

The True Cost of a Mis-Hire

Learn Just
How Costly
Hiring The
Wrong Person
Can Be



“Hiring the right candidate can bring tremendous value to an organization. The opposite is also true.”

- Anonymous

“66% of employers said they experienced negative effects of bad hires in 2012. Of these employers, 37% said the bad hire negatively affected employee morale. Another 18% said the bad hire negatively impacted client relationships. And 10% said the bad hire caused a decrease in sales.”



- A study from the National Business Research Institute

It is estimated that up to 75% of all hiring decisions result in a mis-hire.

When most organizations look at the cost of a mis-hire they only consider the salary of the individual, but an estimation based solely upon salary doesn't come close to what the true cost of hiring the wrong person is.

The true cost of a mis-hire must include all of the time and resources spent interviewing, training, and developing the new hire, as well as the opportunity cost of what a top performer would have achieved in the role.

Even then, this still doesn't take into account the loss of productivity and harmony that occurs when a poor performer with a toxic attitude gets in and leaves a negative impression on a team or organization.

Bottom-line: The salary paid to a mis-hire is not the true bottom-line. The real bottom-line includes everything that was lost, or missed out on, by hiring the wrong person.

What Really Happens

When You Hire the WRONG Person

Imagine that you're a solar manufacturer selling technical products to large EPCs and Developers. You've just hired a VP of Sales to manage a team of 10 salespeople, each of whom are responsible for driving \$12 million in revenue on an annual basis for a total annual target of \$120 million.

The VP of Sales is being paid a salary of \$170,000 and has an additional \$100,000 bonus at goal. The interview process cost you \$20,000 in lost productivity, interview expenses, and related costs.

After 6 months, the VP of Sales has created a hostile/dysfunctional sales environment, and only two of the salespeople are on target. Because of the bad VP hire, two salespeople have left and the remaining six are only at 50% of goal, having only sold \$3 million of the \$6 million they each could have sold.

Even if you found Aladdin's lamp and could instantly replace the bad hire with a great VP of Sales, replace the two salespeople that left, and miraculously reach Q3 and Q4 sales goals, you would still be short \$15 million for the year. Ouch.

Odds are that you won't find a magic lamp. So you're looking at another two months and \$20,000 to find the right VP of Sales, the cost of replacing the two salespeople that left, and the time it will take for this new team to ramp things up and put the pedal to the metal.

In this example, the true cost is just over \$30 million, and that's a very conservative estimation.

"I'd rather interview 50 people and not hire anyone than hire the wrong person."

- Jeff Bezos (Amazon CEO)

The Benefits of Hiring

The RIGHT Person

Now imagine that instead of hiring the wrong VP of Sales, you spared no expense to get the best hire possible. You initially budgeted \$170,000 in salary for this hire, but ultimately hired an exceptional candidate at \$200,000 (with the same \$100,000 bonus at goal).

Within the first six months, your VP of Sales has driven the top performers well above their goals, and the underperformers are either at target or getting close.

By the end of the year, the team hit the goal of \$120 million and the VP received their bonus of \$100,000.

Score!

Now, because you used an experienced recruitment firm to find and facilitate the hire of your new VP, there was also a \$50,000 recruitment fee.



So even though you're paying a little more up front to hire the best possible VP, what you stand to earn is exponentially greater than the alternative. The difference in this scenario is right around \$30,000,000.

That's kind of a no-brainer, right?

Don't step over dollars to save dimes. Instead, recognize the value of investing in the important things, like hiring the best possible employees, and know that your investment will yield incredible dividends over time!

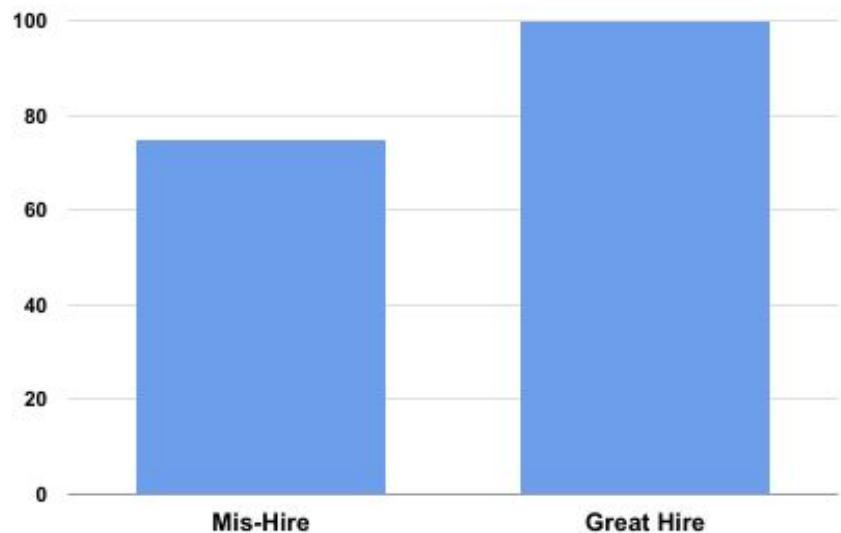


The Right Candidate vs. The Wrong Candidate

The mis-hire cost the company at least \$30 million - 176 times the VP's salary.

While the monetary costs are easy to calculate, other costs (like company morale, turnover, lost customers, etc) can be much harder to figure out.

Percentage of Goal Accomplished



Best Practices

One of the most important steps you want to take to ensure you're hiring some of the best individuals possible is to make sure that you have a solid hiring process.

A good process is designed to be candidate-centric and attract the RIGHT people, not just screen out the WRONG people.

If you are strictly relying on job boards for critical hiring needs, how can you be sure that you are seeing the best talent available, and not just the candidates that are actively looking?



For more helpful information on how to improve your hiring process and ensure that you're set up for success, [check out our new e-book: Hiring Rockstar Talent.](#)



The cost of hiring the wrong person comes down to more than just money. Yes, there may literally be millions of dollars on the line, but some of the most detrimental, long-term losses caused by a mis-hire can be harder to identify.

Employee retention, company culture, and subpar products or services can cause truly substantial losses.

The opportunity cost of hiring the wrong person, compared to what the right person could accomplish, is astronomical.

Hiring the best people possible is the most important job in any organization, as the people you hire can make or break the company.

Speaking of hiring the right people, would you like to have great candidates delivered to your inbox every month? We've got you covered! Sign up now for our new [Talent Spotlight newsletter](#).

“One subpar employee can throw an entire department into disarray. Team members end up investing their own time into training someone who has no future with the company.”

- Ryan Holmes (Hootsuite CEO)