

Guide

The Cost of a Bad Hire

Executive summary

There is a wealth of research that has been conducted exploring the most effective ways to find, attract, develop and retain top performers. What the research makes clear is that hiring the right people is essential to enhance organisational performance.

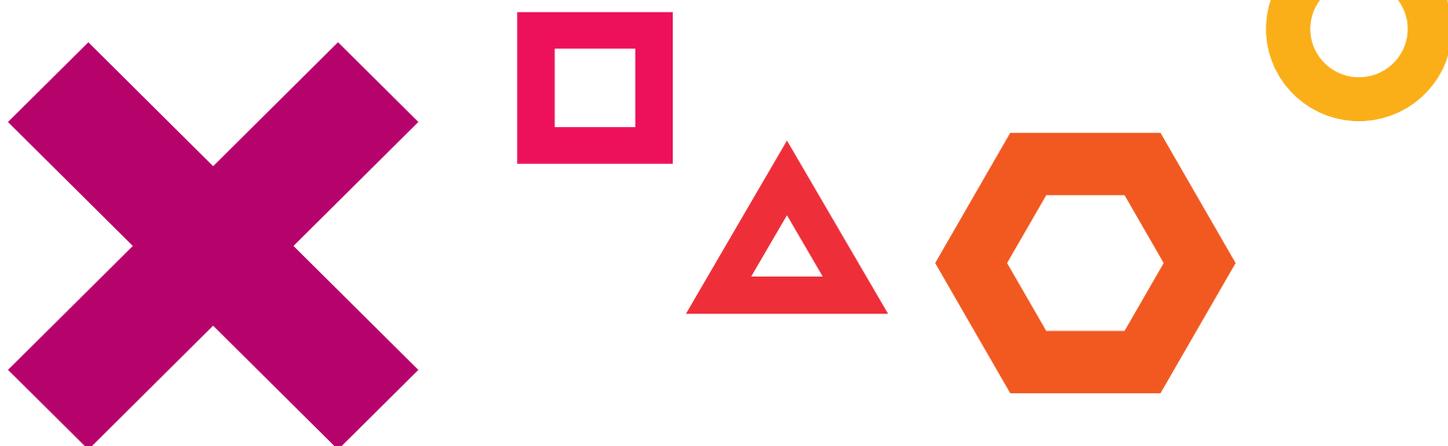
Employer interest in such research has increased apace in recent months, particularly among organisations in Oxfordshire. Here, the rate of unemployment has been among the lowest in the UK, which is good for the local economy. But, the depletion in the number of people available makes it more difficult for Employers to find the 'stars' they need to fill their vacancies and positively impact the bottom line.

These star employees have, understandably, become a top priority for organisations. Indeed, according to research published by the Harvard Business Review, an organisation's best performers have been found to be four-times more productive than average workers. They also generate up to 80% of the business's profit (à la the Pareto Principle) and help it to attract other star employees. These people are unquestionably the most valuable commodity within the organisation.

However, hiring superstar talent can actually be harmful to the organisation - both culturally and in terms of the bottom line. Whereas a good hire will deliver a significant return on your Recruitment investment, a bad hire can see Employers lose a lot more than the fee they paid to bring that person on board in the first place.

In this guide, we will look at the hidden costs of a bad hire in more detail. We will show how certain behaviours impact productivity, customer relations, and the ripple effect that a bad hire can have on the rest of the workforce. We also reveal how weeding out a bad hire enhances business performance to a greater degree than replacing an average worker with a star performer.

Finally, using our two decades of experience as a reference point, we look at the ways in which Employers can develop and implement an effective Recruitment strategy - mitigating risk and improving business performance.



What is a bad hire?

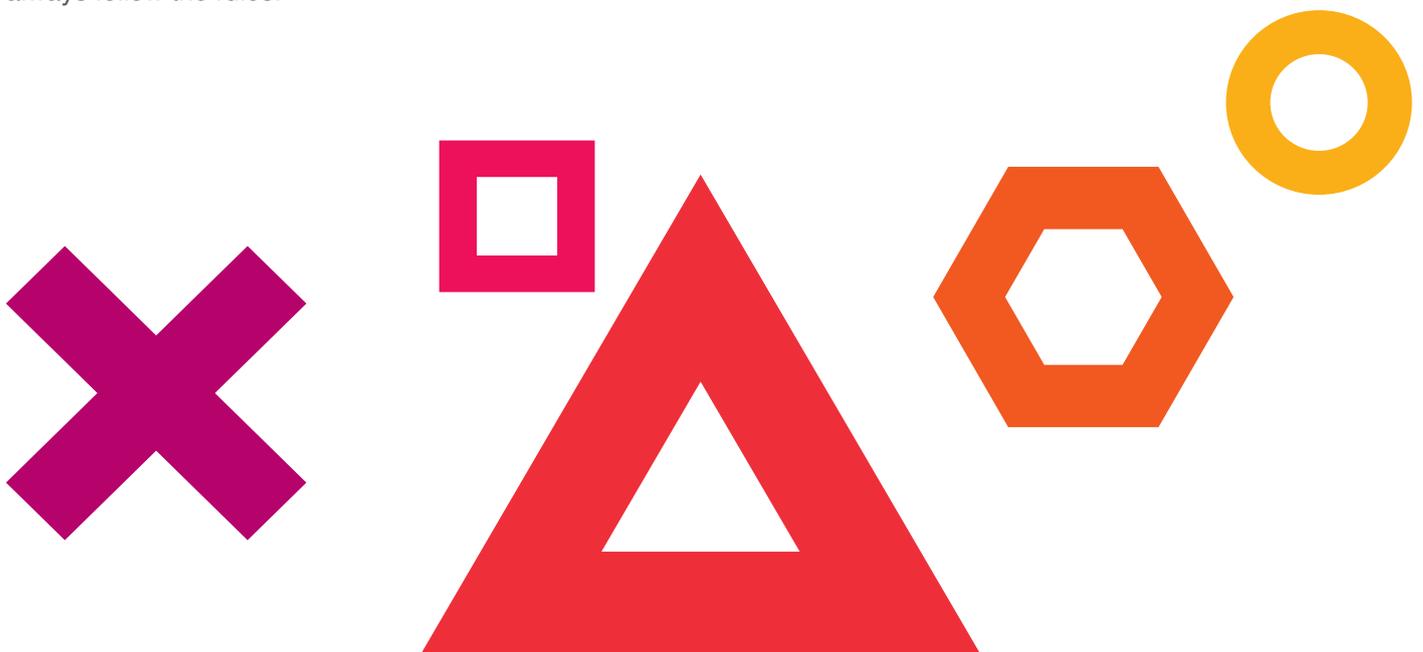
A bad hire is someone who, frankly, is a liability to the organisation. At their most harmless, they simply don't fit with the organisation's culture, which leads to a swift parting of ways and the resumption of a search for the right person. At their most destructive, a bad hire can adversely affect employee morale, negatively impact customer retention levels, increase staff turnover rates, and result in a loss of revenues. These are what are referred to as 'toxic' workers.

It seems that almost every article or book on the subject of optimising business performance is focussed entirely on discovering and developing star talent. Little attention is given to the workers at the opposite end of the spectrum – those with the greatest potential to do damage to the organisation itself.

In a study conducted by Harvard Business School, data on 60,000 workers worldwide was analysed - revealing the key traits showcasing which employees are most likely to demonstrate elements of toxic behaviour. Overconfident and self-centred workers ranked highest, as were those who – somewhat surprisingly – claim to always follow the rules.

In fact, according to the study, those who asserted that rules should always be followed were actually 25% more likely than other workers to be dismissed by their Employer for – you've guessed it – breaking the rules. Those who were deemed to be overly confident had a 15% greater chance of being fired for toxic behaviour, while self-centred workers had a 22% increased likelihood.

Interestingly, toxic workers have been found by a number of studies to be high performers and more productive than average workers. It is this latter point that creates a dilemma for many Employers – if productivity is valued over other traits, they are likely to hire more of these people. However, speed of delivery doesn't always equate to quality output, and no amount of charisma, curiosity or high self-esteem will make up for toxic behaviour and its far-reaching impact on the business as a whole.



Why do some hires fail?

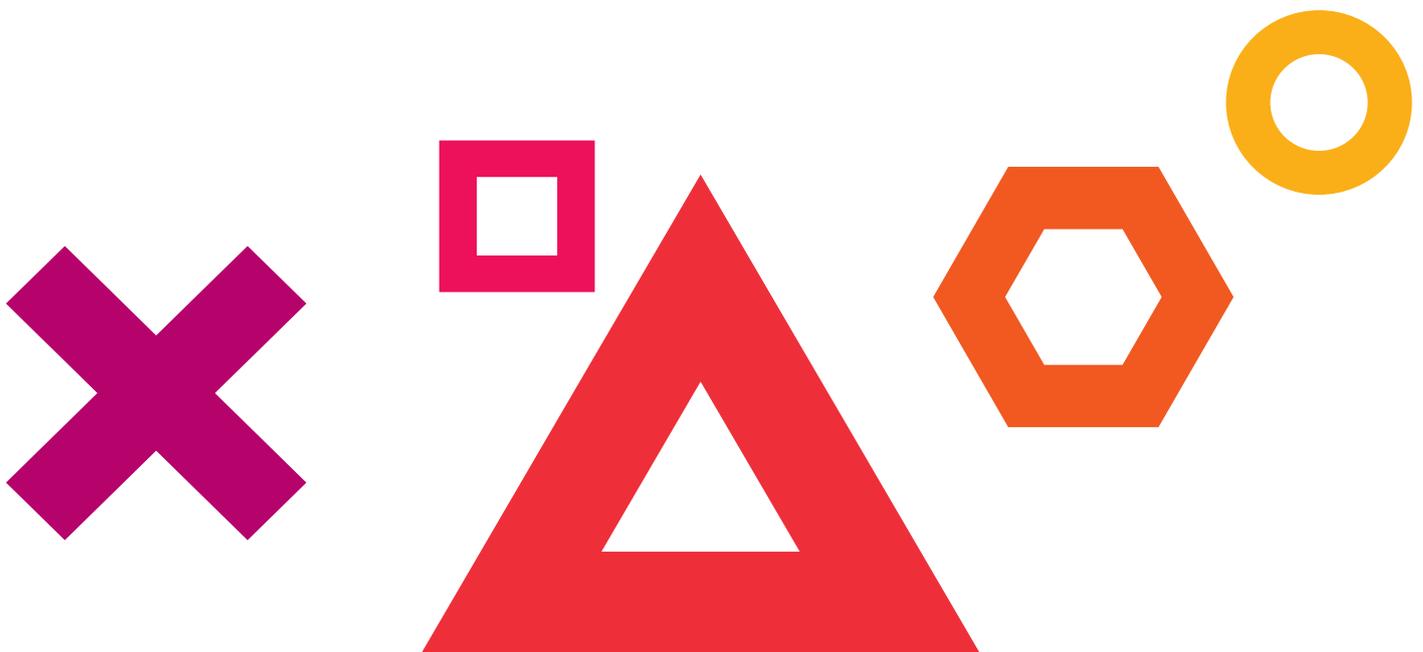
Of all the reasons for an employee to fail, just over 1 in 10 (11%) do so because they lack the technical skills required to be successful in the role, according to data published by Leadership IQ. So, what of the remaining 9 out of 10 hires that don't work out - what are the reasons for this?

Hiring people is not easy, and mistakes can be expensive. This goes some way to explaining why the Recruitment process itself can often take longer than perhaps is necessary. It doesn't explain why some of the reasons for a hire failing are not spotted during the interview stage.

The Leadership IQ data shows that almost half (46%) of employees actually fail within 18 months of starting in their new role. Of these, a quarter (26%) will do so because they struggle to accept feedback, while 23% fail because they are unable to either keep their emotions in

check or simply don't understand the difference between appropriate and inappropriate behaviour. Some are simply lazy (17%) and others have 'attitude' (15%).

These figures are taken from all levels in an organisation. When it comes to more senior appointments, however, the numbers rise sharply. The Harvard Business Review has found that between 40%-60% of management hires fail within 18 months, with this number increasing to a staggering 82% for senior management and C-suite roles, according to Gallup. On the flip side, just under 1 in 5 (19%) of new hires are deemed to be an 'unequivocal success' (Centre for Creative Leadership).



What are the costs of a bad hire?

When researching this guide, we were shocked by two key findings. First was the extent to which a bad hire can hurt the bottom line of the organisation. Secondly, there appears to be little real understanding of what the bottom line cost actually is among Employers. Combined, this results in an overall lack of urgency to mitigate the risk of a bad hire.

The findings of a report published in 2017 by the Recruitment & Employment Confederation (REC), revealed that 40% of all hires turn out to be bad hires. This figure is, in our view at least, unacceptably high. The worrying thing is that while the majority (85%) of Employers admit to making a bad hire, 1 in 3 (33%) don't believe it cost their organisation anything. But it does.

According to the report, for every bad hire that is made an average £9,730 is lost in recruiting and training a new employee, and a further £9,625 is wasted due to a loss in productivity. The ripples caused by a bad hire are also felt by those within their team - this was found to result in a loss of productivity three-times that posed by toxic workers (£29,160).

Another by-product of a bad hire is the increase to staff turnover. A 2017 survey conducted by CV-Library found that 44.4% of Employers perceive high staff turnover to be the biggest risk associated with making a bad hire. This was followed by financial loss (22.2%), decreased productivity (16%), low morale (8.3%) and poor employer branding (6.9%).

Estimates as to the total amount lost by an organisation from a bad hire vary - but research generally shows that 1 in 5 Employers have lost £15,000-£30,000 due to a poor hire over the last 12 months. 1 in 7 have lost upwards of £30,000, and that expense comes right off the bottom line.

However, this doesn't take into account the cost of replacing that bad employee - a figure that is universally recognised to be between two to two-and-a-half times the individual's salary. Nor do the figures factor in the associated costs of a bad hire:

Cultural impact and employee morale: One of the biggest costs of a bad hire - particularly a toxic hire - is the impact it has on the organisation's culture. Despite all the great strides that have been made to create a positive work environment that reflects the organisation's core values, the introduction of one bad apple can poison the rest of the team. Emotions are contagious and, much like the newspapers, will often favour bad news over good as their headline story research has shown that negativity from some in the workplace gains traction in others.

Management stress: According to a survey conducted by Unison, 44% of managers say that stress is affecting their performance levels, which can sometimes lead to burnout. When managers have to continually recruit, replace and retrain new people because of a hire that hasn't worked out, they become increasingly frustrated. Estimates suggest that 15%-20% of a manager's time is lost just from managing poorly performing employees. With this comes continued pressure to ensure that their department is still meeting its targets, thus ensuring the organisation itself remains on course for its targets.

Lost opportunities: Your best people are the ones who produce more and can have the greatest impact on the bottom line. They are also the ones whose job it is to support each member of the team to achieve the targets that have been set. But when a negative entity infiltrates that team, their job is made all the more difficult when performances begin to slip. This can lead to missed opportunities... or even failed ones as a result of poor service.

Reputational costs: The days when Employers simply had to put a job advert in the local newspaper to fill vacancies have long gone. We are in a candidate-driven market and the importance of an organisation's employer brand has never been greater. But allowing a toxic worker into the workforce can sour the experience of working there for the rest of team, which could in turn damage your reputation as an employer of choice.

So, why are these costs so high, and what can Employers do to minimise them?

The need to rethink your recruitment strategy

The impact that a bad hire can have is often overlooked and underappreciated by Employers. As such, they continue with inefficient recruitment strategies that increase their overall cost per hire, instead of seeking to reduce it. The question is why, and the answer has a lot to do with psychology and marketing.

'Streamlining' has been one of the most used human resources buzzwords since the start of the recession. Indeed, open the pages of many of the magazines and websites that are focused on the personnel sector and you will be all too familiar with the messages constantly being propagated.

Industry commentators and advertisers alike seem to be united in their efforts to warn Employers of the need to 'save time and money' so as to avoid 'losing the war for talent'. But the reaction is not what they had hoped for; instead of serving as a call to action for a rethink of their existing recruitment strategies, they have had the opposite effect.

This isn't because Employers lack the intelligence to realise that, by doing what they have always done, they get what they have always got. Rather, despite best intentions, there seems to be a resistance to change among many, with some social commentators suggesting this is down to the 'affirmation' affect.

In other words, by giving credence that the problem exists (i.e. a bad hire is the result of a poor recruitment strategy) and that it is commonplace, it becomes perceived as the norm; thereby, creating a safety-in-numbers mentality. The more others are seen to be experiencing the same challenge, the less inclined they are to alter their behaviour.

This is something that Charles Duhigg discusses in his seminal book, *The Power of Habit: Why We Do What We Do in Life and Business*. Duhigg uses real life examples from the corporate world to show how a small shift in the way a business undertakes certain tasks and processes can have a profound impact. He takes the case of Proctor & Gamble, whose Febreze product was about to be discontinued following significant losses for the company.

The company marketed the product as one that covers up unwanted odours in the home...but that wasn't why people were buying it. They did so because they liked knowing that their homes smelled clean and fresh. With a slight shift in messaging, Febreze went on to become one of Proctor & Gamble's biggest selling products, with sales in excess of \$1bn a year.

The point is this: if your organisation has been affected by a bad hire, a rethink of the approach taken to find and attract the people you need is an imperative. Employers are vying with one another to attract the talent they really need, and it is getting harder to find these people. But it shouldn't follow that just because everyone else is struggling then you should accept 'the way it is'.

By opening your mind to the prospect that a slight shift in your existing recruitment strategy can minimise the risk of a bad hire, you can maximise your return on investment and positively impact the bottom line, too. The next section of this guide will show you how.

How to avoid hiring the wrong person

While the high failure rate can make for distressing reading, the good news is that bad hires can be avoided - most hiring managers agree. Indeed, Leadership IQ found that in hindsight, 82% of Employers recognise subtle cues that should have alerted them to the prospect of the interviewee becoming a poor choice for the organisation. But we are all human after all and, with pressure to find someone quickly, hiring managers often overlook the signs.

Hiring is difficult and, as we have seen, mistakes can be expensive. Much of the reason for poor hiring decisions is that judgement is often made based on limited information and a lack of resolve on the part of those involved in the hiring process to 'do their homework' on applicants. Effective selection happens when the approach is planned and purposeful, so what does this mean in practice?

Be clear on what you want: Avoid recycling past job descriptions. While it may seem appealing to skip the job writing element of your hiring strategy in a bid to save time, chances are the role may have changed. Be clear on the tasks that your new hire will need to be proficient at and then identify the skills, personality traits and characteristics required to successfully complete them. The more detailed you are in your exact requirements, the fewer applications you will receive from unsuitable candidates.

Use all resources at your disposal: If your current methods of candidate attraction are still seeing toxic or other bad hires slipping through the hiring net, then you need to implement a more robust selection process. Too much over-reliance on the latest screening technology or next generation applicant tracking system will see you miss out on a larger candidate pool.

Proactivity is key: invest time in developing strategic relationships with those Recruitment agencies who have experience and are specialists in the vacancies you need to fill; look first at the talent you already have in-house; use LinkedIn to look for potential employees who are both looking for a new job and those already working but open to new opportunities; and, focus on building your employer brand and reputation as an Employer of choice.

Involve your current employees in the hiring process: In addition to any existing employee referral scheme that may be in place, your existing employees can prove to be an invaluable asset when it comes to identifying who will be a good fit for your organisation. After all, it is they who will work with the new hire on a day-to-day basis and this will also give the candidate an insight into the values of most importance to the business. So, involve them in the interview process and allow them the opportunity to ask the candidate questions too.

Recognise that it takes time: There is no silver bullet and there are no short cuts that can be taken to find the right person for your organisation. While the need to fill a vacancy may be urgent, any rush now could lead to regret later on. The key to hiring the right candidate is to ensure you gain as much understanding of them as possible and not resort to relying on intuition, which is often flawed and subject to unconscious bias.

Ask the right questions: As we have mentioned, there are several reasons why a hire can become bad. By asking the right questions you stand a greater chance of isolating those candidates who will be an asset to the business and those who won't. The questions you ask need to identify what Leadership IQ calls its key predictors of future performance:

- Coachability (responsible for 26% of bad hires): The ability to take on board constructive feedback from their superiors and colleagues.
- Emotional Intelligence (23%): The ability to identify and manage their emotions, and recognise those in others.
- Motivation (17%): The willingness to strive towards achieving their potential.
- Temperament (15%): The attitude and personality traits that a person displays and the way in which this can positively or negatively impact the work environment.
- Technical Competence (11%): A person's ability to actually perform the job they were hired to do.

In practice, this means framing your questions in a certain way. While most guides will say you need contextual questions – ones which encapsulate the five predictors mentioned, very few will actively provide relevant examples. We've included our seven best questions, as well as what you should look for in any answers, below:

1. Describe your current employer and the people you work with. *Do they speak positively or negatively about them?*
2. How would your current employer describe you – how do you think they would react if you informed them of your decision to leave? *Do they recognise how they are perceived by others?*
3. Who has been the best manager you have had in your career to date – what did you like most about their management style? *Do they take direction well, are they a maverick and will they be hard to manage?*
4. What is the biggest highlight for you in your most recent position, what are you most proud of and what

did the experience teach you? *Can they confidently communicate the technical aspects of a project they have worked on, does this degree of detail resonate with similar projects you might need them to manage?*

5. Describe a time when things haven't gone to plan, how did you improve the situation and what lessons did you learn? *Do they play the blame game, or take on board feedback and turn this into a positive learning experience?*
6. Tell us about a time when you have had to deal with a particularly challenging or stressful situation at work, how did you deal with it? *Do they handle pressure well, are they capable helping and seeking the support of others?*
7. Nobody can be expected to get along with everyone all of the time. What kind of people do you find it most difficult working with? Describe an instance when you have come into conflict with a colleague and how did you resolve it. *Are they able to keep their emotions in check while calmly recognising those in others?*

This is by no means a definitive list, but it does highlight the need to listen and look out for key behaviours that will either signal a potential great hire... or the complete opposite.

Debrief with the interview team: Having interviewed all of the applicants, it is important to follow up with everyone who engaged them during the application and interview process. From the Recruitment agency who sourced, screened and conducted the initial interviews, to the receptionist, HR specialist and colleagues involved in the interview process - all should be consulted and offered the opportunity to feedback their impressions and thoughts on each candidate. Anyone can put on a 'performance' for an hour or two, and often the best insight into the character of a candidate comes from those who met them when their guard was down.

Check for references: It may seem an obvious one to mention, but understanding how well a candidate is regarded and how they have performed in the past will enable you to better assess their suitability. While the amount of information provided by a former Employer will invariably be limited, it will at least provide reassurance that you are making the right appointment and alleviate fears of hiring a potential bad hire.

Ask questions that provide a sense of the person's character as much as their ability. We have already spoken about how some 'star' performers can also be toxic workers, so you need to get a steer on their personality traits and values. Consider asking questions such as:

- "What's it like to work with him/her?"
- "How did they fit with the rest of team?"
- "Would you hire him/her again?"
- "What would you say their key strengths/positives are?"

Emailing questions is absolutely fine, and calling up a former Employer is far better. You are likely to get more information this way than if you rely solely on a response to a series of written questions. You also get to hear the tone in their voice when they describe their former employee and if you listen closely, you may detect subtle signs of trouble.

Check for social references: Social media is a reference too... of a sort. According to a survey by CareerBuilder, 70% of Employers search the social media profiles of potential new hires before they confirm a job offer. Despite the fact that their posts can be visible for every man and his dog to see, the number of job seekers who fail to make the connection between posting questionable content and Employers actively searching for said content is surprising. Yes, there is degree of 'show', but on the whole most people's social media profiles are an accurate reflection of their character - an indicator of how their personality will fit with the culture of your organisation.

Conclusion

The Recruitment and Employment Confederation has found that 85% of Employers admit to making a bad hire over the last 12 months. Yet fewer than 1 in 3 think it has no financial implication for the business, and 1 in 5 have no idea what costs may be involved. These are worrying statistics. Much of the reason for this is due to a lack of clarity over the precise impact that hiring the wrong candidate can have on the business.

From productivity and financial losses to reputation damage and the effect on employee morale, toxic and bad hires have the innate ability to inflict their woes upon even the highest-performing non-toxic work environments. It follows, therefore, that Employers should focus more of their energy on adopting the approaches outlined in this guide. In doing so, they will see a vast improvement in their hiring success.

Allen Associates has partnered with many of Oxfordshire's most exciting fast-growth and large-scale Employers over the last 20 years. We are one of the largest independent Recruitment Agencies in the area and have recently been awarded Gold status by Investors in People for the second time. The investment we make in our own people reflects the investment we make in ensuring you get the right people for your business. Let us help you with your next hire.

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