



THE TRUE COST OF HAVING THE WRONG PERSON IN THE JOB

AND WHY YOU NEED TO ADDRESS THE ISSUE RIGHT NOW!

Internal and external hiring mistakes happen more often than one likes to believe. Unfortunately, a significant percentage of hiring decisions are the result of the hiring manager's "gut" feelings or intense pressure to fill a vacancy swiftly. When qualified candidates are few and far between, managers must make a selection from a pool of individuals who do not necessarily possess behavioural or hard skills such as knowledge or hands-on experience. And, at times, HR, the line manager, or both, may find themselves fooled by a candidate's appearance, blatant close relationship to management, and interviewing skills, or pressed to consider a colleague's referral, without digging deeper to ascertain the underlying fitness for the position.

Many leaders fail to understand the true cost of hiring and retaining individuals who either do not have the necessary credentials, behavioural aptitude, and experience or, perhaps, are unwilling to exchange acceptable work for the salary they earn. Such costs, often overlooked, can only lead to the long-term detriment of the organisation, risking its viability and success going forward.

THE SHORT-TERM ESTIMATE

An article^[1] on employment costs refers to an expensive hiring mistake – the cost of a "mis-hire" – as the unconscious avoidance, denial, and/or toleration of underperforming or indifferent employees. The higher the position level, the quicker the cost of a such an error increases exponentially. Brad Smart, Founder, Topgrading, Inc., cited in the article, considers the potential cost for a mis-hire as:

- 14 times salary for employees earning a base salary under US\$100,000
- 28 times salary for employees earning US\$100,000 to US\$250,000

Besides the typical direct and indirect costs of dealing with the challenge of finding new, qualified employees (such as recruiting, interviewing, reference checking, lost productivity in beginning months, and so on), employers need to consider long-term opportunity costs – for example, substandard service; lowered employee morale and substandard performance in other employees due to passive resistance; missed deadlines; customer dissatisfaction with product quality, customer service, lack of innovation caused



by disengagement and/or lost trust/faith in the company; and, unfortunately, missed sales opportunities.

THE LONG-TERM FINANCIAL IMPLICATIONS

Imagine a business unit that has an annual revenue of US\$250 million, operating at a 15% margin. Led by 12 global/regional leaders who cost, on average, US\$300,000 per head, the impact of mis-hiring a single leader for the team can be truly devastating for the business unit. Two mis-hires will be a big problem. Three will result in long-term damage.

Using this data as the base for an example calculation, the business impact becomes even more clear.

Scenario	# of Mis-hires	Total Cost (US\$) of Mis-hires <i>Cost of 1 Mis-hire at \$300,000 (average salary) × 28</i>
1	Cost of 1 Mis-hire	8.4 million
2	Cost of 2 Mis-hires	16.8 million
3	Cost of 3 Mis-hires	25.2 million

Consequently, the potential financial impact of mis-hires on a business unit with an annual revenue of US\$250 million at a 15% operating margin (or, $250,000,000 \times 15\% = \text{US\$}37,500,000$) can be as significant as a 67% reduction of the operating margin.

The hypothetical impact on the company's operating margin is as follows, using the same three scenarios.

Scenario	Assumption: <i>Total cost of Mis-hires ÷ operating margin</i>	Reduction on Operating Margin
1	8.4 million ÷ 37.5 million	22.4%
2	16.8 million ÷ 37.5 million	44.8%
3	25.2 million ÷ 37.5 million	67.2%

This result represents a huge impact on the organisation's bottom line, considering the efforts and assets invested in such a business. Not only the leadership team, but shareholders as well, should be very concerned with scenarios that adversely affect profits and growth. The last thing shareholders desire is to risk the percentage of their return on their investment, which would be unacceptable. More to the point, the last thing executives desire is to find themselves, in turn, hunting for new jobs as a result of their incompetent and inefficient management of the entity.

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A serious issue faced by many organisations today

COST TRANSPARENCY IS KEY

Put this way, in light of actual numbers, the financial impact of mis-hires is a very clear, troubling, and compelling story. A serious issue faced by many organisations today involves the lack of transparency with regard to actual costs or, indeed, little or no attempt to search for the true impact.

Non-transparency triggers extensive hidden costs that take the form of wasted resources, financial expenditures, and lost time for all stakeholders – from the employee to the leadership team to shareholders. Hidden or not, these costs take a toll on all of us as we continue, over and over, to pay them.

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