeed they ever get there). Employers, therefore, can expect the overall productivity of the business to dip slightly in the first week of a new hire. A short-term fall in output can be justified when it aids the future output of a new employee, but this doesn't quite work if that employee never reaches their expected level.

Week	Productivity	Lost Productivity	Lost Salary*
1-4	25%	75%	£1509
5-12	50%	50%	£2012
13-20	75%	25%	£1006
21+	100%	0%	£0

*Average weekly pay for UK employees was £503 before tax and other deductions



So, how do you avoid a bad hire?

Do not rush the recruitment process.

Take time over hiring, and ensure you interview for behavioral traits, not just skills and experience.

Get in touch with us today
www.omegaresource.co.uk