

WHITEPAPER

The True Cost of a Bad Hire

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CompanyMatch®

1) Abstract

A bad hire can have serious consequences for an organisation's success. A mismatch between employer and job seeker creates costs of approximately € 45.000 per candidate. Recruitment processes require significant resources and together with decreased productivity among employees lead to a significant expense. The majority of organisations rather invest in onboarding strategies than dealing with the actual problem. The success of an organisation, however, mostly depends on long-term successful recruiting of new employees. Based on recent scientific research, this white paper is going to address the reasons behind a bad hire, its true costs as well as possible solutions and preventative measures that can be taken to minimise the risk of a bad hire.

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2) Introduction

Good employees are the capital of every organisation. Most of the time finding suitable employees for vacant places is one of the biggest challenges facing organisations. On top of that, the focus of many corporations has changed: Short term sales and profits have been replaced by a focus on a long-term success. The appropriate recruiting strategy is crucial for this shift in focus, especially because a mismatch or non-occupation of a position creates immense costs. Hiring mistakes not only seriously affect operational processes and the productiveness of employees, but also cause significant losses in revenue and annual profits. **A global study by marketing research institute Harris Interactive¹ proved that about 20% of newly hired employees leave an organisation within 18 months.**

As companies expand and compete in the global market, recruiters often have to fill positions quickly in order to meet increasing demands from their organisation. Those rapid decisions often come at a high price – higher than many companies realise. If a newly hired employee turns out to be a bad hire, it is often the candidate, who gets the blame. Rarely a company takes ownership realising it is not the candidate but their own recruitment strategy which is causing the bad hires. **A Harvard Business Review² study proves that 80% of employee fluctuation happens because of poor recruitment decisions.** This shows that many HR managers and recruiters underestimate the complexity of the recruitment process³. So, how can making the wrong decisions be prevented? How can companies become smarter in terms of their hiring decisions?

One of the most common mistakes in the hiring process is a potential cultural mismatch of a candidate. A cultural mismatch originates from employees being hired based only on their experience and skill set. Personal values, motivation and ambition play a significant role in successful matches with company cultures. This shows that employer branding, the internal and external development and positioning of an organisation as a reliable and attractive employer, becomes increasingly relevant⁴.

Hence why a Cultural Fit based recruitment strategy is focusing on the organisation's long-term success and at the same time considers each employee as a valued participant in a company's culture. The principle of Cultural Fit relies on the compatibility of a corporate culture and an employee's personal values, ambitions and motivations.

¹ Harris Interactive, 2012

² Harvard Business Review, "Why People Quit Their Jobs ", September 2016

³ Robert Half, 2017

⁴ DEBA (Deutscher Employer Branding Akademie), Edition April 2007

3) Bad Hire – Definition and Contributors

Definition

Poor recruitment decisions are increasingly common and the effects they have on the success of a company more serious. A study by CareerBuilder showed that about half of the employers in ten of the world's strongest economic countries experienced the negative effects of a bad hire⁵. In the United States of America 66% of the questioned employers reported negative experiences, and also in Great Britain (62%) and Germany (58%) the problem is omnipresent⁶.

But what exactly is a "bad hire"?

A bad hire describes somebody who negatively impacts the productivity, efficiency, performance and culture of an organisation, as well as someone who only remains with the organisation for a short period of time⁷.

Reported mismatches by employers

USA: 66%
Italy: 66%
UK: 62%
Germany: 58%
France: 53%

The Main Causes of a Bad Hire

The mistakes in the talent acquisition are as complex as the process itself. The Brandon Hall Group names five main reasons for a bad hire in their current research report:

- a. Job interview process
- b. Weak employer brand
- c. Negative candidate experience
- d. Insufficient onboarding process
- e. Lack of information

Job interview process

Often, an applicant appears to be a perfect match during in the orientation phase but the interview, however, reveals that it would be a 'bad fit'. In a study carried out by the Brandon Hall Group 69% of the questioned companies state that job interviews play a crucial role in the quality of hire. That is the reason why it is about five times more likely for companies with a poorly developed interview strategy to experience a bad hire⁷.

⁵ CareerBuilder.com, 2013

⁶ Harris Interactive, 2012

⁷ Brandon Hall Group, 2015

Weak employer brand

New generations with different views and approach to employment have a significant impact on recruitment. Generation Y, more commonly known as Millennials, will be the dominating workforce by 2025⁸. Differently to past generations, Millennials do not only change their jobs more frequently but also highly value a cultural fit with their employer⁹. Hence why employer branding is becoming evermore relevant in today's recruitment strategies. Employer branding describes the process of establishing an organisation as an attractive employer based on their corporate identity and culture.¹⁰ **Studies show that companies which invest actively in their employer brand are three times more likely to successfully recruit employees and retain them for long a longer period of time.** Businesses with a weak employer brand, however, are not able to communicate internal standards, values and ambitions sufficiently to jobseekers and are therefore going to have difficulties to maintain a competitive advantage in the 'war for talents'.¹¹

Negative candidate experience

A positive Candidate Experience should be a priority in a successful recruitment strategy. Candidate Experience is defined as the sum of the perception and experiences which a candidate collects during the application process with a potential employer.¹² Recent research shows that the quality of new employments of a company improves to more than 70%, if there is a actively invests in a positive candidate experience¹¹.

Insufficient onboarding process

First impressions count. Hence why it is not surprising that companies, who do not offer a well-designed onboarding process to newly recruited employees, fail to integrate personnel into their corporate culture and routines and therefore not able to hold on to them for a long period. The onboarding process encompasses not only the training of newcomers but actually focuses on the integration of an employee at all levels: Tasks and responsibilities defined, the company's aims and philosophy explained and social interaction colleagues established¹³. **A successful onboarding process is more likely to lead to long-term employment and increases productivity.**¹¹

⁸ Glassdoor, 2016

⁹ Agrawal, S., Harvard Business Review, 2014

¹⁰ DEBA, 2007

¹¹ Brandon Hall Group, 2015

¹² Employer Reputation, 2015

¹³ Softgarden, 2015

Lack of information

With the increasing complexity of the recruitment of process, the evaluation of candidates during the decision-making process as well as the amount of information required increases accordingly. The information should not only contain data about the candidates themselves but also about conducted job interviews and other recruitment procedures. For many companies it is still unclear which kind of information could be of relevance and how it should interpret this data efficiently. A misinterpretation or a lack of information could again lead to a bad hire or a cultural mismatch. The main cause for insufficient internal communication of information is an underdeveloped structure of the recruitment process itself.

4) Bad Hire – The True Cost

Most organisations underestimate the actual costs of a bad hire because it affects the performance of an organisation in several ways. The results of the CareerBuilder survey¹⁴ reveal the true costs of a single bad hire:

- Germany: more than 50,000 euros
- United Kingdom: more than 50,000 pound sterling
- USA: more than 52,000 US dollar

Different factors are responsible for the enormous costs. A better understanding of these factors can help to lower them and decrease the chances of a bad hire. The following three factors are play a major role in the calculation of recruitment costs and should also be considered when it comes to bad hires¹⁵:

- **Remuneration.** Salary and other benefits related to job.
- **Training.** Costs of onboarding processes.
- **Recruitment.** Costs of the resources dedicated to the recruitment process.

Important to consider is that these costs not only accrue once but will be repeatedly if employees leave their jobs shortly after being appointed.

On average, a recruiter spends 45 hours evaluating, processing and onboarding each candidate. Hours which need to be paid for by the company¹⁶. In addition to this every organisation incur costs due to a company specific approach to recruitment which must be taken into account. For example, placing job ads across different channels or having to adapt the working environment to new employees, i.e. additional office equipment.

However, the effect of a bad hire goes further: Bad hires also have a negative impact on aspects that are

¹⁴ CareerBuilder, 2013

¹⁵ Brandon Hall Group, 2015

¹⁶ Robert Half, 2017

harder to measure, for example customer satisfaction, corporate culture, training times, employees satisfaction and productivity. In a study by Harris Poll more than 2,000 HR managers across industries were asked about the influence of a bad hire on a company's performance. The results show that especially team performances within an organisation suffer from an inadequate hire. **36% of the interviewees state that a company's productivity decreased and 31% experienced a negative influence on the staff morale**¹⁷.

On top of that, a bad hire negatively impacts on the relationship between employees and superiors. 20% of the surveyed employees say that they lost their trust in a manager's abilities because of a poorly recruited candidate¹⁸.

<p>Lost productivity</p> <p>USA: 36% Italy: 31% UK: 23% Germany: 25% France: 15%</p>	<p>Fewer sales</p> <p>USA: 10% Italy: 9% UK: 12% Germany: 9% France: 11%</p>
<p>Impact on client relation</p> <p>USA: 18% Italy: 20% UK: 17% Germany: 16% France: 17%</p>	<p>Recruiting & training costs</p> <p>USA: 31% Italy: 23% UK: 22% Germany: 15% France: 12%</p>

Global survey, conducted online by Harris Interactive which included more than 6,000 hiring managers and human resource professionals in countries with the largest gross domestic product.

¹⁷ CareerBuilder, 2016

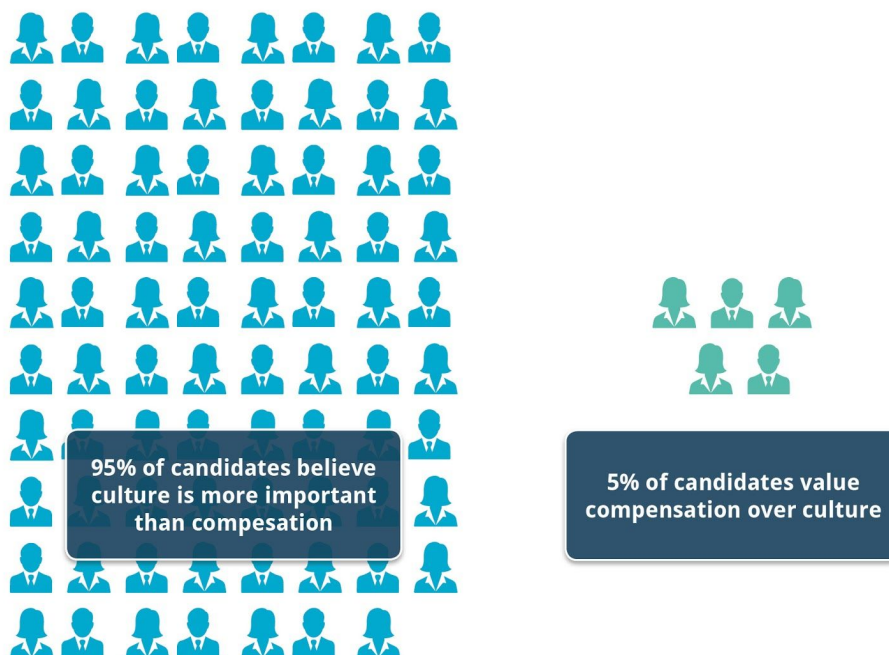
¹⁸ Robert Half, 2017

Recruitment 4.0. – Hire for Cultural Fit

Leading companies are putting more and more emphasis on preventing bad hires gains. The first step is to better understand the candidate's perspective and to identify their drivers, values and motivation in an early stage.

Recent studies show that especially Millennials would rather work for a company that matches their standards and values who they can represent than simply receive a higher salary¹⁹.

Importance of Culture



Bersin by Deloitte research

This trend needs to be understood and reflected upon in the internal recruitment strategy to be capable of competing in the global market. The following strategies improve the chances of preventing bad hires and create long term employment:

- a. Consistent recruitment strategies
- b. Active corporate culture
- c. Promote employee engagement
- d. Improve candidate experience
- e. Cultural Fit over hard skills

¹⁹ White, J.; The Columbus Dispatch, 2014

Consistent recruitment strategy

Companies who are looking to lower their costs of bad hires should standardise their application process, especially job interviews. HR managers and other recruiters should follow standardised methods and concepts for the interview process in terms of questions as well as the assessment criteria. Correctly conducted job interviews are essential in successful recruitment processes.

Successful interview methods to determine a candidate's Cultural Fit are so-called „peer interviews” as well as behavioural-based questioning („behavioural interviews“). During a peer interview the candidate has the possibility to exchange information with employees of the favoured company and gain a direct insight into the culture of an organisation²⁰. Behavioural interviews are based on the basic principle that a person's past behaviour also indicates future behaviour patterns. The interview concentrates on experiences specific to work, abilities, knowledge and behaviour patterns of a candidate²¹. A study by the Brandon Hall Group showed that 60% of the companies, which orientated themselves on such successful interview models, achieved a recruitment strategy that is aligning with the company's objectives²².

Active Corporate Culture

An active employer branding strategy should be a priority for every company that would like to avoid bad hires. **A Glassdoor survey shows that 69% of the interviewees would be more likely to apply for a position with a company that has an active employer branding strategy²³**. More than 80% of the surveyed Millennials value good relations with colleagues and a personal Cultural Fit with an organisation above all other categories during the application process. That is why a company should communicate information about the corporate culture through multiple channels from orientation through to decision phase. If an employer brand reflects the company's culture clearly and accurately, the likelihood of a miscasting decreases significantly²². Of course the employer brand strategy should be aligned with the overall business strategy. It allows for candidates have a better insight in possible future responsibilities, duties and relations. Transparency is the key word though according to the **Glassdoor study which shows that 90% of job seekers would like to work for an organisation which actively promotes transparency**.

Promote employee engagement

Engaged and motivated employees play a major role in a company's success. According to a Deloitte, 90% of the executives are aware of the importance of a high degree of employee engagement. However only

²⁰ R. Rask, 2006

²¹ Drexel University, n.d.

²² Brandon Hall Group, 2015

²³ Glassdoor Survey, 2016

about 50% have measures in place to address this issue. A positive employee engagement starts with the company's executives. Employers who actively live and breathe the company's mission and vision will inspire employees and contribute to a positive work environment. **Recent research shows that the companies who are driven by an internal mission not only provide a 30% higher level of innovation but also a 40% higher level of retention**²⁴. Being able to identify with the company's values is essential for a positive engagement.

Improve candidate experience

A positive candidate experience is an essential part of a successful recruitment strategy of a company. Online and mobile recruitment channels are taking centre stage. **A Glassdoor survey showed that 45% of the surveyed job seekers use a mobile device to look for suitable positions at least once a day; 89% think that mobile devices are the future of job searching**²⁵. A great candidate experience does not only have a positive impact on the organisation's recruitment process but also strengthens its reputation. The likelihood of successful long-term employment rises if a candidate already had a positive impression during the application process. Even if an applicant seems inexpedient for an available position, the chances that he or she recommends the company to friends or colleagues increases²⁶. These recommendations are becoming more and more important as we move towards a candidate-driven job market. 70% of Millennials indicate having acquired a new position through recommendations of friends. Mobile as a recruitment channel is still underestimated²⁷. A recent study proved that only 56% of the big German personnel service providers have optimised their career sites for mobile devices and only 45% of the companies in question offer online application forms²⁸. These results show that many companies still have some way to go to improve the candidate experience.

Cultural Fit over hard skills

To guarantee the development of a healthy culture, which serves as a base for an authentic employer brand, many experts emphasise the importance of a positive Cultural Fit. In terms of recruitment strategies, the assessment should not only be based upon the education and professional experiences of a candidate but to find an answer to the question to what extent the candidate really fits into the lived culture of the company²⁹. Such a Cultural Fit is based on shared values, drivers and motivations which put together the cultural profile of a person, as well as of an employer. **So, let's "Hire for culture, train for skills!"**.

²⁴ Bersin, J., Deloitte Development, 2015

²⁵ Glassdoor Survey, 2014

²⁶ IntraWorlds, Definition der Candidate Experience, n.d.

²⁷ Agrawal, S., Harvard Business Review, 2014

²⁸ Mathelsen, E., Wollmilchsau, 2016

²⁹ CompanyMatch, 2017

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