The Cost of a Bad Hire Can Be Astronomical

By Lisa Frye
May 9, 2017

What does it cost a company that hires a person who's not right for the organization?

By some estimates, it costs more than a quarter of a million dollars to find and hire a new employee. If that person turns out to be wrong for the role, add to that amount the toll that the bad hire takes on a manager's patience and on colleagues' morale, plus a myriad of other costs if the person needs to be replaced.

"The cost of a bad hire is always extensive," said Arte Nathan, founder of The Arte of Motivation, a human resources advisory service based in Las Vegas. "Most companies don't know the full cost of the turnover, so they don't apply the resources upfront to avoid it. If you make a bad hire, there is a ripple effect among all who work for you, your product and your product quality."

It's likely every company has had experience with hiring a person who wasn't a good fit. So how can an HR professional ensure that she doesn't waste her time recruiting, interviewing and making job offers to the wrong people?

Calculating the Cost of a Bad Hire

The cost of recruiting, hiring and onboarding a new employee can be as much as $240,000 (www.shrm.orghttp://theundercoverrecruiter.com/infographic-what-cost-hiring-wrong-employee/), according to Jörgen Sundberg, CEO of Link Humans, an employer branding agency in London. There are extra costs incurred when that person turns out to be a poor fit, not the least of which may involve finding a replacement. Brandon Hall Group, a human capital research and analyst firm based in Delray Beach, Fla., identified several variables that go into calculating the cost to replace a bad hire. They include:

- Recruitment advertising fees and staff time.
- Relocation and training fees for replacement hires.
- The negative impact on team performance.
- The disruption to incomplete projects.
- Lost customers.
- Outplacement services.
- Weakened employer brand.
- Litigation fees.

Lack of Patience, Talent and Resources

So if it's so expensive and time-consuming to make a bad hire, why does it continue to happen?

Chicago-based CareerBuilder, which specializes in job advertising and HR software, suggests that one of the reasons is that companies are too often in a rush to fill a position. In a 2012 survey about why companies make bad hires, CareerBuilder found that 43 percent of respondents said they made a bad hire because they felt they needed to hire someone quickly.

This sense of urgency happens for several reasons, CareerBuilder noted: the current staff may be overextended, a project may require new talent or a key employee may depart suddenly, leaving a critical hole in the organization. Too often, hiring managers are so anxious to put a body in the vacant chair that they overlook candidates' flaws and end up hiring someone who really doesn't meet the needs of the job, CareerBuilder noted.

More than 1 in 5 respondents (22 percent) to the CareerBuilder survey said they lacked the skills to interview and hire people effectively.

"Instead of blaming the person who was hired, we need to blame those who are doing the hiring," Nathan said. "There is an assumption that because someone is a manager, they know how to interview and hire the right person for the job. Hiring managers need to know what they are looking for [and] how to ask the right questions, discern candidate responses and get the right person for the job."

The Art of the Interview

Organizations that lack a standardized interviewing process are five times more likely to make a bad hire than those that do have such a process, according to a 2015 talent acquisition study (www.shrm.orghttp://b2b-assets.glassdoor.com/the-true-cost-of-a-bad-hire.pdf) from Brandon Hall Group and Mill Valley, Calif.-based Glassdoor, an online provider of company ratings and salaries.

A standardized interview process provides hiring managers and recruiters with tools to formulate good questions and evaluate candidates. Behavioral interviews and peer-to-peer interviews can determine if the candidate would fit well into the company culture. The process is consistent for all candidates who've applied for the same job and relies on the same interviewers, who should be trained to look for red flags during the interview and to discuss any concerns with recruiters.

Many interviewers' questions are so benign and accommodating that they fail to uncover a lack of motivation or passion that might prevent someone from succeeding at a job, says Carol Quinn, CEO of Conyers, Ga.-based Hire Authority. Quinn spoke during last month's Society for Human Resource Management's Talent Management Conference & Exposition (www.shrm.org/resourcesandtools/hr-topics/employee-relations/pages/how-to-get-job-candidates-to-drop-the-canned-answers-and-open-up.aspx). She said managers need to get the candidate to relax and open up, then frame their questions carefully so they can ascertain whether an applicant is a good fit for the role and for the organization.

[SHRM members-only platform: SHRM Connect (www.shrm.orghttps://community.shrm.org/home?_ga=1.173889696.2038758867.1474036285)]

Branding

Nearly 1 in 10 respondents to the CareerBuilder survey said the person they hired didn't work out because the company did not properly convey its brand or culture to the new hire.

An employer branding strategy should be a priority for any company looking to avoid making a bad hire, Nathan said. In its recruiting materials and on its website, a company should consider using videos and social media to convey messages about the company culture. When a company accurately reflects its culture, it will have an easier time attracting the right talent, he said.

Brandon Hall Research Group suggests that companies look well beyond hard skills when assessing job candidates. When companies focus too much on the skills and experience in a job description, they can overlook whether an applicant has the potential to lead, for instance, or demonstrates behaviors that are inconsistent with the company's values.

First Impressions Last

Strong onboarding processes improve new-hire retention by 82 percent and productivity by over 70 percent, according to Brandon Hall Group research. And companies with weak onboarding programsare more likely to lose these people in the first year, the research shows.

Onboarding shouldn't be just a one-week orientation, but rather a yearlong program that helps new hires feel acclimated and motivated to perform, Nathan said. New employees should feel welcomed in their first days, get a tour of the facilities, be introduced to key staff and have their workspace set up with a computer, a phone and business cards. It's also wise, he suggested, to schedule regular meetings with the new hire—perhaps after 30 days, then 60 days, then 90 days—to discuss how he or she is adjusting.

Lisa Frye is a freelance writer based in Alexandria, Va.

> *Was this article useful? SHRM offers thousands of tools, templates and other exclusive member benefits, including compliance updates, sample policies, HR expert advice, education discounts, a growing online member community and much more.* **Join/Renew Now** *(www.shrm.orghttps://membership.shrm.org/? PRODUCT_DISCOUNT_ID=MART) and let SHRM help you work smarter.*

ASSESSING RISKS | SELECTION

Contact Us (www.shrm.org/about-shrm/Pages/Contact-Us.aspx) ı 800.283.SHRM (7476)

© 2017 SHRM. All Rights Reserved

Disclaimer (www.shrm.org/about-shrm/Pages/Terms-of-Use.aspx#Disclaimer)