

Instead Of The Cost Of Hire...Measure The Cost Of A Bad Hire

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If your company has a turnover of 20% per year and all of your new hires are mediocre, it will only take 5 years for all of your entire workforce to be mediocre. The cost of a "bad hire" for a software engineer can exceed a million dollars, for a CEO it could be as much as \$1.4 Billion (Ask Quaker Oats for example!).

Assumptions About Recruiting:

- If you don't recruit and select great people...you won't have great employees. And without great employees you won't have a great company.
- Great ideas and products come from people not from equipment, buildings, or capital.
- No one purposely hires Mediocre applicants but weak recruitment efforts and less than stellar selection tools will result in the hiring of Mediocre employees. Everyone hires some mediocre employees but poor employment systems will result in a higher proportion of "turkey" hires than a World Class one.

The Business Impacts Of Hiring Mediocre People - When you hire mediocre people one or more of the following things may happen:

Increased Management Time And Effort:

- Mediocre employees require "high maintenance" and more management attention and worry.
- Time spent on "problem" employees can't be spent on the best employees.

- Mediocre hires for management and team leader positions have a multiplier effect on the productivity of others.

Training Time And Costs:

- Mediocre employees, because they lack competencies, must attend more remedial training.
- The time Mediocre employees spend in training slows their "time to productivity."

Customer Satisfaction And Error Rates:

- Mediocre employees send a message to our customers we are getting weak or we don't care about them.
- Errors by Mediocre employees lose us sales volume and occasionally customers.

Product Development:

- Mediocre employees have fewer ideas and mediocre ideas that distract us from where we really need to be going.
- Time To Market is dramatically impacted by the disruption caused by their mediocre ideas and questions and because they do not fit well into in a team of "winners."
- Trying to humor them or not hurt their feelings when they don't understand what the rest of the team is trying to do wastes time and energy. We answer

their questions and politely try to help them come up to speed, when this help wouldn't be necessary if they "got it."

Our Competitive Advantage:

- When we hire a mediocre employee that is one bad hire that our competitor can not now hire by "mistake."
- A mediocre employee takes up a spot on the team that can't be taken by a superstar. These are called opportunity costs.
- Mediocre employees send a message to our competitors we are getting weak. This might encourage them and improve their own confidence/image so that they become bolder in the product market.
- Mediocre employees produce less per dollar of cost (salary). Since typically 60% of all corporate budgets go to employee expenses that makes the inefficient use of these funds a major corporate weakness.
- Hiring Mediocre CEO's and top managers can adversely impact our stock price and the willingness of others to partner/merge with (or invest in) us.

Other Employee's Productivity:

- Superstar employees often resent being on the same team with "losers."
- Team productivity can suffer due to lost time helping the weaker bad hires.

Our Image And PR:

- Mediocre employees send a message to our competitors we are getting weak.
- Mediocre employees send a message to future recruits that we are not a selective employer.
- Mediocre employees send a message to our current employees we are headed down hill.
- High turnover rates due to Mediocre hires sends a message to other recruiters and potential applicants.

Fill In Time:

- Mediocre employees may have increased absenteeism and tardiness.
- When Mediocre employees are in extra training someone must fill in for them.
- During the "gap" between the termination of the bad employee and the hiring of a new one there must be fill in help.

Out Of Pocket Costs:

- Ad costs for recruitment as a result of having to do a replacement hire.
- Bad hires often cost the same in salary and benefits as great employees but their Return on Investment is much below that of a great employee. (For an excellent hire the revenue generated by a new hire exceed their salary by at

least 5 times).

HR Time And Image:

- Increased termination, exit interview and firing costs as a result of Mediocre hires.
- Increased disciplinary costs as a result of Mediocre hires.
- Added recruitment time and interview time as a result of having to replace a Mediocre hire.
- More paperwork, files and documentation as a result of having to replace a Mediocre hire.
- Poor HR work is seldom more visible than when we complete a Mediocre hire. It loses the trust we have built up and the bad image often "spreads" beyond employment to the rest of HR.

What We Need To Do (And be able to prove it) Is To Hire Better People:

1. With more competencies. Both competencies that we need now and will need in the future.
2. Who are agile, can multi-task and shift rapidly to new problems and jobs.
3. Who self-develop, are continuous learning individuals and do so without the need for company training.

4. Who have more ideas that are implemented and that impact our profitability.
5. That require "Low maintenance" from managers. These employees have a lower error rate, number of disciplinary incidents and absenteeism rates than other employees.
6. That have a higher customer satisfaction, higher performance appraisal scores, bonus rates, forced ranking scores and promotion rates.
7. That inspire and train others to be more productive.
8. That stay longer before quitting.
9. Who produce more return for every dollar of salary paid them.

It's that simple. Mediocre employees cost us a bundle and great ones make us rich!