



May 11, 2008

Team:

Today I would like to discuss the cost of a “bad hire”. Hiring or promoting the wrong personnel costs a company far more than most of us realize. These true costs must include the time and opportunities lost, resources expended, loss of productivity, company reputation, and that all important team morale. It does not take long for the wrong personnel to cost our company a lot of money.

The general rule of thumb has been that the cost estimates of a bad hire were 3-5 times the individual’s annual salary. However recent studies of the true cost related to the decision to hire the wrong person revealed that we must combine not only the direct costs such as wasted resources, but all of the indirect costs like the disruption of the whole team’s performance, customer relationships, loss of leadership, potential opportunities, and the good will with our high performance employees. It’s all of these indirect costs which are more significant and much more difficult to recognize and account for.

The study went on to say that just the direct costs of a bad hire typically amount to between 3-5 times the individuals annual salary, but that this figure can account for only 20 percent of the total damage done to the organizations performance when we take into account it’s total indirect impact of reduced performance, opportunity costs, energy and resources wasted. A bad hire has actually been proven to reduce the production and performance of entire team due to other team members trying to prop up or carry the load of a bad hire. The higher the position filled with the wrong person the higher dollar risk.

However as hard as it is to hire the right personnel, it is not a career ending situation unless it becomes part of a pattern of misjudgment represented by repeatedly trying to put square pegs into round holes. We must all work diligently to improve the “front side” of hiring so that we hone and perfect our skills by learning from history, but more important than the occasional wrong hire which will continue to happen to all of us from time to time is a leader’s inaction after the fact. Leadership requires a willingness to reconcile mistakes in hiring. Mistakes left unadjusted can only compound these problems and costs. True leadership takes the courage to act both fairly and consistently and even when it’s unpleasant it’s still our job to lead to way toward continuous improvements.

Make it a great week ...or not. The choice is always ours

John T. Brown
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