



**QUICK GUIDE:**

The real cost of  
a bad hire...  
**and how to avoid it**





# Bad hires are bad for business

Recruiting the right person can be tricky. When it goes well and you make the correct appointment, it's a win-win for everyone. But giving a job to the wrong candidate can be a costly nightmare, especially once you factor in all of the expenses. You may already know the cost per hire for your business, but if you don't, you're not alone.

**Over half of organisations in the UK don't know what theirs is either.<sup>1</sup>**

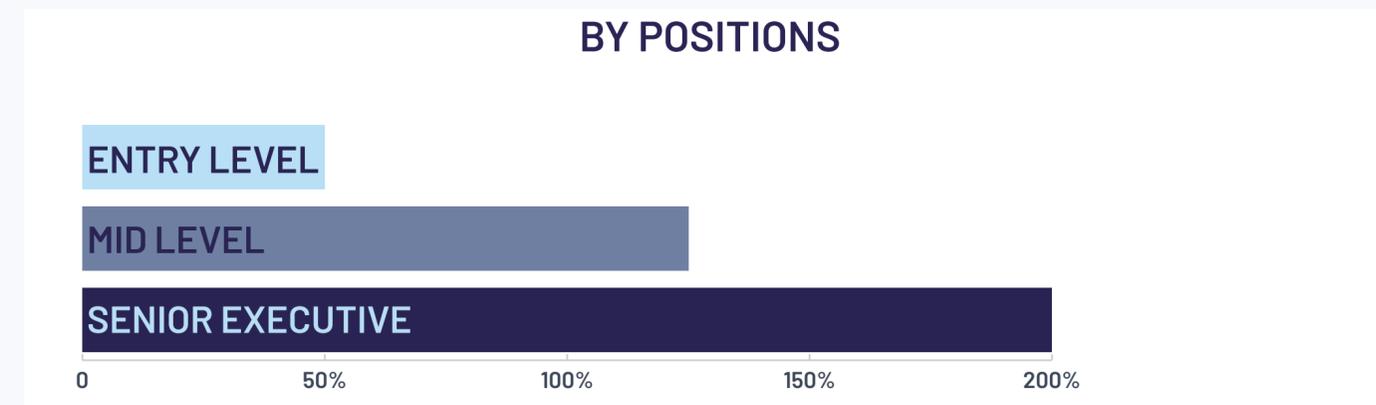
It is important to get a realistic handle on what a bad hire costs your business. In 2017, for example, research by both Work Institute<sup>2</sup> and Career Builder<sup>3</sup> found the average cost of a bad hire to be around \$15,000. However, not all positions are the same, so how do you distinguish the costs of a senior level bad hire from those of a more junior role?

# Get a grip on costs

There are several ways in which you can gauge an accurate assessment of costs by role.

An article by Forbes<sup>4</sup> breaks down staff turnover costs by organisational level thus:

- 50% of salary for entry level positions
- 125% of salary for mid-level positions
- 200% of salary for senior executive positions



Whereas Ebi<sup>5</sup> makes the following distinctions:

- 16% of salary for low paying jobs, i.e. less than \$30,000 p.a.
- 20% of salary for mid-range jobs, i.e. \$30,000 to \$50,000 p.a.
- 21% of salary for high range jobs, i.e. \$50,000 to \$75,000 p.a.
- 213% of salary for executive roles, i.e. \$100,000 and above p.a.



## The real cost

Amalgamating these two approaches reveals that the potential costs to your business for poor hiring decisions are as follows:



These numbers shift this discussion from the hypothetical to the actual and they make for uncomfortable reading. Remember too that they relate solely to the financial cost per bad hire. At these levels, businesses cannot afford to make too many hiring mistakes.

**“At these levels, businesses cannot afford to make too many hiring mistakes.”**

# Let's drill down some more

So far we have outlined the high level costs per appointment for a poor hiring decision. But where do these costs come from and how are they calculated? Any bad hire entails both direct and indirect costs.

If we start at the beginning of the process with filling the position, there are already a number of fees to consider, including:

- Advertising costs
- Screening and interview time
- Recruitment agency fees
- Training costs
- Disruption to productivity
- Costs due to lost customers
- Other invisible costs

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## Advertising costs

Some recruitment platforms offer free exposure, but most charge a fee for your listing. This means that while the scale and scope of your recruitment campaign may be driven by the importance of the role you are seeking to fill, there will always be some above-the-line costs for promoting a post. These can add up to a substantial amount.

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## Screening and interview time

The process of screening your candidates' applications, selecting those who meet your criteria and interviewing the final tranche is time consuming and often involves a number of stakeholders. Total up their entire time input, multiply it by their hourly pay rate and you'll probably be quite shocked by the result. The old adage 'time is money' is particularly true when it comes to recruitment.

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## Recruitment agency fees

Using a recruitment agency is one way to streamline the selection process and find the candidates you want but they charge for their service - some recruitment agencies take up to 30% of the final salary of any incoming employee. Even using an agency, stakeholders within your business may still need to commit time to the final selection. So both of these costs must be included.

## A quick summary

So far we have considered advertising, screening and interviewing, and recruiter costs and already the numbers are starting to escalate.

The Society for Human Resource Management (SHRM) has found that the total average cost per hire<sup>6</sup> for a non-executive is \$4,425, rising to \$14,936 for an executive. Remember that is only the start - once the new hire is on board, the costs will continue to rise.



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## Training costs

Any new employee will incur a training cost, even if they are a seasoned professional. At the very least they will require an orientation into the company's culture, routine tasks and established processes. More likely there will be formal time with a trainer and possibly external training too. According to Ebi, the average cost for training new hires is \$984<sup>7</sup>, but this will rise in line with the seniority of the role.

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## Disruption to productivity

Bad hires have a significant impact on productivity and this can be reflected in the bottom line. But they can also be a drain on other stakeholders' time and this must be accounted for too. For example, their manager will have spent time working with them, colleagues will have covered for them after they leave and there will be HR time dealing with their entry and exit. And don't forget the time it takes to rehire!

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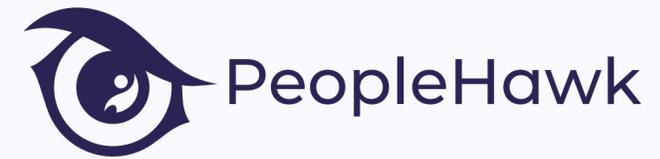
## Costs due to lost customers

Although not always the case, a bad hire can compromise or lose business by scaring off customers or bungling deals. Not only does this reflect badly upon your company as a whole, it might well scare off any other potential customers with whom the first customer shared their experience.

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## Other invisible costs

Bad hires are toxic for your business. Poorly chosen recruits can cause other invisible problems which may be harder to measure but which have come with a cost and have a detrimental effect on productivity. They can sap the energy of others and cause a culture of underperformance to become the norm. They can create more work for the people around them and this also effects company morale. Plus, bad hires mean lost wages and lost productivity.



# It doesn't have to be this way...

Now that that we have done the sums, we know that a bad hire can be expensive. So what can be done to ensure the same mistake isn't made again, the next time you're involved in the hiring process?

**Let's start at the very beginning. A very good place to start.**

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## Set clear criteria

Avoiding a bad hire means knowing exactly what a good hire is. So it is important to define the exact qualities you are looking for that will make a candidate a good fit for your business. It is unlikely that anyone will fulfil all of these criteria, so you should rank them in terms of the 'must haves' to the 'trainables'. By setting these down clearly and concisely, you are improving the chances of making a good hire.

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## Use candidate assessments

These days taking a candidate's resume or their word at face value is not enough. Personality is an excellent indicator of how someone will work and perform long term. So finding the right person for your position means using data-driven personality insights gained from scientifically-backed assessments, work-related tasks and presentations. By employing a number of resource tools, such as personality and cognitive ability assessments, for example, you will gain a more complete picture of your candidate. This means that any strengths or weakness identified can be probed later at final interview, enabling you to make the best possible recruitment decision.

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## Investigative impartial interviews

Use the interview to investigate any gaps revealed by the candidate assessments. Explore how they have dealt with specific issues and challenges in the past. Act with equity and fairness by ensuring that all candidates receive the same treatment and are asked the same questions during interviews. Apply the same rating scales across all interviews so that candidates are evaluated and compared on the same basis. Done in this structured way, the interview will give you an insightful and impartial understanding of each candidate and help to shape your final decision.

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## And finally....check references!

The final stage in assessing whether a candidate will be the right fit is to talk to the people who know them best - their references. Of course, it is arguable that a person's referees are unlikely to speak badly of them, but by asking the right questions, you can get the answers that you need to consolidate your decision. So for example, you might rephrase questions asked at the interview to see if you get a similar response. Or you might ask about their strengths and weakness; their most memorable accomplishments while working with the referee; the type of work environment they think the candidate would be most likely to thrive in, and why. All of this information helps to clarify your overall picture of the person.



## The last word

It may be a harsh reality check to discover the costs of a bad hire, but you can avoid them and improve your bottom line by following the advice given. And while making the occasional bad hire is an occupational hazard in business, at least you now have the tools to make sure it won't happen to you.



# References

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