

The True Cost of a Bad Hire

Research Brief



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95% of organizations of all sizes admit to making bad hires every year. These decisions can cost organizations hundreds of thousands of dollars.

Introduction

As organizations expand and compete on a global scale, recruiters try to rapidly fill positions in order to meet increasing demands from the business. But these quick decisions can come at a high price – often much higher than organizations realize.

95% of organizations of all sizes admit to making bad hires every year, according to Brandon Hall Group’s 2015 Talent Acquisition Study. These decisions can cost organizations hundreds of thousands of dollars. How can companies become smarter about their hiring decisions? How can companies mitigate the cost of a bad hire? This report will help organizations understand what is behind bad hiring decisions and key recommendations to mitigate these costs.

Figure 1 Key Findings

- Organizations that lack a standard interview process are five times as likely to make a bad hire.
- Organizations that invest in a strong candidate experience improve their quality of hires by 70%.
- Organizations that invest in employer branding are three times more likely to make a quality hire.

Source: 2015 Brandon Hall Group Talent Acquisition Study (n=153)

What is a Bad Hire?

The majority of organizations we surveyed have a clear understanding of their cost-of-hire metrics. Not only do they have insight into what this number is, but they have insight into the variables, including job advertisement fees, recruitment staff fees, third-party recruiter fees, interview costs, and technology costs.



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Brandon Hall Group defines a bad hire as someone who negatively impacts organizational productivity, performance, retention, and culture.

Figure 2 Average Cost of Hire by Job Level	
Executives	\$ 3,798.65
Mid-Level Managers	\$ 1,501.79
Emerging Leaders/High-Potentials	\$ 1,249.07
Individual Contributors	\$ 1,062.72
Entry-Level Positions	\$ 740.63

Source: 2015 Brandon Hall Group Talent Acquisition Study

However, when asked to identify the cost of a bad hire, these same organizations were less confident, and more than 30% are unclear about the cost of a bad hire.

Determining the cost of a bad hire – alternatively defined as the cost of a “bad fit” hire – is a critical exercise that is often overlooked. Wrong decisions about job candidates can have a negative impact on departmental, business unit or corporate performance, company culture, and employee morale. Today, the cost of a bad hire is much less of a recruitment metric and much more of a business metric.

So, exactly what is a bad hire or “bad fit?” For the purposes of this study, Brandon Hall Group defines a bad hire as someone who negatively impacts organizational productivity, performance, retention, and culture.

Productivity. A bad hire will produce significantly less than high-performers and could delay company goals and objectives.

Retention. A bad hire is often categorized as someone who is likely to leave an organization in the first year or cause other employees to leave the organization. A study by Harvard Business Review found that 80% of companies believe that turnover is the result of a bad hire.



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A bad hire can damage an organization's culture by creating negative morale and employee resentment.

Performance. A bad hire's performance often suffers or will cause team performance to suffer. Brandon Hall Group's 2014 team performance study found that 72% of companies were able to correlate team dynamics with improved productivity, and 68% of companies found that team dynamics positively impacted engagement. If one member of the team is not performing, the entire team will suffer.

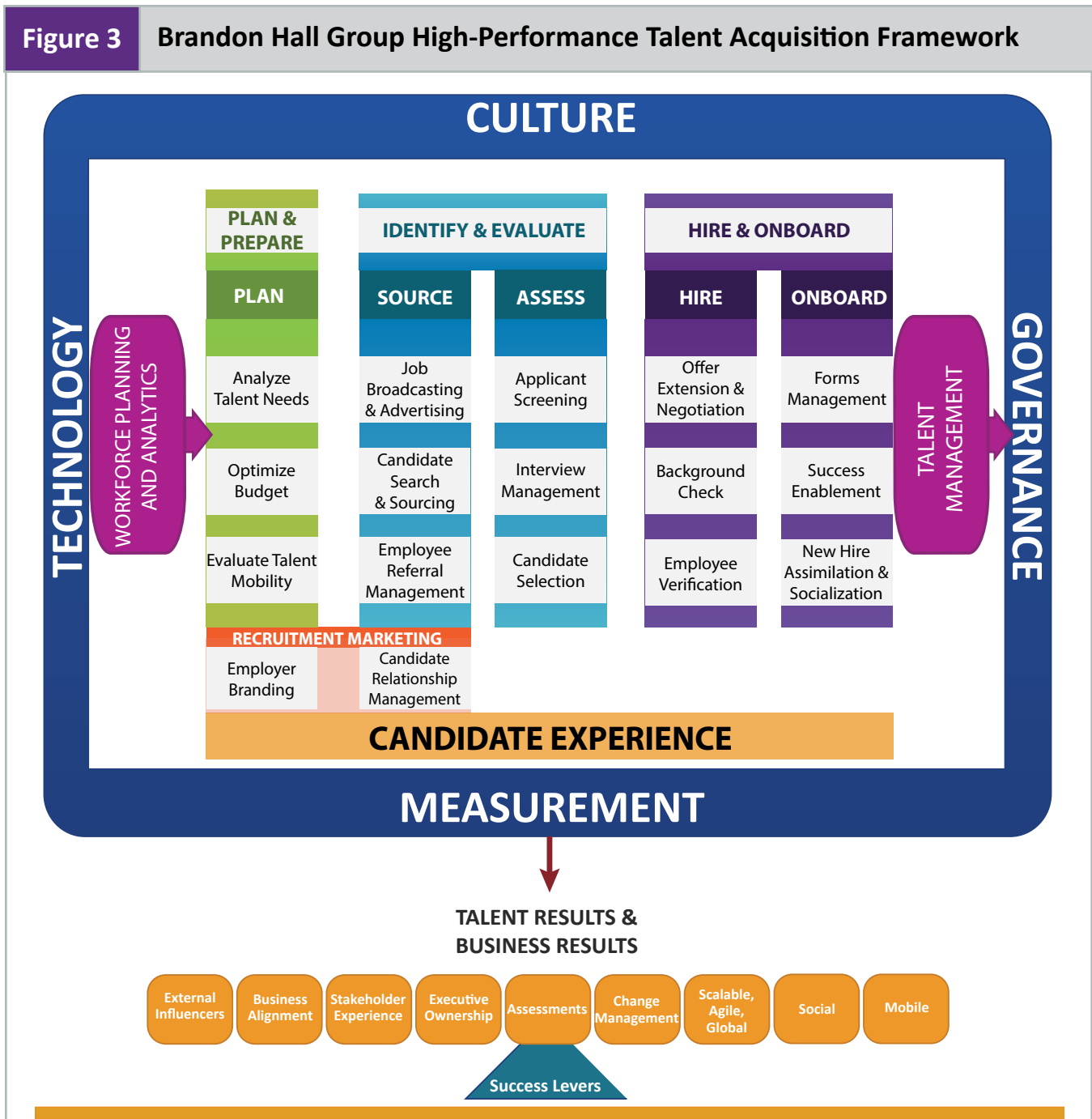
Culture. A bad hire can damage an organization's culture by creating negative morale and employee resentment. Our research found that organizations that make the right hires positively impact brand and culture.

With a clear definition, companies can understand why they are making bad hires and mitigate the risks.

What are the Biggest Contributors to a Bad Hire?

Talent Acquisition, as shown in Brandon Hall Group's Talent Acquisition Framework in Figure 3 (next page), is a complex process with many stages. Beyond the complex process itself, shown in the inner core of the framework, talent acquisition is influenced by factors such as company culture, technology, and governance. Its success is enhanced or hindered by the presence, or lack of, many "success levers" that exist both inside and outside the organization.

Figure 3 Brandon Hall Group High-Performance Talent Acquisition Framework



Source: Brandon Hall Group 2015



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69% percent of companies identified a broken interview process as having the greatest impact on the quality of hire. ... Organizations that lack a standard interview process are five times as likely to make a bad hire.

So, while no company wants to make a bad hire, the complexity of the processes can provide a challenging environment in which to make critical hiring decisions. For example, a candidate that may seem to be the “right fit” during the sourcing phase may prove to be a “bad fit” during the interview process. The ability of an organization to understand and adjust to the ebbs and flows in the hiring process impacts the likelihood of “bad hires.”

By understanding where organizations are going wrong in the recruiting and hiring process, organizations can easily reduce mistakes. Brandon Hall Group has identified the biggest mistakes that can lead to a bad hire:

1. **Interview process.** 69% of companies in our research identified a broken interview process as having the greatest impact on the quality of a hire. The research also found that organizations that lack a standard interview process are five times as likely to make a bad hire. Here are a few examples of the steps organizations can take to avoid interview problems.
 - Each organization should have an interview strategy that is consistent. Everyone involved should know what should be covered in a screening interview, a first interview with a recruiter or hiring manager, peer interviews, second interviews, and final interview.
 - A checklist of questions for interviewers to choose from in each interview phase is a great tool, no matter how experienced the interviewer is. Consistency is important. Organizations must ask candidates the same, or very similar questions, in order to compare answers and evaluate who is the best fit.
 - There should be a protocol for which recruiter, first-line supervisor, manager, director, VP, etc., should conduct the interviews at each stage. Organizations can make poor choices when they ask the wrong questions, fail to articulate the company culture or the job requirements, or evalu-



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Companies that invest in employer branding are three times more likely to make better hires. ... Companies that ignore their employer brand will not be able to target or influence candidates when they are making decisions.



Source: 2015 Brandon Hall Group Talent Acquisition Study

ate the interview. When companies do not have a standard strategy in place to interview candidates, they are making ad hoc decisions without considering long-term consequences. Too often, hiring managers do not have the tools or resources they need to conduct an effective interview – often resulting in a bad hire.

- 2. Weak employer brand.** Companies that invest in employer branding are three times more likely to make better hires. Employer brand is a measure of the viability of a company’s employee value proposition. Employer brand management involves any and all activity associated with improving the company’s ability to attract talent and maintain a positive image and reputation.

Without a strategy to manage, communicate and evaluate employer brand, organizations are less likely to attract quality talent. Companies that ignore their employer brand will not be able to target or influence candidates when they are making decisions.

Figure 5 Components of Employer Brand


Source: Brandon Hall Group 2015

As illustrated in Figure 5, there are two major components of employer brand:

- **Image.** An employer’s public portrayal of the various elements of its unique employee value proposition – from the language used in job postings and advertisements to the message conveyed by recruiters across various channels and mediums.
- **Reputation.** The combined sentiments of candidates, employees, customers and clients (past, present or future) regarding an organization’s viability as an employer of choice – usually (but not always) based on first-hand experience.

While most employers understand the image component, only the savviest organizations know that reputation rules supreme in brand. For all the effort spent creating an attractive value proposition, designing a media-rich career page, and writing enticing job descriptions, a brand that doesn’t hold up to candidate scrutiny will continuously fail to bring in top talent.

3. **Negative candidate experience.** Successful talent acquisition functions prioritize the candidate experience. Organizations that invest in the candidate experience state that their quality of hires improved by over 70%. Few companies truly understand what it takes to create a positive candidate experience.



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Ask new hires, and other recent job candidates, to share their experiences on third-party online review sites like Glassdoor.

Here are five suggestions for improving candidate experience, based on our 2014 research.

- **Talent communities.** Quickly becoming one of the greatest talent acquisition investments for organizations, talent communities offer a way for companies to engage talent, maintain a talent pipeline, and strengthen their brand. Candidates have a positive experience because they learn about the company culture, gain opportunities to connect with peers and employees, and interact with the company about issues that are relevant.
- **Review sites.** Ask new hires, and other recent job candidates, to share their experiences on third-party online review sites like Glassdoor. Job seekers want to know what the interview experience will be like to mitigate the stress and ambiguity they often feel surrounds the hiring process, as a result they will turn online for information from others who have recently gone through the experience.
- **Social media.** Only 7% of companies have a strategy in place for their social recruitment efforts. Social media, for these organizations, is much less about blasting jobs to a group of individuals and more about building relationships, showcasing the employer brand, and engaging candidates.
- **Mobile.** 58% of companies still do not use mobile for talent acquisition. Today's candidates expect recruitment to be simple and convenient and mobile is a "must-have." Candidates must have an option to apply for a job on their mobile device.
- **Video.** This powerful tool improves efficiency but more importantly, it provides candidates with the communication they are now expecting from recruiters and hiring managers. Whether part of a branding video or during a video interview session, candidates want the convenience and familiarity they expect from video solutions.



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Organizations with a strong onboarding process improve new hire retention by 82% and productivity by over 70%. Companies with weak onboarding programs lose the confidence of their candidates and are more likely to lose these individuals in the first year.

4. **Poor onboarding process.** First impressions last. When companies fail to standardize their onboarding process and socialize new hires in the company culture, performance, retention and engagement suffer. Organizations with a strong onboarding process improve new hire retention by 82% and productivity by over 70%. Companies with weak onboarding programs lose the confidence of their candidates and are more likely to lose these individuals in the first year. The best onboarding programs:
 - **Utilize tools and technology that enable new hires to succeed.** The most effective programs leverage advanced learning tools to enable success on-demand rather than relying solely on classroom learning. These companies are 300% more satisfied than their lower-performing peers with the technology they're using to support their onboarding programs, which correlates with significant gains achieved in time-to-proficiency and new hire retention.
 - **Emphasize assimilation.** In order to ensure swift and lasting assimilation of new hires, two in three high-performance programs include formal mentorship and coaching in their onboarding.
 - **Foster new-hire socialization.** The more effective onboarding programs understand the power of connections. 33% of high-performance onboarding programs build social networking into new hire onboarding.
5. **Lack of data.** As recruitment becomes more complex, organizations need data to make decisions around talent. Data can provide some objectivity and should be available through every stage of the recruitment process, including data on the sources they are leveraging, and data on performance and data on the interview process. Unfortunately, many organizations are unclear where they can find this data and how they should interpret it, which can often lead to a bad hire. This goes back to not having consistent strategies, processes, and procedures for all aspects of the hiring process.

To avoid making bad hires, companies should understand what mistakes they might be making and rethink the strategies and technology options that they have in place. They must take steps to guard against a bad hire during every phase of talent acquisition, not just once a candidate is onboard.

Calculating the Cost of a Bad Hire

Most organizations underestimate the cost of a bad hire because a single bad hire can impact an organization in a variety of ways. Although the cost of a hire ranges from a few hundred dollars to a few thousand dollars, the cost of a bad hire can escalate quickly. In fact, Zappos found it was spending \$100 million on bad hires and now offers employees a \$3,000 separation bonus to exit the organization if they are unhappy in the first few months. Understanding what factors into the cost of a bad hire is an important exercise for any organization looking to mitigate these costs.

Brandon Hall Group identified three variables that are constant in calculating the cost-per-hire: These variables can be factored into any cost of a bad hire:

- **Compensation.** Salary for the job position.
- **Training.** New-hire training and employee training fees.
- **Cost to hire.** Traditional recruitment costs.

Additionally, each organization has a unique set of variables that must be considered when determining the cost of a bad hire. When an organization creates a new position, there are costs associated with creating a job description and determining if there is workspace available or if remodeling must be done.

Organizations with virtual workers must consider the costs associated with online meetings and shipping supplies required for a home office environment.

Figure 6 provides an example of how one organization may calculate the cost of a bad hire. Examples of additional variables to include in the calculation are listed below the table.

Figure 6 Model for Calculating Cost of a Bad Hire Tool						
Job Level	Cost of Hire	Median Compensation*	Training Costs**	Additional Variable	Additional Variable	Total Cost
Executives	\$ 3,798.65	\$145,084	\$ 1,959	\$	\$	\$
Mid-level managers	\$ 1,501.79	\$ 71,289	\$ 1,369	\$	\$	\$
Individual contributors	\$ 1,062.72	\$ 37,000	\$ 907	\$	\$	\$

*Based on Glassdoor Salary Data

**Based on Brandon Hall Group 2015 Training Study

Source: Brandon Hall Group's 2015 Talent Acquisition Study

Additional variables should also be considered, including:

- **Unemployment.** Organizations face fees when the state pays for unemployment.
- **Missed business opportunities.** This means any missed revenue opportunities due to vacancy, loss of productivity, or performance.
- **Team performance.** Includes the impact on team performance and incomplete projects.
- **Loss of customers.** This cost includes any loss of customers because of issues with an employee – particularly in sales and customer service roles.



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Interviewers should be prepared to look for red flags and warning signs and discuss their concerns with recruiters. 60% of organizations that leverage best practice guidelines for conducting interviews have an optimized recruitment strategy – one that aligns with business objectives.

- **Outplacement services.** These fees include any outplacement services an organization may need to invest in to replace a bad hire.
- **Relocation fees.** These fees include any relocation that may have been covered by the employer or will be covered for a replacement.
- **Weakened employer brand.** This includes additional advertising and recruitment costs organizations incur because of the employer brand impact due to poor work or misdeeds of a bad hire.
- **Litigation fees.** This cost includes any legal action or possibly even compliance penalties.
- **Loss of productivity.** This includes lost productivity from vacancy or low performance.
- **Turnover.** These fees include the cost to find a replacement hire and the additional recruiter fees that may result from turnover.

What Should Companies Do?

Leading organizations are taking proactive steps to reduce the likelihood of a bad hire. Brandon Hall Group has identified several strategies for improving the overall strategy of the talent acquisition function.

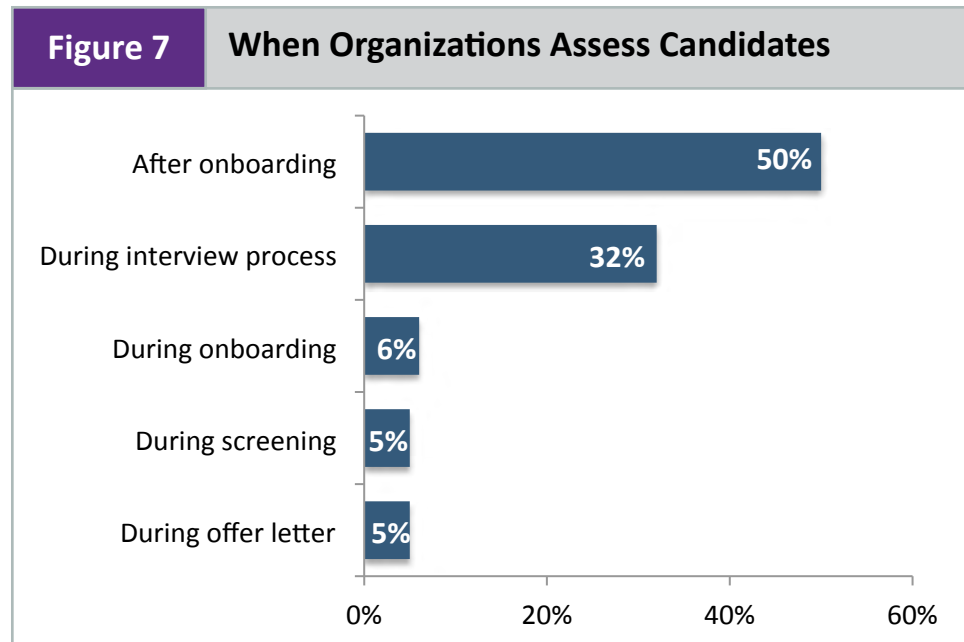
- **Take a strategic approach to hiring.** Organizations that want to eliminate the cost of a bad hire should standardize the interviewing process and provide hiring managers and recruiters with the right tools to ask questions and evaluate candidates. Behavioral interviews and peer-to-peer interviews are an effective way to determine the cultural fit of candidates. Additionally, interviewers should be prepared to look for red flags and warning signs and discuss their concerns with recruiters. 60% of organizations that leverage best practice guidelines for conducting interviews have an optimized recruitment strategy – one that aligns with business objectives – compared to 10% of companies without interview guidelines.



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Only 5% of organizations evaluate candidates during the sourcing process. The key to successfully mitigating the risk of a bad hire is to evaluate candidates often in the recruitment process, starting with the sourcing process.

- **Lead with your company culture.** An employer branding strategy should be a priority for any company looking to reduce the cost per hire. Companies should consider providing messages about the company culture and leverage video and social to help communicate these messages. When an employer brand can accurately reflect the company culture, organizations will have an easier time attracting the right talent. A strong employer branding strategy should also be linked to the broader corporate strategy. Candidates get greater transparency about what their job and relationships will include while employers are able to understand what the right organizational fit may be.
- **Align with business priorities.** Before determining what steps to take to eliminate the cost of a bad hire, talent acquisition departments need a clear understanding of what organizational priorities are in place. One of these objectives must focus on the candidate experience. In many industries such as retail and professional services, candidates are also customers. Organizations should put the same rigor into the candidate experience that goes into the customer experience to ensure these individuals will perform, stay motivated, and want to stay with the organization.
- **Assess candidates often.** Only 5% of organizations evaluate candidates during the sourcing/screening process. The key to successfully mitigating the risk of a bad hire is to evaluate candidates often in the recruitment process, starting with the sourcing process. If organizations are able to identify potential problems with a candidate early on, they can reduce the costs associated with screening, assessing, and interviewing that individual.



Source: Brandon Hall Group's 2015 Talent Acquisition Study

- Look beyond hard skills.** Organizations often look only at the skills and competencies posted on a job description. In doing so, they fail to learn whether the candidate demonstrates behaviors consistent with the values and culture of the organization, has potential for leadership – or behaviors or values that might limit advancement. When organizations were asked to identify the criteria of quality of hires, organizational fit and hiring manager satisfaction were more critical than retention or engagement. Organizations should leverage strategies and technology that can determine what will make candidates successful in their new roles.

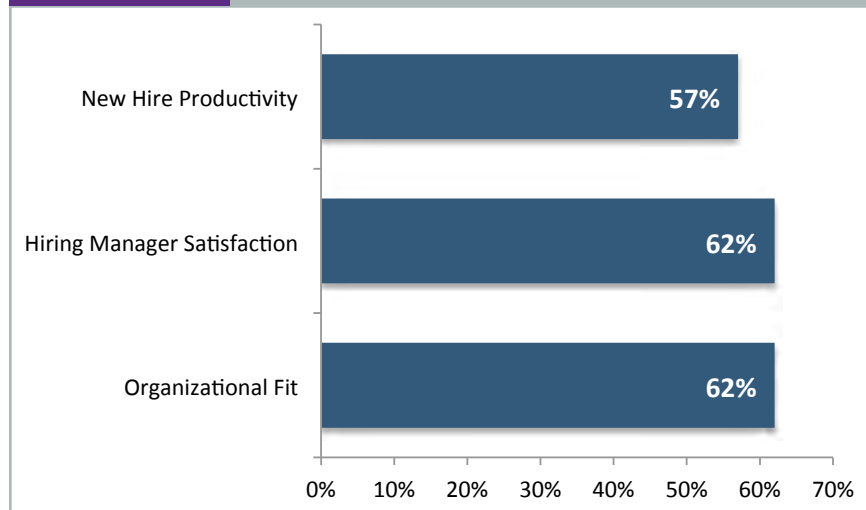


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Onboarding should not be viewed as a one-week orientation but rather a year-long program that helps new hires feel acclimated and motivated to perform.

Figure 8

Key Criteria for Quality of Hire



Source: Brandon Hall Group's 2015 Talent Acquisition Study

- Extend the onboarding process.** Onboarding is a critical component of talent acquisition that often gets overlooked. By including socialization in these strategies, organizations can engage new hires in the company culture and provide mentor programs, team building initiatives and coaching initiatives. Onboarding should not be viewed as a one-week orientation but rather a year-long program that helps new hires feel acclimated and motivated to perform. New hires that have a positive experience will then be more likely to contribute to business goals and remain with their new employer.

Figure 9		Bad Hire Mistakes and Solutions	
Mistakes		Solutions	
Poor interview process		Standardize the interview process	
Weak employer brand		Lead with the company culture	
Negative candidate experience		Align with business priorities, look at more than hard skills	
Poor onboarding process		Extend the new hire experience	
Lack of data		Assess candidates often	

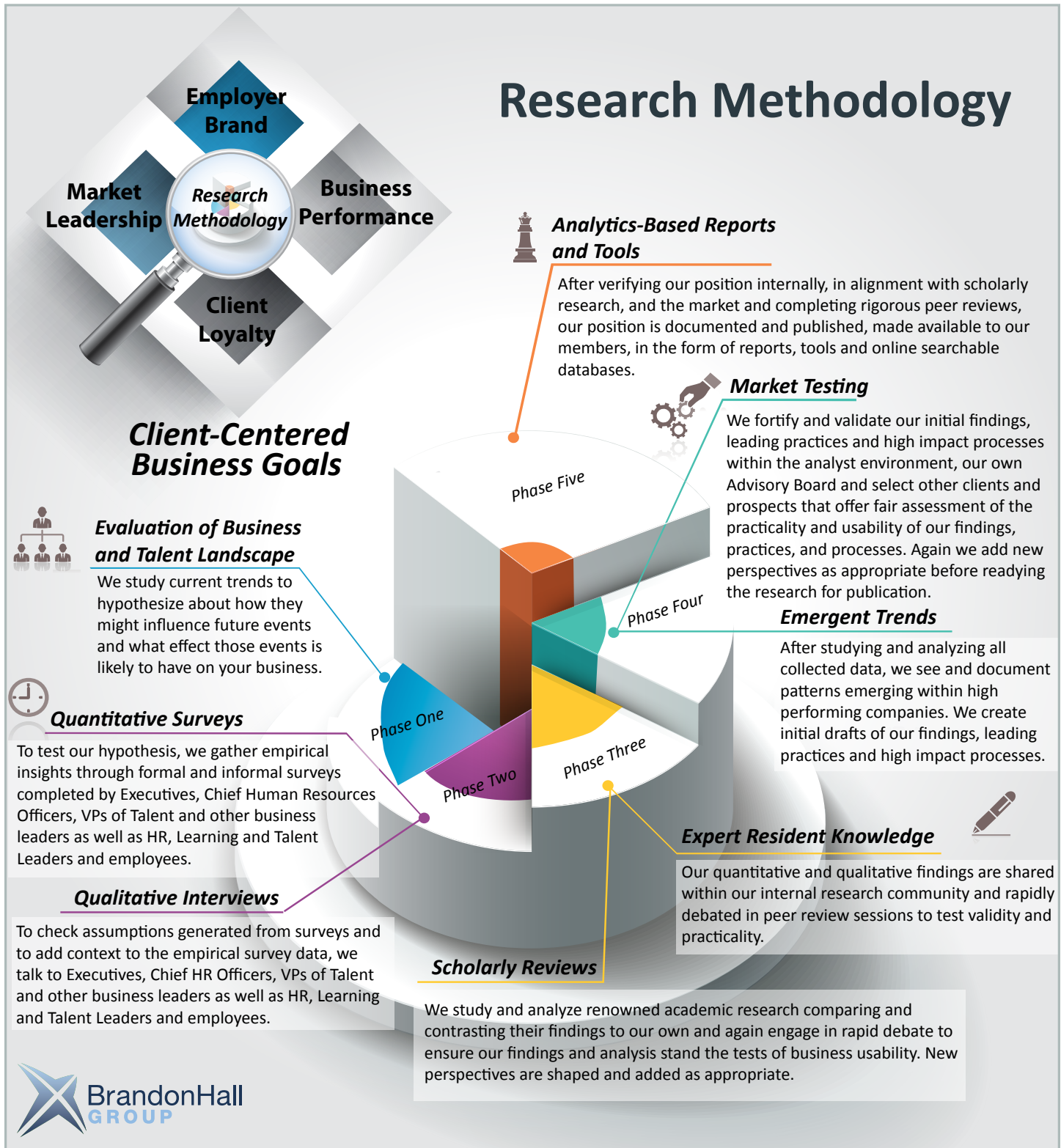
Source: Brandon Hall Group 2015

Conclusion

As talent acquisition becomes more complex to meet the demands of a growing business, organizations must make better decisions around their hires. Unfortunately, companies often make bad hires due to poor interviewing processes, a weak employer brand, poor onboarding, a negative candidate experience, and a lack of data.

A bad hire can impact productivity, retention, engagement and performance. Leading organizations are able to avoid the costs of a bad hire by standardizing their talent acquisition processes, strengthening branding initiatives, extending the new hire experience, and assessing candidates often.

Brandon Hall Group's Research Methodology



Source: Brandon Hall Group 2015

About Brandon Hall Group

Brandon Hall Group is a HCM research and advisory services firm that provides insights around key performance areas, including Learning and Development, Talent Management, Leadership Development, Talent Acquisition, and Workforce Management.

With more than 10,000 clients globally and 20 years of delivering world-class research and advisory services, Brandon Hall Group is focused on developing research that drives performance in emerging and large organizations, and provides strategic insights for executives and practitioners responsible for growth and business results.

At the core of our offerings is a Membership Program that combines research, benchmarking and unlimited access to data and analysts. The Membership Program offers insights and best practices to enable executives and practitioners to make the right decisions about people, processes, and systems, coalesced with analyst advisory services which aim to put the research into action in a way that is practical and efficient.

The Value of Membership

The Brandon Hall Group Membership Program encompasses comprehensive research resources and an array of advisory services. Our Membership Program provides:

- **Cutting-Edge Information** – Our rigorous approach for conducting research is constantly evolving and up-to-date, providing your organization with current and future trends, as well as practical insights.
- **Actionable Research** – Your membership includes advisory services and tools that are research-driven and provide you a breakthrough approach to addressing immediate challenges and opportunities inside your organization.
- **Customizable Support** – Whether you are an executive or entry-level practitioner, our research and analyst insights can be leveraged at an individual level and across the entire organization. We realize that every organization has unique needs, so we provide multiple analyst and research access points.
- **Community of Peers** – We realize the value of connecting with your peers and being part of a community that is focused on continuous improvement. Your membership provides you with personal connections to fellow professionals.
- **Unlimited Access** – Every member of your team has the ability to utilize research, best practices, and advisory services when they need it most.

To learn more about Brandon Hall Group, please call us at (561) 865-5017 or email us at success@brandonhall.com.