



THE REAL COST OF A BAD HIRE

In 2009, employee turnover cost U.S. businesses an estimated \$300 billion.¹ The staggering cost of employee turnover can be viewed as simply the cost of doing business, however, additional damage occurs when turnover is compounded by poor hiring and management practices. Fortunately, the number of employees that are fired or leave on their accord can be managed. Some of the most common reasons employees give for voluntary separation include boredom, weak or toxic supervisor relationship, wrong cultural fit and job descriptions that don't match the reality of the position.

Cost Estimates

What can a bad hire do to a bottom line? The following statistics provide insight:

- Replacement of an employee can range from two to seven times his / her salary²
- Hiring and training costs can vary from 25 to 200% of annual compensation³
- The more an employee earns, the more money it costs to replace him / her⁴

Cost Categories

Typically when considering the cost of replacing an employee, salary is the only variable considered. However, deeper digging reveals many other costs that have a much larger impact. The costs of hiring a new employee can be categorized into two primary types, direct and indirect. Direct costs can be traced to a specific object

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¹ U.S. Bureau of Labor Statistics, 2009

² "Top 5 Hiring Mistakes & How to Fix Them", Synergy Solutions, 2009

³ "Six Truths about Employee Turnover", American Management Association, June 2000

⁴ "Survey: The Cost of Bad Hires Are Very High", American Management Association, 2008

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such as a department, process or product. Indirect costs are not attributed to any particular process or product but stem from intangible costs such as time and lost productivity.

Direct

Salary — The compensation paid to the employee.

Benefits — Non-cash compensation paid to an employee such as health insurance, paid vacation and retirement plans.

Recruiting costs — Time and monetary hiring investments.

Severance pay — Amount granted to an employee whose job has been eliminated.

Temp staffing fees — Costs charged by a recruitment agency.

Training costs — Expenses incurred during the education and instruction of a new employee.

Possible legal fees — Expenses attributed to lawyer fees, fines and miscellaneous court costs in the event the dismissed employee decided to take legal action against the former employer.

Relocation expenses — Costs of moving or changing the living conditions of a job candidate.

Unemployment pay — Potential funds an employer may be required to pay the terminated employee.

Advertising costs — Amount allocated to announce job openings through direct mail, print, radio, Internet and other media outlets.

Indirect

Supervisor time spent interviewing / managing - Includes time spent evaluating job candidates and managing them once on board. This time could have been better spent mentoring top employees or performing other pertinent duties.

Damage to customer relationships — Lost opportunities and business due to employee mismanagement.

Lost productivity — Inefficiencies caused by poor time management of a bad hire, time invested by other employees to work with the bad hire, and / or time spent searching for and screening a replacement hire.

Co-worker and manager time spent training — Time and monetary investments spent training a bad hire that could have been devoted elsewhere.

Impact on employee morale — Remaining employees are negatively impacted once the separation occurs as they are often asked to assume more responsibility; they may question management decision making skills; and

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they may develop concerns regarding their job security.

Tips for making right hiring decision

Given the substantial costs associated with replacing an employee, it is prudent for companies to avoid making a bad hiring decision in the first place. There are a number of actions that can be taken to help you identify and select the right candidates for your open positions.

See the Big Picture

Your organization exists within the local labor market. Thus, it is important to look outside your “four walls” to assess industry trends related to the supply and demand of various skill sets you are seeking to hire.

Questions to ask:

- ▶ How large is the labor pool you are fishing from?
- ▶ Who else is competing for this talent?
- ▶ Who employs many of these skill sets today?
- ▶ What are the fair market rates for this talent in your area?
- ▶ What types of priorities and values guide labor behavior in the local market?
- ▶ What types of benefits or perks do other competing employers offer top talent?

Know Thyself

In addition to building a job description, it is critical for a hiring manager to understand the corporate culture and specific success factors necessary for a given role. We recommend you take the time to fully vet a position’s knowledge, skills, and requirements, its purpose relative to your corporate strategy, and how the role will fit into the business — now and into the future. It’s equally important to consider and articulate your Employee Value Proposition (EVP) for every opening; in other words, ensure you can communicate all the compelling reasons top talent would be happy to work for you versus other local competitors.

Questions to ask:

- ▶ What makes someone successful at your company? What makes someone unsuccessful?
- ▶ Who will this position work with? Who are the stakeholders and what do they care about most?
- ▶ What would happen to the organization if this position went unfilled? How does this position support the strategy?

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- ▶ How will the job grow and change over time?
- ▶ What does the career path look like for a person in this role?
- ▶ What benefits can you offer to this position in terms of pay, insurance, flexibility, visibility, advancement, or other perks?

Sourcing Strategy

While we live in the technology age, it is not enough to post jobs on the Internet and hope that the right candidate will find you. The most effective way to find a qualified person is to leverage your employees and close colleagues for referrals. These people are closer to knowing the company culture and possess a better understanding of what skills and characteristics are needed to fill the open position successfully. Moreover, employees and people you trust are less likely to recommend a poor candidate as their reputation will be tied into those they send your way.

Questions to ask:

- ▶ Who internally can recommend good candidates for this role?
- ▶ How do you let others know about the role you have open?
- ▶ How can you encourage our employees to utilize their networks to find the right candidate?

Screening & Selection

While often tempting, you should not be satisfied with a resume and an interview to screen and select a new hire. You are tasked with matching an entire person — all of his / her skills, experiences, personality traits, behaviors, and values — with an entire company — its history, its future challenges and strategies, its employees, customers, and values. This is not a decision to be taken lightly. Candidates should be screened using a robust process including an assessment of cultural fit (behavioral and situational interviews, personality tests, the ability for more than one person to interview the candidate); and an assessment of technical competency (skill testing, shadowing exercises, and simulations).

Questions to ask:

- ▶ How will the candidates be screened?
- ▶ What are the “must haves” and how does your screening strategy validate that a candidate possesses them?
- ▶ What types of steps should you take to assess a cultural fit?
- ▶ What types of steps should you take to assess a technical fit?
- ▶ Who should be involved in the screening process?

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Reference Checks

Reference checks are invaluable tools for finding the right candidate. Utilizing former supervisors and managers (not friends or peers) allows you to gain insight to a candidate's character, accomplishments, work ethic, and skill set. While some companies have policies against providing references, we have found that most people are willing to provide information on a past top performer. If you are partnering with a staffing firm, ensure that reference checks have been completed by requesting to see the reference form and by calling the reference directly.

Questions to ask:

- ▶ What type of work did the candidate perform? What did he / she accomplish? Who did the candidate work with? What was particularly challenging about the role?
- ▶ How would the reference describe the work environment and corporate culture?
- ▶ What kind of personality traits does the candidate have — how did he / she demonstrate these traits?
- ▶ How has the candidate demonstrated he / she can perform the must haves for this role?

Relationship Management

It is important that you have an efficient on-boarding program so you can quickly acclimate new hires to the work they will be doing and the company culture they must work within. The sooner you can get your new hire the information necessary to become productive, the sooner you can assess if he or she has the skills necessary to perform well in the job. Long term, you should also consider the mechanisms you have in place to foster deep relationships with your employees and ensure they remain high-performing, loyal team players.

Questions to ask:

- ▶ What kind of on-boarding and orientation process do you have in place for new hires?
- ▶ How will you quickly on-board a new hire to the company culture?
- ▶ How can you assist the candidate in getting up to speed quickly?
- ▶ Do you have a 30-day review process to get / give feedback and resolve any open issues?
- ▶ How will you keep your employees motivated?
- ▶ What type of performance reviews and training can you offer to fuel employee development long term?

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Conclusion

Bad hiring decisions impact your business in many ways, including your bottom line. You can set yourself up to hire the right candidate by evaluating your local market, understanding your organization's needs, leveraging referrals, executing a robust screening process, and building a thorough development process for all employees. These steps will ensure that you are not only bringing in the right people but also grooming and retaining them in the years to come.

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