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WHITE PAPER

> The Cost of Bad Hires

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> The Cost of **Bad Hires**



Every hiring manager has at least one new-hire horror story. What is the shortest tenure an employee has had at your organization? Have you ever hired someone who didn't make it through the first month? Week? Day? Perhaps someone who never even showed up at all?

Perhaps the only thing more harmful than a new hire who lasts a day and a half is a toxic employee who lasts for months – or even years – all while degrading morale and culture.

I have written in the past about how much vacant positions can cost your organization. As pricey as they can be, however, the cost of hiring the wrong person can make vacancies look efficient by comparison. In *The Effects of De-energizing Ties in Organizations and How to Manage Them*, it is stated that “a de-energizing

interaction with a colleague has between four and seven times the influence of an energizing interaction.” This can result in “blocked opportunities, decreased motivation... lower performance... increased likelihood of exit... conflict, lower team cohesion and trust... a decrease in the ability to solve problems, and overall lower team performance.” Basically, one bad hire can send negative shockwaves through the entire organization.

The average manager is estimated to earn their company anywhere from three to five times their annual salary – **but a bad hire can actually cost their company 15 times their salary** – and that number doubles for senior executives. Some of this cost is directly related to the position, but the majority of it is due to the trickle-down effect that toxic employees and rapid turnover have on the rest of the organization. Consider the following costs resulting from a bad hire.

Revenue Costs

- Recruiting, onboarding, training and paying an underperformer
- Ultimately still being left with a vacant position and having to do it all over again
- Severance or unemployment fees after termination
- Decreased position productivity

Personnel Costs

- Decreased morale
- Increased frustration
- Bad habits spread
- Decreased satisfaction
- Disrupted team cohesiveness
- Higher turnover of high-performing team members
- Increased likelihood that poorly performing team members will be retained
- Reduced creativity and innovative thinking

Time Costs

- Hours spent correcting mistakes
- Work left incomplete – or which is handed off to someone else
- Increased recruiter workload
- Time devoted to training, retraining and professional development

Customer Costs

- Loss of sales volume due to poor customer interactions
- Customer attrition due to mistakes
- Loss of new business due to a diminished reputation
- Increased perception of corporate incompetence

Competitive Advantage Costs

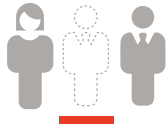
- Damaged corporate culture
- Tarnished employer brand, making it harder to hire top talent in the future
- Opportunity loss: By hiring the wrong employee, you may have missed out on someone who could have been a superstar
- Sends a message to analysts that you are weak
- Sends a message to competitors that you are vulnerable
- Mis-hires at the C-Suite and other top executive positions can have an adverse impact on financing and the willingness of others to partner with your organization

> Be Proactive

Don't let your organization fall victim to the ramifications of bad hires. Even when you feel a crunch to get a position filled, make sure you are doing your due diligence. This includes:

- Considering cultural fit as well as hard skills and other qualifications. Remember: skills can be taught; character cannot.
- Conducting thorough reference and background checks. Candidates are always going to present themselves in the most flattering light – it is up to you as the hiring manager to make sure they can “walk the walk” as well as “talk the talk,” and past performance is the best predictor of future performance.
- Refraining from snap judgments. Some of the best employees have the worst interviews and vice versa. We have a tendency to make decisions based on emotion and then support them with logic; your gut instinct is important, but make sure it's not the sole determinant in your hiring decisions.

Three Primary Costs That Follow A Poor Hiring Process



The Cost of **Vacant Positions**

Some managers believe leaving a position open can save money by having less salaries to pay, while others believe if they lose a key employee, they can always find another one.



The Cost of **Rejected Offers**

An offer rejection knocks your hiring process back to square one; it adds even more stress to human resources, hiring managers, and the departments covering for job vacancies.



The Cost of **Bad Hires**

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**Hiring mistakes are expensive —
get it right the first time.**

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