THE COST OF A TOXIC HIRE

Toxic employees damage turnover, shareholder value, insurance premiums, and more. Here's what you need to know.

WHAT'S THE COST OF A BAD HIRE?

Just how costly is a bad hire? It depends on who you ask. If you were to Google "cost of a bad hire," you'd find percentages, arguments, and even calculators promising to show you the "true cost of a bad hire" while offering little insight beyond the fact that they cost more than the worker's salary and turnover. The problem is that none of these sources tell you how often you're making a bad hire, making it hard to know how these figures apply to your company.

Bad hires cost a lot—but more concerning than the occasional rushed hire is a particular breed of "bad hire" that gets into organizations more often and does even more damage. In the last few years, we've seen a rise in the appearance of **toxic employees,** which are far more dangerous to businesses than a mere skill or cultural mismatch. While "bad hires" fail to get the work done, toxic workers can often survive in an organization while deliberately harming its property and people. Though they often meet company quota, their demonstrations of sexual harassment, bigotry, fraud, and other violations of company policy can ravage the bottom line.

Working with our clients and the broader research community, we've found fresh data showing that toxic hires cost more than you might think. Specifically, **in a toxic workplace:**

Good employees are

54%

more likely to quit when they work with a toxic employee, if the proportion of toxic employees on their team grows by as little as 1 on a team of 20.

Team performance drops up to

40%

when workers are distracted by bullying or toxic behavior. Bullied employees also feel a loss of motivation which leads to less effort and fewer hours.

Not hiring a toxic worker over a 6-month period generates returns of over

2:1 compared to financial returns generated when firms hire a "superstar"

Financial outcome of avoiding a toxic worker versus hiring a superstar

The Annual Cost of Toxic Employees

for a company of 1,000 employees is at least

$1,280,000

due to voluntary employee turnover and absenteeism alone

$880,000

Voluntary Employee Turnover

Good hires are 54% more likely to leave when toxic employees comprise even 1/20th of a team

In a sample of 1,000 employees, roughly **50** will exhibit toxic behavior. Fama has identified on average **7-8 people** with toxic behaviors in a set of 50, helping you save **$17,600** per toxic employee per year.

Fama can save you

$140,800+

of voluntary employee turnover due to toxic behavior each year

$400,000

Bullying-Based Absenteeism

Absenteeism costs $2,650 per salaried employee per year on payroll alone. Given that bullying accounts for 10-20% of stress-related absenteeism, bullying costs about $400 per employee per year.

About **15%** of reports that Fama processes for clients warrant further adjudicative action for job-related behaviors, including harassment, bullying, and illegal activity

Fama can save you

$60,000+

in absenteeism expenses due to workplace bullying each year

Toxic Behavior & Long-Run Stock Returns

+115.6% +84.2% above S&P 500 average over a five-year period

According to a study by Glassdoor, Fortune's "Best Companies" outperformed S&P 500 by 84.2% while a similar portfolio of Glassdoor's "Best Places to work" outperformed the overall market by 115.6%. The results suggest an important economic link between company intangibles like employee satisfaction, predicated on the removal of toxic behavior and culture, and broader financial performance among large publicly held companies.

+35% in 10 years

+82% in 20 years

+146% in 30 years

Long-run stock performance due to employee satisfaction and engagement alone

Firms with high employee satisfaction outperform their peers by 2.3% to 3.8% per year in long-run stock returns, even after controlling for other factors that drive returns. The study used 28 years of company data. Measurements included credibility, respect, fairness, camaraderie, inspiring, listening, thanking, caring, and celebrating—all of which are undermined by toxic behaviors.

-25%

average drop in stock values following incidents of executive misconduct involving harassment, bigotry, and other toxic behaviors

Papa John's: -54% ↓ -$1.6 billion

Wynn Resorts: -19% ↓ -$3.8 billion

CBS: -6% ↓ -$1.4 billion

GUESS: -22% ↓ -$250 million

FAMA

OTHER MEASURABLE COSTS OF TOXIC BEHAVIOR

35% difference

10-Year Stock Returns

Firms with high employee satisfaction outperform their peers by 2.3% to 3.8% per year in long-run stock returns, even after controlling for other factors that drive returns. The study used 28 years of data.

This margin grows to 82% over a 20 year period, and 146% over a 30 year period due to measurements like fairness, camaraderie, listening, thanking, caring, and celebrating— all of which are undermined by toxic behaviors.

$8.76 Million

Average Cost of Insider Threats

Frequency and cost of insider threats varies widely by industry. However, financial services, technology, and healthcare sectors are particularly prone to big theft, fraud, and other security-related costs.

25% decline

Shareholder value

Averaging short and long run losses in shareholder value following sex-based harassment and bigotry in the C-suite of 4 major companies, we find that corporations lose substantial value due to toxic behavior.

Papa Johns lost $1.6 billion due repeated incidents of bigotry and racism. Sex-based harassment and assault costed Wynn Resorts $3.8 billion, CBS $1.4 billion, and retail company Guess $250 million.

40% difference

Annual team productivity

Team's performance can drop up to 40% when workers are distracted by bullying or toxic behavior; bullied employees also feel a loss of motivation which leads to reduced efforts and fewer working hours.

This figure does not include absenteeism, which is cited on the previous page. Given that Fama has identified about 15% of toxic workers, the solution can help restore healthy levels of productivity for at least 6% of workers in a company of 1,000.

6 to 10%

Higher net profit margins

Research from the UK suggests that workplace bullying costs about £18 billion annually, or 8 to 10% of company profits. A study by Towers Perrin found that companies with engaged employees had 6% higher net profit margins.

$1,000,000

Retainer amounts for EPLI

Firms with more than $5 billion in annual revenue typically pay $285,000 a year for a $30 million limit. However, before carriers pick up any expenses associated with a claim, companies must pay a retainer.

U.S. companies are projected to spend an estimated $2.7 billion on insurance policies covering the legal fallout from sexual harassment, racial discrimination, and unfair-dismissal accusations.

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Fama is the innovator in online screening that makes hiring great people easy. Combining Fama's groundbreaking AI technology and ability to integrate across the HR Tech stack, the solution compliantly searches 10,000 online public sources to help companies avoid workplace misconduct, prevent costly legal action and ultimately, make better decisions. By modernizing candidate screening and due diligence, Fama helps organizations, agencies, and investors improve the quality of hires, make the most of each investment and build successful businesses.

Headquartered in Los Angeles, CA, Fama is FCRA, EEOC, and SOC2 compliant and integrates with major HRIS, ATS, and background check solutions.

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