

# The Cost of an Average Hire

Smart hiring will impact positively on your organization's bottom line performance—but how do you prove it to stakeholders? Most companies can tell you the cost of a bad hire they terminated on the 89<sup>th</sup> day, but what they should be analyzing is the cost of an “average” hire they’ve retained for two years.

Hypothetically, if your company has a turnover of 20% per year and all of your new hires are mediocre-to-average, it will only take 5 years for your entire workforce to be average. The cost of a “really 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!).

If you don't recruit and select great people the first time, you won't have great employees. After all, great ideas and products come from people not from equipment, buildings, or capital. No one purposely hires an average applicant but weak organizational recruitment efforts and less than stellar selection tools will inevitably result in the hiring of average employees. Everyone hires some mediocre-to-average employees but poor recruitment control systems will result in a higher proportion of “average” hires than with the SmartHire system.

## ***What are the “business” impacts of hiring average people?***

### **1. An Increase in Management Time and Effort:**

Average employees require “high maintenance” and more management attention and worry. Time spent with these average employees can't be spent on the best employees. Average hires for management and team leader positions have a multiplier effect on the productivity of others.

### **2. Training Time and Costs:**

Average employees, because they lack the competencies or characteristics necessary to succeed in a position, must attend more remedial training. Time spent in training is lost productivity time.

### **3. Customer Satisfaction and Error Rates:**

Average employees send a lukewarm message to your customers. Errors by average employees ultimately lose sales volume and occasionally customers.

### **4. Product Development:**

Average employees have fewer and/or average ideas that distract you from where you really need to be going. Time-To-Market is dramatically impacted by the disruption caused by their average ideas and questions and because they do not fit well into in a team of “winners.” It is a waste of your time and energy to try to humor them or “not hurt their feelings” when they don't understand what the rest of the team is trying to

do. You answer their questions and politely try to help them get up to speed, when this help wouldn't be necessary if they "got it" in the first place.

### **5. Your Competitive Advantage:**

When you choose to hire an average employee, it's one bad hire that your competitor can't hire by "mistake."

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

### **6. Other Employees' Productivity:**

- ✓ Superstar employees often resent being on the same team with "losers." They may consider leaving rather than be surrounded by mediocrity.
- ✓ Team productivity suffers due to lost time helping the average hire(s) get up to speed.

### **7. Corporate Image:**

As mentioned above, average employees send a message to your competitors you are getting weak. In addition:

- ✓ The average employees also send a message to future recruits that you are not a selective employer.
- ✓ Average employees send a message to your current employees we are headed down hill.
- ✓ High turnover rates send a 'warning' message to other recruiters and potential applicants.

### **8. 'Fill In' Time:**

- ✓ Average employees may have increased absenteeism and tardiness.
- ✓ When average employees attending 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.

### **9. Out Of Pocket Costs:**

- ✓ Ad costs for recruitment as a result of having to do a replacement hire.

- ✓ Average 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).

## 10. HR Time and Image:

There are:

- ✓ Increased termination, exit interview , severance, and firing costs as a result of average hires.
- ✓ Sometimes there are increased disciplinary costs as a result of average hires.
- ✓ Then there is the added recruitment time and interview time as a result of having to replace an average hire.
- ✓ More paperwork, files, and documentation as a result of having to replace an average hire.
- ✓ Poor HR work is seldom more visible than when we complete an average 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:***

...with more competencies. Hire people with competencies that we need both now and in the future.

- ✓ Who are agile, can multi-task and shift rapidly to new problems and jobs.
- ✓ Who self-develop, are continuous learning individuals and do so without the need for company training.
- ✓ Who have more ideas that are implemented and that impact our profitability.
- ✓ Who require "Low maintenance" from managers. These employees have a lower error rate; number of disciplinary incidents and absenteeism rates than other employees.
- ✓ Those have a higher customer satisfaction, higher performance appraisal scores, bonus rates, forced ranking scores and promotion rates.
- ✓ Who inspire and train others to be more productive.
- ✓ Who stay longer before quitting.
- ✓ Who produce more return for every dollar of salary paid them.

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

You know that you can help your organization build a competitive advantage by making better hiring decisions. You recognize that cost of an average hire is great. You've got management's attention. Now put forward the following suggestions:

- ✓ Are your organization's hiring processes aligned with its business?
- ✓ Does your business have a managed process for hiring?
- ✓ Are you benchmarking your positions?
- ✓ Are these benchmarks revisited regularly? If not, this can derail organizational growth.

- ✓ Do you have a process in place to measure a prospective new hire's "fit" within your corporate culture?
- ✓ Are you using productivity models to trim wasteful hiring practices?
- ✓ Are you open to considering outsourcing some of your recruitment processes to professional recruiters?

Are you employing practices such as exit interviews, turnover analysis, cost improvement opportunities, and performance gap measures?