

The Cost of a Mis-Hire

Most executives will easily agree that the most important asset in their company is their people, yet very few companies actually have a formal system in place to ensure that they attract, select, promote and retain the best and the brightest. Companies that strive to build their teams with the best players are more capable of capitalizing on opportunities than their “talent-constrained” competitors. The following exercises take an honest look at the harsh penalties paid for making poor staffing decisions.

The Cost of a Poor Hire

1. Recruitment Costs

- HR Time \$_____ per hr. x hrs. = _____
 - Management Time \$_____ per hr. x hrs. = _____
 - Other Interviewers’ Time \$_____ per hr. x hrs. = _____
 - Cost of the Ad _____
 - Cost of a Referral _____
 - Cost of Placement _____
- TOTAL \$ _____

2. Salary & Related Costs

- Salary _____
 - Benefits _____
 - Overhead, phones, etc. _____
- TOTAL \$ _____

3. Time of Other Personnel

- Manager \$_____ per hr. x hrs. = _____
 - Training & Development \$_____ per hr. x hrs. = _____
 - Administrative \$_____ per hr. x hrs. = _____
- TOTAL \$ _____

4. Productivity Losses

- Start up Performance – Less than Standard _____
 - Low Morale of Co-workers _____
 - Standards of Performance and/or attendance lowered _____
- TOTAL \$ _____

5. Lost Business

- Prospects Lost _____
 - Customers Lost _____
- TOTAL \$ _____

6. Other Costs

- Managerial Energy Diversion _____
 - Company Cars, Personal Computers _____
 - Unemployment Compensation _____
 - Severance Allowances _____
 - Legal Fees _____
- TOTAL \$ _____

GRAND TOTAL \$ _____

Short Formula for Estimating Minimal Costs: **3 x Salary** \$ _____

The Cost of Procrastination

WAITING TO ACT ON PERSONNEL RELATED DECISIONS COSTS MORE THAN YOU THINK!

Holding on to Low-Level Performers:

- Mediocre levels of productivity become acceptable in the company
- Managers waste too much time trying to change these individuals
- Wasted money in training programs to try to improve the level of performance
- Management's image is lowered for, either not seeing the lowered performance or not removing the person from the company
- Possible loss of customers and/or prospects
- Negative impact upon the company's performers

Estimated Cost: 2-3 times salary

$$\underline{\hspace{2cm}} \times 2 \times \underline{\hspace{2cm}} = \underline{\hspace{2cm}} \text{ TOTAL}$$

Average Salary of Low-Level Performers # of Low-Level Performers

Promoting an Individual without the "Right Stuff"

- Possible loss of personnel, customers and/or prospects
- Replacing the promoted individual with someone possibly less qualified
- Extended learning curve causes lower productivity
- Negative impact upon morale
- Eventual replacement – starting the promotion process over again too soon

Estimated Cost: 4-6 times salary

$$\underline{\hspace{2cm}} \times 4 \times \underline{\hspace{2cm}} = \underline{\hspace{2cm}} \text{ TOTAL}$$

Average Salary of Poor Managers # of Poor Managers

Losing a High-Level Performer:

- Loss of productivity that is significantly above acceptable standards
- Many times management will settle for someone that is less qualified to replace the high level performer
- Replacing the productivity of a High-Level Performer typically takes more than one Employee
- Loss of Intellectual Property that inevitably leaves with the individual
- Negative Morale – other performers may begin looking for other opportunities

Estimated Cost: 6-8 times Salary

$$\underline{\hspace{2cm}} \times 6 \times \underline{\hspace{2cm}} = \underline{\hspace{2cm}} \text{ TOTAL}$$

Average Salary of High-Level Performers # of Lost High-Level Performers