



The Costs of Hiring the Wrong Person

OVERVIEW

Hiring mistakes are costly! Probably more costly than you can imagine. Bad hires reflect negatively on those involved in the hiring decision. In the worst case, there are reputational costs when a poor hire represents the company inappropriately. Most importantly, hiring mistakes impact corporate culture and finances.

CORPORATE CULTURE

Every organization has its own unique culture. No two are alike. An executive who's a good fit at GM may fail miserably at Apple. Because of corporate culture differences, a wrong hire hurts a team by decreasing morale, lowering productivity, and putting stress on employees.

DECREASED MORALE

It usually takes a long time to replace a key employee. Think of the old HR saying: "hire slow, fire fast." When positions become vacant two or three roles are put on the shoulders of one person. This overload takes an emotional, intellectual and physical toll on even the most effective executives. Morale decreases when employees feel put upon because they have to pick up the slack of recent terminations and poor hiring decisions. A company culture that was once happy and positive can quickly shift to a negative atmosphere when employees believe their loyalty and dedication are being unreasonably exploited.

LOW PRODUCTIVITY

Lower productivity leads to reduced output, directly impacting the bottom line. If a new hire fails to be up to par with the rest of the team and needs constant handholding, everyone on the team is distracted.

The best way to avoid low productivity is to avoid hiring the wrong person. Here are a few ideas for improving productivity, from a Forbes article¹.

- Economic incentives
- Meaningful feedback
- Respect employees as individuals
- All levels of management should receive adequate training
- Provide employee support
- Remove emotions
- Create positive senior leadership models

STRESS

Going to work each day ready to make a difference to your company proves a challenging task. Hiring employees that fit the company culture helps reduce stress on the entire team.

According to the American Psychological Association Center for Organization Excellence², many companies are implementing programs and policies to foster healthy workspaces that allow for company success and productivity. *Creating a Healthy Workspace* states that “job stress is estimated to cost U.S. industry \$300 billion a year in absenteeism, diminished productivity, employee turnover and direct medical, legal and insurance fees.”



FINANCIAL IMPACT

Recruitment is a necessary and expensive proposition. Here are the cost factors to consider when facing just one bad hire situation.

INCENTIVES, BENEFITS, & HEALTHCARE COSTS

Poor hiring decisions not only cost companies an employee's annual salary, but also the added costs associated with any hire. Companies lose money spent on employee benefits, bonus or incentives and any severance resulting from the employee's separation.

TIME & TRAINING COSTS

Searching for a new hire takes a great deal of time. So does training a new employee. The exact time and training is specific to each company's size and job position, but according to CBS News³, replacing an executive-level employee costs companies an average of 213 percent of their annual salary.

REPLACEMENT COSTS

Replacing a single employee costs from 16 to 213 percent of annual salary. According to a CAP study⁴, the following chart shows average costs to replace employees depending on their level within the organization.

FINANCIAL IMPACT

| SALARY LEVEL | COST TO REPLACE |
|--|-----------------------------|
| Low-paying jobs (under \$30,000 per year) | 16% of Annual Salary |
| Mid-range positions (\$30,000 - \$50,000 per year) | 20% of Annual Salary |
| High-level Executive positions | Up to 213% of Annual Salary |

COST OF LOWER PRODUCTIVITY

One bad hire can cause productivity to drop throughout an entire company. Damaging financial and cultural repercussions result from decreased productivity. In today's world, recruiting has become extremely social because coworkers talk and public reviews are available online on websites like Glassdoor. According to a CareerBuilder survey⁵, sixty-nine percent of employers reported being affected by poor hires during the year of 2012. The survey reported productivity levels lowering by 39 percent, employee morale negatively affected by 33 percent, fewer sales by 11 percent and 9 percent increase in legal issues.

CONCLUSION

Whether you use your internal human resource team or find the perfect candidate through executive search services, the right hire is critical to your team's morale, productivity and the company's bottom line. Employee turnover happens in every organization. Finding the perfect fit for each job the first time allows employers to avoid the cultural and financial burdens of the wrong hire.

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SOURCES

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