

The Real Costs of Employing the Wrong Person

The real costs of employing the wrong person include both direct and indirect costs. You can measure the direct costs fairly easily but the indirect costs are usually very difficult to measure and, unfortunately, they are often the most significant ones. Here is a list of the direct and indirect costs you need to consider:

Direct costs you can measure easily:

- Salary, hiring bonuses, and contractual guarantees while employed.
- Management time involved in interviewing and evaluating candidates.
- Candidate travel expenses for interviews.
- Recruiter's fees and expenses. Their fees are usually one-third of an employee's annual compensation and are not refundable.
- Additional recruiter fees, travel costs, and management time if you engage a new recruiter.

Indirect costs you cannot measure easily:

- Lost opportunities that the employee failed to recognize or take advantage of.
- Efficiencies or improvements that the employee failed to implement.
- Decisions or changes that the employee implemented that were ineffective, had to be reversed, or unnecessarily increased workload or costs.
- Delay in achieving goals and objectives during the search for a replacement and the associated learning curve of a new employee.
- Disruption to operations and voids in succession plans due to loss of subordinates who leave because of the new employee.
- Increased potential for ethical lapses or internal controls being circumvented by disruptions or disgruntled employees.
- Reduced team successes due to the new employee not being able to work with others to achieve goals or to sufficiently motivate others to do so.
- Competitor successes due to the organization's inability to effectively implement strategy or achieve goals.
- Customer disappointment with company over management shuffles or gaps – Appearance that company doesn't have its act together or is "having problems."
- Negative comments spread by your competitors or former disgruntled employees.
- Increased risk that the company will move too quickly to fill the opening by diluting the strategic objectives for the position or choosing a less than ideal candidate.

Most organizations, when asked, will admit they have had at least one employee that was not the right person for the job. Sometimes it resulted from a hiring mistake and sometimes it was due to a promotion that didn't work out. Employees involved in recommending the hiring or promotion of that person often say that not only did the organization suffer but their reputation suffered as a result.

The top four reasons I hear from employers as to why they hired or promoted the wrong person are as follows:

- An inability (or unwillingness) of management (executives and managers) to thoroughly participate in candidate interviews and the assessment process.
- Ad hoc interviewing questions and assessment processes where employees either rely on or defer to others to make the appropriate assessments and hiring decisions.
- Position descriptions that do not clearly identify specific responsibilities and objectives that are consistent with the strategies of the business.
- Vague individual performance criteria that is difficult or impossible to measure effectively or periodically.

Companies that seem to get it right have overcome the above mistakes because they know they will not have more time to do it over if they don't. Startup and newer companies often say they don't have the time or capability to do more intensive interviewing. Unfortunately, those same companies often do not have sufficient financial resources to recover if they hire the wrong person. Making a wrong decision has sometimes cost them their business.

Carl Wellenstein works with small and growing companies that want to improve their effectiveness at recruiting and interviewing leaders and managers. He helps them create and implement a comprehensive system that improves their and their recruiter's success at getting the right people the company needs. If you would like to know how Carl can help you, contact him at carl@execglobalnet.com.