

A woman with long dark hair, wearing a black blazer over a light purple top and black pants, is looking down at a document she is holding. She has a watch and a ring on her left hand. The background is a blurred warehouse or office space with shelves and boxes.

# MEASURING THE IMPACT OF A BAD HIRE IN 2016

You Can't Afford to Get It Wrong  
in Today's Competitive Job Market

# What's a Bad Hire?

Bad hires are a problem for businesses of virtually every shape and size, with US-based companies alone spending as much as **\$20 trillion dollars** annually replacing these failed employees.<sup>1</sup>

But despite the widespread nature of this problem, many key players in the hiring process have little to no idea how detrimental a bad hire can be. Moreover, some don't even understand what a bad hire truly is. So before we delve into measuring the real impact of a bad hire, let's take a step back and assess what constitutes a bad hire in the first place.

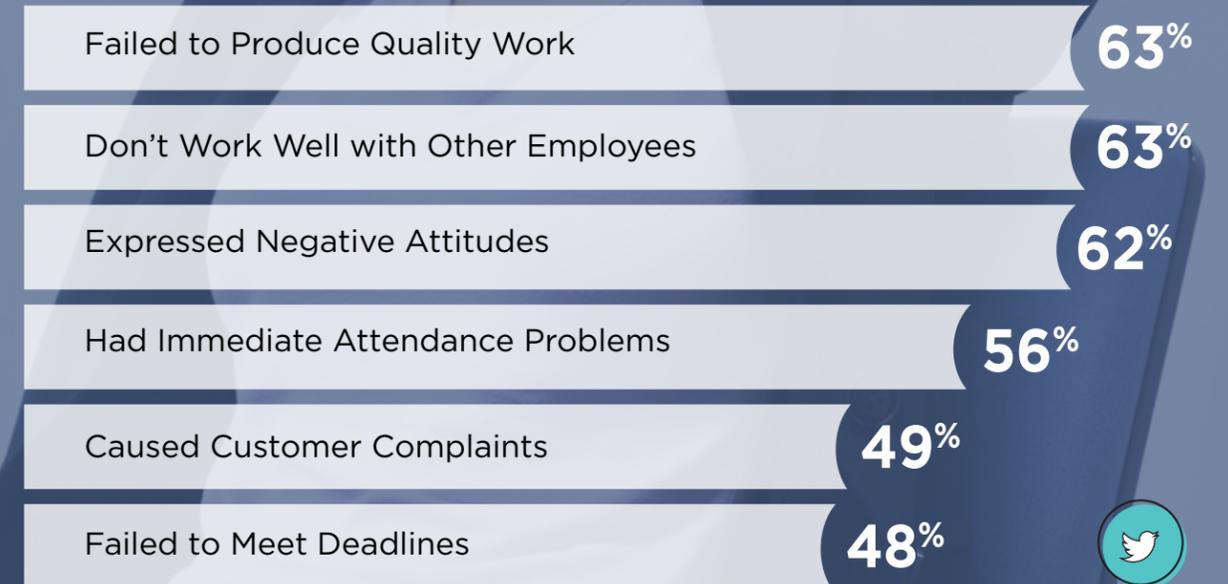
For starters, a bad hire isn't simply someone who leaves their job fairly quickly. This isn't the measuring stick. No, this is only part of the story.

**The following are the five most cited reasons why new hires fail, underperform, or struggle:**<sup>3</sup>

## Why Hiring Managers Say New Hires Fail

- 1 Coachability.** This corresponds with the employee's inability to accept and implement feedback from managers, colleagues, customers, and partners.
- 2 Emotional Intelligence.** Nearly one-quarter of new hires cannot manage their own emotions and/or accurately assess those of others.
- 3 Motivation.** Almost one in five workers lack the drive to succeed and excel in their job.
- 4 Temperament.** Cultural fit is a critical success factor, and some hires simply aren't suited to the particular job and/or work environment.
- 5 Technical Competence.** Functional and technical skills are listed as the reason that slightly more than one in 10 of new hires are categorized as bad hires.

## Characteristics of Bad Hires According to Employers<sup>4</sup>



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*A recent study found that 45 percent of the 54 percent of hires who remain with their employers after 18 months are fair to marginal performers.<sup>2</sup>*

# Bad Hires Are a BIG Problem

While companies may still need to come to grips with the full impact of a bad hire, most aren't blind to the fact that they're making bad hiring decisions.

**95 percent** admit they make bad hiring decisions every year.<sup>5</sup> **82 percent** of hiring managers even indicate that there were clues during the sourcing, interview, and hiring processes that should have revealed that the eventual employee would end up as a bad hire.<sup>6</sup>

But despite this awareness and acknowledgement, businesses continue to spend anywhere from a few thousand dollars to several hundred thousand dollars on failed employees.

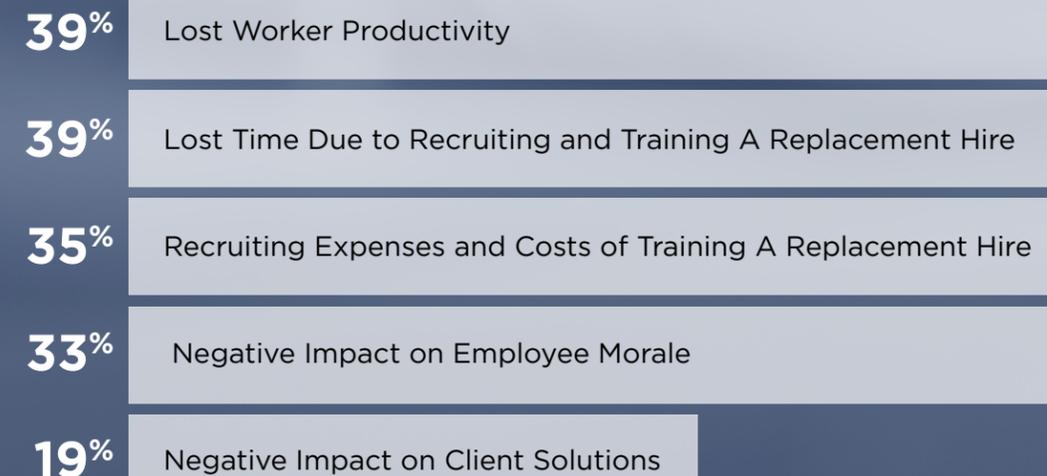


Yet cost is just part of the broader picture. The business impact of bad hires reverberates to other areas of an organization so completely that one Harvard Business Review article claimed that it's better to avoid a bad hire than to hire a superstar.<sup>8</sup>

Employee attrition, reduced productivity, missed opportunities — these are just some of the other repercussions of a bad hire. In the sections that follow, we'll examine the full impact of a hiring mistake, from time wasted to workover turnover, and we'll give you the tools you need to start making better hiring decisions immediately.

*41 percent of businesses report they've made at least one bad hire in the past year that cost them more than \$25,000. More than one in four admit they've made at least one bad hire that cost them more than \$50,000.<sup>7</sup>*

## Costs Go Beyond Money: How Employers Say Their Company was Affected by a Bad Hire<sup>9</sup>



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# Time Wasted on Bad Hires

It's no secret that making a good hire is a time-consuming process. The bad news, though, is that making a bad hire eats away just as much as time...and then some.

It starts with a hiring leader writing a job description, a task that takes an hour or two to complete. It also involves posting the job to the right job boards, an exercise that often consumes several hours of work. Reviewing and vetting the different applicants—resumes, cover letters, prescreening questions—is the next step, something that normally takes hours to finish. Then comes the interview process, devouring as much as 16 hours of the recruiter's, hiring manager's, and interview team's time (depending on the size of the interview team, etc.). Job offers, reference checks, background checks, and other post-interview processes can tally up very quickly.

It's no wonder that **34 percent** of small business owners say they spend up to **50 hours** sourcing, vetting, and hiring each bad hire.<sup>10</sup>

And all of the above is prior to the bad hire accepting the job offer and proceeding to the onboarding process. Those affected include the hiring manager, training staff, colleagues/peers, other managers, and even the recruiter, with the time expenditure accumulating very quickly.

Unlike the good hire, though, once a bad hire is on board, wasted time continues to add up.

All of the above is for just one new hire. The amount of wasted time snowballs into an avalanche when multiple bad hires are factored into the equation. What's more, to replace the bad hire, an organization must go back through the same sourcing, assessment, hiring, and onboarding processes.

*A recent study found that hiring managers spend, on average, 17 percent of their workday managing bad hires.<sup>11</sup>*

## Time Expenditure to Hire a Bad Hire<sup>12</sup>

ACTIVITY	TIME SPENT
<b>Job Description:</b> Time required to write and vet a compelling job description.	1 to 2 hours
<b>Posting to Job Boards:</b> Posting of a job description to different job boards.	1.5 hours
<b>Reviewing Applicants:</b> Time recruiters and hiring managers spend reviewing applicants and deciding which ones to interview.	Roughly 23 hours
<b>Prescreening Applicants:</b> Questions recruiters and hiring managers use to screen in—and out—applicants.	Up to 4 hours
<b>Prepping for the Interview:</b> Questions recruiters and hiring managers prepare in advance of the interview process.	1.5 hours
<b>Interviewing Candidates:</b> Time recruiters, hiring managers, and interview team spend interviewing candidates.	16 hours
<b>Wrapping Up and Hiring:</b> Reference and background checks, offer letters, negotiating offers, testing, and other activities.	7.5 hours
<b>Onboarding:</b> Time to provision new systems and applications as well as train and educate workers on company policies and processes.	Time varies—from a few hours to a week or more.
<b>TOTAL</b>	<b>At least 54 hours</b>

# Lost Productivity Due to Bad Hires

With the loss of time comes the loss of productivity. And as even a hiring process that ends in the onboarding of a superstar employee can take between five (for a staff-level position) and seven-and-a-half weeks (for a management-level position), productivity losses around making a bad hire can be substantial.

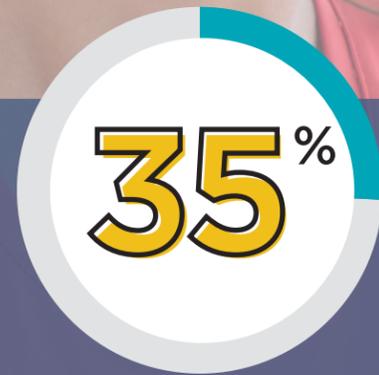
Indeed, recruiters and hiring managers alone can spend upwards of 40 hours to fill one position. Double down on this time commitment as a result of a bad hire's departure and the need to fill the position a second time, and productivity losses begin to compile very quickly.

Yet replacing a bad hire is only part of the equation. As mentioned in the previous section, a recent study found

that hiring managers spend, on average, **17 percent** of their workday managing bad hires.<sup>13</sup> This is a huge expenditure that has a direct impact on the bottom line.

Bad hires affect other workers as well. Two-thirds of employees report that bad hires adversely detract from their productivity,<sup>14</sup> and 35 percent of companies indicate those bad hires greatly impact employee morale<sup>15</sup> and contribute to as much as 80 percent of worker attrition.<sup>16</sup>

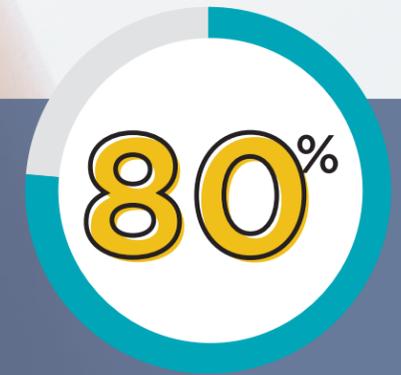
And then there are the productivity consequences related to the bad hire themselves. It typically takes a new hire six months to reach a breakeven point. Yet one-third of new hires quit their jobs within six months.<sup>17</sup> This translates into a negative productivity loss for each of those workers.



*35% of companies indicate bad hires greatly impact employee morale.*



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*As much as 80% of worker turnover is tied to bad hiring decisions.*



Tweet it!

# The Cost of Bad Hires

If lost time and productivity aren't enough to convince you that bad hires are a big problem, the hard costs will be.

The US Department of Labor estimates the cost of a bad hire to be around **30 percent** of a worker's first year's salary.<sup>18</sup> The cost for many roles is actually higher. The bar graph on the right breaks out the cost across different position levels and skill types.

The cost for certain skillsets is even higher. For example, in the case of a sales manager or lawyer, a recent study pinpoints the cost at nearly \$250,000.<sup>20</sup> For certain medical professionals, the same study projects up to \$300,000 in costs!<sup>21</sup>

And if these numbers aren't frightening enough, there are other costs to consider. For small businesses, **68 percent** worry that bad hires will affect their company's reputation. **73 percent** feel frustrated, and **47 percent** experience increased stress levels as a result of bad hires.

And when it comes to the impact on customers, the data doesn't get any better. **11 percent** of companies report fewer sales as a result of bad hires;<sup>23</sup> **24 percent** of business leaders admit they've lost customers because of bad hires.<sup>24</sup> Talk about bottom-line repercussions!

*Avoiding a bad hire can save a company more than twice as much as bringing on a superstar performer.<sup>22</sup>*

Some of the variables that factor into the cost of a bad hire include:<sup>25</sup>

- Training/Onboarding
- Compensation
- Unemployment Compensation
- Missed Business Opportunities
- Team Performance
- Loss of Customers
- Outplacement Fees
- Relocation Fees
- Weakened Employer Brand
- Litigation Fees
- Loss of Productivity
- Turnover

## Costs of a Bad Hire

(Percentage of first year's salary)



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# Why Companies Make Bad Hires

## There are a lot of different reasons for bad hires.

It starts with your sourcing strategy. Failing to attract the best applicants means you're forced to review the resumes, cover letters, and applications of poor fit candidates—in terms of skillsets, background, and culture. In essence, you set yourself up to fail from the very get-go.<sup>26</sup>

Equally important though is your review and assessment process. Sizing up applicants early and often is a fundamental building block. However, half of companies reveal they don't start evaluating applicants until the onboarding process, after they've already been hired!



So what's the solution?  
What can you do to solve these key problems?

Implementing the kind of integrated sourcing solution that results in a larger number of qualified applicants is a pivotal starting point.

From there, it comes down to making sure you have the right processes and systems in place to prescreen and vet applicants before you even start interviewing. Then formalizing a standard interview process is another area that will help you avert bad hires. Research shows that those companies with a standardized interview process increase the likelihood of a quality hire fivefold.<sup>28</sup>

Making sure your candidates have a positive experience is just as important, with organizations that do so seeing a 70 percent improvement in their quality of hire.<sup>29</sup>

Last, but certainly not least, building a great employer brand is pivotal to attracting, hiring, and retaining top talent. In addition to higher revenues and better profit margins, companies in the upper employer brand quadrant have fewer problems with bad hires—by as much as threefold.<sup>30</sup>

## Why Bad Hires Happen<sup>31</sup>

- 43% Had to Fill Position Quickly
- 22% Unqualified for the Job Position
- 13% Sourcing Technologies Need to be Adjusted Per Open Position
- 9% Didn't Check References

## What Impacts a Bad Hiring Decision?<sup>32</sup>

- 69% Interview
- 51% Hiring Managers
- 45% Screening and Assessment
- 28% Candidate Experience

## When Organizations Assess Candidates<sup>33</sup>

- 50% After Onboarding
- 32% During Interview Process
- 6% During Onboarding
- 5% During Screening
- 5% During Offer Letter

## Top 3 Ways to Assess the Quality of a New Hire<sup>34</sup>

- 62% Organizational Fit
- 62% Hiring Manager Satisfaction
- 57% New Hire Productivity

*The top reason companies list for bad hiring decisions is the need to fill the position quickly.<sup>27</sup> Yet rushing to fill a position with the wrong candidate is actually worse than if you didn't fill the opening at all.*



# MightyRecruiter Can Help!

MightyRecruiter is the whip-smart, lightning-quick, hi-tech with a human touch hiring solution designed to help businesses—big and small—hire right, hire fast, and hire at a price that makes sense. Recruiters and hiring leaders who rely on MightyRecruiter get more and better qualified applicants and are able to quickly filter the list of applicants to the very best candidates.

## Some of its other mighty features include:

- Publication of job descriptions to your career site and social channels in a single click
- Streamlined job posting to multiple job boards with a single click
- Premier placement of job opportunities on the #1 resume builder site in America
- Access to a massive database of 10+ million resumes
- Intuitive, comprehensive dashboards and reporting tools
- Automated employee referral technology that turns your workers into recruiters in seconds
- Anytime, anywhere access for anyone in your organization using any device without any log-in requirement

MightyRecruiter's job promotion experts are also at your disposal. They'll help you optimize your job board spend and identify best sites for your postings (and can even post on your behalf). It's the human touch that makes a difference.

<sup>1</sup> Patrick E. Spencer, "The Business Leader's Guide to Hiring: Screening & Reviewing Candidates to Make Better Hires," Part 3 of a 3-Part eBook Series, MightyRecruiter, June 2016.

<sup>2</sup> Darryl Moore, "Bad Hires: Stats, Costs, Avoidance, Poor Excuses, and Other Thoughts," RecruitingBlogs.com, June 14, 2012.

<sup>3</sup> Mark Murphy, "Why New Hires Fail (Emotional Intelligence vs. Skills)," LeadershipIQ, June 22, 2015.

<sup>4</sup> Paula Norbom, "Build a Superior Team for World Class Performance," LinkedIn Pulse, February 19, 2016.

<sup>5</sup> Madeline Laurano, "The Trust Cost of a Bad Hire," Research Brief, Brandon Hall Group, August 2015.

<sup>6</sup> Mark Murphy, "Why New Hires Fail (Emotional Intelligence vs. Skills)," LeadershipIQ, June 22, 2015.

<sup>7</sup> "More than Half of Companies in the Top Ten World Economies Have Been Affected by a Bad Hire," CareerBuilder Survey, May 8, 2013.

<sup>8</sup> Nicole Torres, "It's Better to Avoid a Toxic Employee than Hire a Superstar," Harvard Business Review, December 9, 2015.

<sup>9</sup> "More than Half of Companies in the Top Ten World Economies Have Been Affected by a Bad Hire," CareerBuilder Survey, May 8, 2013.

<sup>10</sup> "What's the Worst Part of a Bad Hire? Time, Money, and More," Robert Half Finance & Accounting, June 15, 2016.

<sup>11</sup> Roy Maurer, "Morale, Productivity Suffer from Bad Hires," Society for Human Resource Management, February 2, 2015.

<sup>12</sup> See "First in HR: Know Your Numbers in Hiring," Recruiterbox.com, accessed June 22, 2016, for an overview of these metrics.

<sup>13</sup> Maurer, "Morale, Productivity Suffer from Bad Hires."

<sup>14</sup> Patrick Schober, "The Cost of a Bad Hire," HRMorning.com, August 14, 2013.

<sup>15</sup> Mariah Deleon, "What Really Happens When You Hire the Wrong Candidate," Entrepreneur, accessed June 21, 2016.

<sup>16</sup> Fred Yager, "The Cost of Bad Hiring Decisions Runs High," Dice, accessed June 21, 2016.

<sup>17</sup> Maren Hogan, "9 Employee Retention Statistics That Will Make You Sit Up and Pay Attention," ERE Media, November 30, 2015.

<sup>18</sup> Anofe Gorey, "Who Are You Really Hiring? 10 Shocking HR Statistics," HR.com, March 26, 2012.

<sup>19</sup> Larry Myler, "Hiring: Why a Bad Candidate Is Worse Than No Candidate," Forbes.com, April 29, 2015.

<sup>20</sup> Schober, "The Cost of a Bad Hire."

<sup>21</sup> Ibid.

<sup>22</sup> Nicole Torres, "It's Better to Avoid a Toxic Employee than Hire a Superstar," Harvard Business Review, December 9, 2015.

<sup>23</sup> Deleon, "What Really Happens When You Hire the Wrong Candidate."

<sup>24</sup> Brooks, "Dollars and Sense."

<sup>25</sup> Laurano, "The Trust Cost of a Bad Hire."

<sup>26</sup> "Using Prescreening to Refine Your Applicant Pool: Strategies and Tactics for Asking Better Prescreening Questions," Solutions Brief, MightyRecruiter, June 2016.

<sup>27</sup> "Why Do Companies Hire Bad Employees?" MindFlash.com, accessed June 21, 2016.

<sup>28</sup> Laurano, "The True Cost of a Bad Hire."

<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

<sup>31</sup> Schober, "The Cost of a Bad Hire."

<sup>32</sup> Laurano, "The Trust Cost of a Bad Hire."

<sup>33</sup> Ibid.

<sup>34</sup> Madeline Laurano, "The True Cost of a Bad Hire," Research Brief, Brandon Hall Group, August 2015.