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Perfect match

Making the right hire and
the cost of getting it wrong



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**Recruitment &
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FOREWORD

Right now employers in nearly every sector are finding it increasingly difficult to attract people to the jobs available. The UK's unemployment rate is the lowest since the 1970s, meaning demand for staff is increasing as our talent pool shrinks. When candidates are scarce, employers can be tempted to make hasty hiring decisions. While being fast is sometimes no bad thing, if it leads to poor hiring decisions it can be very costly. Shockingly, we discovered that employers are completely underestimating the financial impact of getting recruitment wrong and are not seeking to improve their processes and practices, so that they make fewer mistakes and get it right more often.

We found that almost nine out of ten HR professionals have worked for a business that hired the wrong person for a job: bad hires are not isolated incidents but frequent occurrences. Employers clearly don't fully understand the costs of a bad hire, they fail to measure its damaging impact and they don't learn how to avoid it next time. This behaviour is putting the success of UK businesses at risk. This REC report will help you understand and assess the cost of a bad hire and help you improve your recruitment decisions.

The potential costs of a bad hire can encompass more than the time and money spent on repeating the recruitment process. A bad hire will have a negative impact on staff morale, a loss of productivity and potentially even an impact on your reputation and brand. All this translates to weakened performance. In fact, we calculate that for a middle manager, the cost of a bad hire can be over three times their salary. To help you evaluate the impact, we present a step-by-step process to recognise and measure an array of potential costs associated with appointing a bad hire.

We also propose what you need to do to get it right more often. You need to start with a clear idea of what success looks like for your business. Create a robust selection process and build close partnerships with recruiters to help you source candidates in an increasingly competitive market. When you do make a mistake, review what went wrong, learn, and make sure it doesn't happen again.

The REC is leading a national debate on what good recruitment looks like by promoting good practice to employers. We encourage employers to sign up to the Good Recruitment Campaign to improve workforce planning, ensure an authentic employer brand and deliver a great candidate experience every time.

It is now more important than ever for employers to attract and retain the right people. We will work with employers and recruiters to ensure good practice remains a priority as they compete for talent and search for the perfect match for every job.

We look forward to your feedback and hope this research highlights the importance that should be placed on recruitment as a source of competitive advantage.

Kevin Green, Chief Executive, REC
@kevingreenrec

FOREWORD

Hiring is one of the most important growth strategies a business can undertake. It is also one of the most difficult and costly, if done wrong. The common hiring mistakes cited in this report include inadequate time reviewing company needs, misleading job profiles/descriptions and accessing a shrinking pool of talent.

At the time of publication, the UK's job creation engine continues to purr away, with the number of people in work and the number of vacancies reaching record levels. With many employers now shrugging off their post-referendum reluctance to hire, in many areas there is a full-blown battle for talent.

The good news is that when it comes to connecting qualified candidates with open positions, search engines like Indeed have emerged as a powerful tool for employers. We help employers master the essential recruitment techniques of a competitive labour market. With more than 200 million visits by jobseekers each month, Indeed is a great way to reach enough candidates to support ambitious hiring goals on a budget.

In today's tight labour market, many recruiters now see that for growing businesses, the answer might not always lie in a candidate's level of experience. It can be as important to identify the potential of your applicants and select the candidates who will bring both passion and possibility to your organisation. We call this kind of person a 'high-potential hire'; the next part is figuring out how to hire them.

There are, of course, some guiding principles for identifying and attracting high-potential hires, to make the right hire for a business.

Strong job descriptions act as a showcase for workplace environments where talented employees get as much as they give. For a high-potential employee, the chance to learn is as important as compensation.

Most CVs are written to focus on the verbs, with candidates highlighting the projects they managed, the things they created or the efforts they led. How does the candidate describe their experience? What adjectives and adverbs do they use in their CVs? Do you see signs of passion and ambition? Do they use words that convey the emotional impact of their work?

And finally, does this person have insightful questions about how your company works? Does the conversation move quickly to issues of strategy and process improvement? Can they talk about the nuance and complexity of their past accomplishments? If so, you may have a high-potential candidate.

The high-potential hire can have an outsized impact on any business and for the right candidate. The challenge, of course, is finding and keeping them.

We are proud to offer our continued support to the REC's Good Recruitment Campaign, and welcome this report to help businesses avoid hiring mistakes and endorse good recruitment practices.

Bill Richards, UK Managing Director, Indeed

**COULD THERE BE
A POSITIVE TO A
BAD HIRE? YES,
FOR ME IT'S ALL
ABOUT LEARNING
WHAT COULD
BE IMPROVED
NEXT TIME.**

ALEX MARTIN, BAE SYSTEMS

01

EXECUTIVE SUMMARY

Success in hiring is about making decisions. Getting it right is more important than ever; in this challenging work environment, where competition is exacerbated by scarcity of candidates and skills shortage, a bad hire is not a momentary mistake but a major liability that can threaten the financial success of your business.

Poor hiring decisions are more common and frequent than initially thought. In fact, almost nine out of ten (85 per cent) survey respondents admit that a business they worked for hired the wrong person for the job. Crucially, recognising and rectifying a failed hire is a costly process. Costs such as recruitment fees and money spent on training are easily measurable; however, the price of a bad hire to the organisation also includes those costs that are more difficult to quantify. The implications of a bad hire on staff morale and turnover, productivity, reputation and delivery of client solutions are often overlooked and regarded as secondary, non-financial costs. In fact, these are the principal indicators of the longer-term and critically adverse effects of poor hiring decisions on the organisation's ability to succeed financially. When asked about the biggest costs of a bad hire, respondents identified training costs (53 per cent), negative impact on staff morale and performance (46 per cent), recruitment costs (41 per cent) and loss of productivity (36 per cent). However, some fail to understand and interpret these in financial terms. Markedly, even at the highest management level, 33 per cent of those who work in a business who has made a bad hire in this type of role believe that it had not cost them anything over the past year. This highlights a significant gap in knowledge amongst stakeholders about how much a poor hiring decision really costs their business.

In response to the need for a structured methodology to measure the impact of bad hires and give the impetus to work towards reducing the astounding 85 per cent of bad hires recorded by respondents, we offer employers a new practical tool to consider and calculate an array of potential costs associated with their decisions to appoint, then either fire or retain, a bad hire. The table of costs and accompanying example scenario demonstrate how the costs of a bad hire can reach many times the annual salary of the new recruit. We calculate that a poor hire at middle-management level at a salary of £42,000 could end up costing a business £132,015 in total to resolve.

Employees are the most valuable asset of any business. Yet, stakeholders are under-investing and missing out important stages of the recruitment process. From looking to fill the position quickly and accessing a small pool of talent to hiring like-for-like and failing to perform the necessary skills and reference checks, respondents recognise regretted hiring mistakes. However, when asked to consider which areas to improve their business's in-house recruitment practices, a fifth (20 per cent) neither know nor believe any of these areas require further improvement; this rises to a third (32 per cent) when considering areas that recruitment agencies should invest in. Yet again, these inconsistencies reveal an incapacity to fully understand in a coherent manner the factors and actions involved during the selection process, and highlight a limited ability to reflect



A POOR HIRE AT MID-MANAGER LEVEL WITH A SALARY OF £42,000 CAN END UP COSTING A BUSINESS

£132,015

upon past hiring mistakes. This is of utmost concern given the striking calculations of poor hiring decisions that are provided in this report.

By reflecting on organisation-wide policies in sourcing candidates and selection, the report provides all stakeholders with the opportunities to consider the real wide-ranging consequences of a bad hire and the steps to be taken in order to make a successful hire. Employers – as the ultimate decision-makers in selecting and hiring candidates – must work closely and collaboratively with HR teams and recruiters responsible for sourcing candidates in order to measure success against failure and safeguard a robust selection process. Ensuring appropriate selection methods and professional recruitment practices in each and every important stage of the process will mitigate costly hiring risks and allow businesses to source and retain the best person for every job.

AT A GLANCE: GETTING IT RIGHT AT EVERY STAGE OF THE RECRUITMENT PROCESS

Recruitment stage: Identify hiring needs and define the role

Common hiring mistakes

- Inadequate time spent to review company needs
- Misleading job profile
- Focus on competencies instead of potential

Key action points

- Align person profile to business objectives and vision
- Define clearly the required skills and personal qualities

Recruitment stage: Attract applications using internal and external methods

Common hiring mistakes

- Access small pool of talent
- Biased language in job description
- Limited budget

Key action points

- Promote a flexible and inclusive workforce
- Use a range of platforms to advertise jobs
- Be diversity-conscious; reach diverse and under-represented groups

Recruitment stage: Choose an appropriate selection process

Common hiring mistakes

- Fill position quickly
- Failure to verify skills and references
- Improper interviewing skills
- Unconscious biases

Key action points

- Determine selection criteria and take time over hiring decision
- Improve vetting process
- Gauge candidates' abilities
- Implement soft skills assessment tools, ensuring interviewers have proper skills to conduct competency-based interviews
- Provide training to tackle discriminatory practices

Recruitment stage: Making the appointment and beyond

Common hiring mistakes

- Insufficient training and integration of new recruit provided
- Failure to motivate and respond to career aspirations

Key action points

- Properly induct new recruits, explain job requirements and team dynamics
- Provide regular feedback
- Offer training and career development opportunities

**GREAT HIRING
REALLY IS ABOUT
GETTING REAL ON
ALL LEVELS WITH
ALL PEOPLE.**

RUTH PENFOLD, SHAZAM

02

INTRODUCTION

Hiring the best person for every job is crucial to the success of a business. Yet, picking talent remains the most pressing challenge for employers. Notwithstanding the confusion about the real consequences of poor hiring practices, the potential detrimental impact of such decisions on organisational performance necessitates that a set of 'success or failure' criteria is in place. This will allow employers to mitigate the huge costs associated with bad hires and enable their businesses to succeed.

The UK's current labour market is challenging for employers; demand for key skills is mounting and competition for talent is fierce. It is vital that organisations and the recruitment industry respond to these challenges in a comprehensive manner by ensuring effective, responsive and professional hiring practices throughout the resourcing process. As this research illustrates, there is ample evidence that good recruitment practices are essential in sourcing and retaining the talent needed for a business to thrive. In particular, by fine-tuning their resourcing approaches as well as working more collaboratively with recruitment partners, businesses can drive activities that have a far more positive impact on staff and customer satisfaction and, in turn, on financial performance and organisational success.

The main question that this report addresses is: what are the real consequences of bad hiring practices, and what steps can be taken to enable businesses to make a successful hiring decision?

Specifically, this research investigates what causes bad hiring decisions and it identifies the costs associated with bad hiring practices for permanent roles. In the absence of a clear methodology to measure the impact of bad hires, the research offers employers a new practical tool to consider and calculate potential costs associated with a bad hire. The research also recognises the reasons that are conducive to making hiring mistakes. In doing so, it further outlines the steps and tools to help businesses avoid hiring mistakes and endorse good recruitment practices.

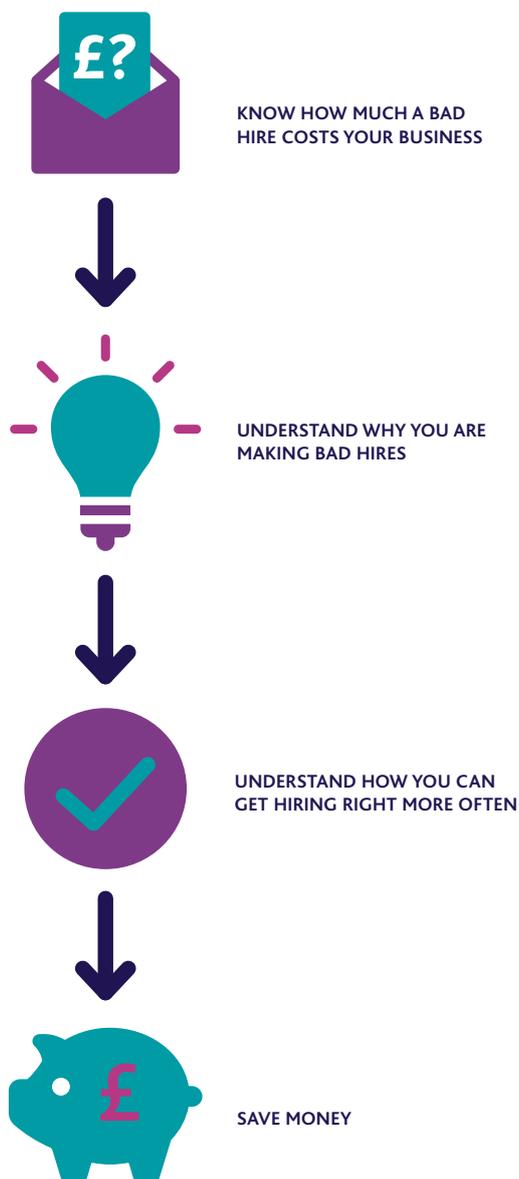
The report draws largely on the quantitative responses from the YouGov HR decision-makers survey and qualitative insights from employers and recruitment industry experts arising from structured interviews. Quotes from the qualitative research and findings from the quantitative survey are provided throughout the report and are attributed accordingly.

Outline of the report

In an attempt to add clarity to the confusion already inhibiting recruitment practices and provide employers and recruiters with the opportunity to understand and address the main concerns in this area, section 3 of this research outlines the main attributes associated with a bad hire and its extensive impact on organisational success. Section 4 investigates more closely the real consequences of poor hiring decisions, emphasising the most significant costs as perceived

by employers and drawing attention to the hidden yet substantial costs incurred in the longer term. It also provides a general methodology, which identifies potential costs that employers should be aware of and suggests methods to calculate these. Finally, identifying the most common hiring mistakes and recommending corresponding action points will enable key stakeholders to place sound hiring practices at the forefront of their strategic thinking.

The following diagram illustrates a useful process of how to make the right hire. The themes in this diagram are explored further in this report.



**A BAD HIRE IS
EFFECTIVELY
THE LOST
OPPORTUNITY TO
HIRE THE RIGHT
PERSON FOR
THE ROLE.**

PAUL JARRETT, RENAIX

03

DEFINING A BAD HIRE



85%

**OF HR DECISION-MAKERS
ADMIT THEIR BUSINESS MADE
A BAD HIRE.**

In recent years, businesses and recruiters have become more concerned about the potential impact of poor hiring. Nonetheless, there is still confusion about what a bad hire actually entails and how it truly affects organisational performance. At the core of this predicament lies the misconception that the costs associated with a bad hire are short term and tangible, hence overlooking the substantial hidden and lasting consequences of such practices.

Central to investigating the premise of a poor hiring decision is essentially the distinction between a good hire and a bad hire. In other words, it is how the employer measures the success of a new recruit. Again, success of a new hire is neither one-dimensional nor palpable; it is perceived and measured differently based on employers' needs, opinions and understandings. Although extensively used to refer to the hiring of the wrong person for the job, there is not one detailed definition of a bad hire. Indeed, the subjective nature of the concept is manifested in the range of interpretations of what constitutes a bad hire. There are the undisputed negative connotations associated with the term, but perceptions and perspectives of what a bad hire means to employers and recruiters vary considerably.

A number of different elements, which measure the quality of a hire, go into an algorithm. The period of time an individual stays with a company is still a measure of success, as is the performance of the individual and how their career has developed in the organisation. It is also useful to use 360 feedback – to assess not just the views of managers, but the opinions of the individual's team and peers. All of these elements in some way, shape or form, influence whether someone is a good hire.

Alex Martin, BAE Systems

The key in defining the underpinning components of a bad hire is in understanding the context in which employers make the decisions to hire and retain a new recruit. The common characteristics of a bad hire arguably become more evident when outlining the main attributes associated with a good hire. Nonetheless, employers look for different signals of a successful hiring decision. As indicated by employers, HR professionals and recruiters, measurements of success of a new hire can range from the length of time the new employee stays in the position and their satisfaction, to the new recruit's impact on team dynamics and contribution to the business. Employers value reliability and professionalism in a member of staff, which translate into producing the expected quality of work within deadlines, maintaining a positive attitude towards the team and the team's objectives, and enhancing client relationships. Indeed, employers have become better at assessing staff performance by utilising effective tools such as key performance indicators (KPIs), performance development reviews (PDRs), sales figures and customer service forms. Undoubtedly, not only do some of these

indicators only emerge in the longer term, but they are also difficult to measure. This becomes even more complicated when seeking to assess the impact of a new recruit on the performance of all staff. For instance, if an employer's energy and resources are required to focus primarily on new recruits, it risks hindering the advancement and performance of current employees. Staff grievances, if not addressed appropriately, subsequently contribute to increased staff turnover and, in turn, these hinder organisational success. Similarly, an employer may be tempted to retain a poor hire and provide further training anticipating that they will become a better fit for the job and, at the same time, avoid new hiring costs. However, such decisions will likely only perpetuate the adverse effects of a bad hire on productivity and financial gains.

A good hire is undoubtedly an asset, if not the most important asset, to any organisation: the individual is a cultural fit and interacts with colleagues and clients effectively, the team functions as a united front and the new recruit shares the organisation's vision and contributes to financial gains. Conversely, a bad hire can be defined as a liability that can turn into a major stumbling block for the success of any organisation: a bad fit for the job can clash with the organisation's goals and culture, will cause strife within the team and compromise the employer's ability to compete and thrive. In extreme cases, a worker can engage in behaviour that is harmful to the organisation, generating substantial regulatory fees and liabilities as well as leading to the loss of legitimacy among important external stakeholders.¹

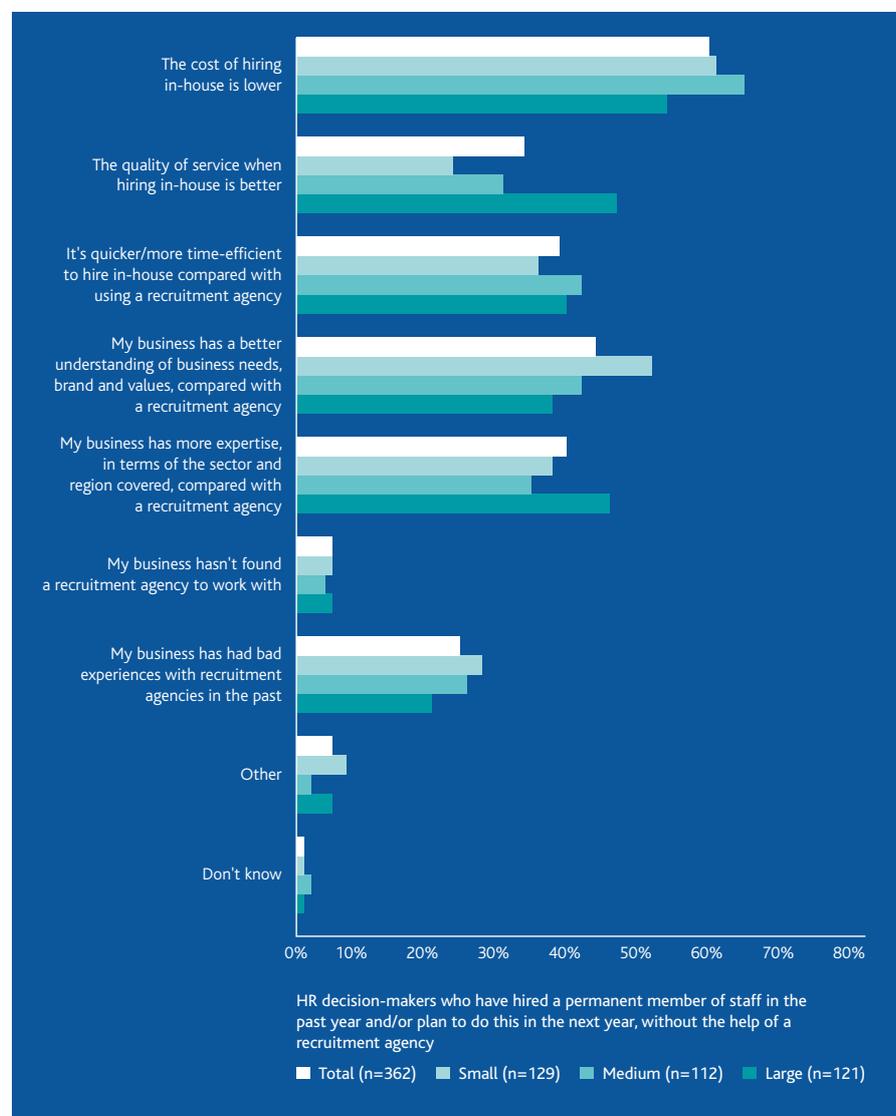
The immediate thing that springs to mind when you talk about a bad hire is the impact on the business directly in terms of that individual's performance and their ability to make a positive contribution. So if they're not the right fit for that organisation and don't have the right skills, there is a knock-on effect on the wider team around them – the impact on those individuals who are either having to deal with a misfit, as it were, in terms of cultural fit and performance, or indeed perhaps may even be doing the work of that individual to make sure the team continues. The worst-case scenario is that it has such a massive impact that the performance of that team deteriorates. Either the business will make the decision that we've hired the wrong person and take the appropriate action, or the individual will also realise that they've found themselves in a situation that isn't appropriate for them and again will make the decision to remedy that, which will always result in having to repeat the process.

Adrian Wightman, Innogy

¹ Housman, M. and Minor, D. (2015) *Toxic workers*. Working paper 16-057. Harvard Business School.

The selection method businesses undertake is of particular significance when investigating the premise of a bad hire and identifying those areas that require additional investment and development in order to improve hiring practices. This becomes more evident as a staggering 85 per cent of all HR respondents report that a business they have worked for has taken on a new permanent employee who then proved to be a bad fit for the job. This clearly manifests the extent of poor hiring decisions taking place in the UK labour market. In doing so, it reveals the urgency for all stakeholders involved to understand and address this challenge in a concerted manner.

FIGURE 1: WHICH, IF ANY, OF THE FOLLOWING ARE REASONS WHY YOUR BUSINESS HAS CHOSEN TO HIRE A NEW MEMBER OF STAFF WITHOUT THE HELP OF A RECRUITMENT AGENCY IN THE PAST YEAR AND/OR IS PLANNING TO DO THIS IN THE NEXT YEAR? BY ORGANISATION SIZE



Employers may choose to hire a new recruit with or without the help of a recruitment agency, and a number of reasons affect the employer's decision to hire a new permanent member of staff utilising solely in-house HR resources. As Figure 1 demonstrates, over half (58 per cent) of HR decision-makers who

have hired a permanent member of staff in the past year and/or plan to do this in the next year without the help of a recruitment agency report that their business is motivated by the seemingly lower cost of in-house hiring compared with the headline costs incurred when commissioning a recruitment agency. More than four in ten respondents (42 per cent) also highlight that the business has a better understanding of business needs, brand and values. This is cited as the second most common reason among small companies (50 per cent), whereas more large employers (44 per cent) emphasise the business's expertise in terms of the sector and region covered. Time efficiency is clearly an important factor when choosing to hire without the help of a recruitment agency, particularly for medium (40 per cent) and larger employers (38 per cent).

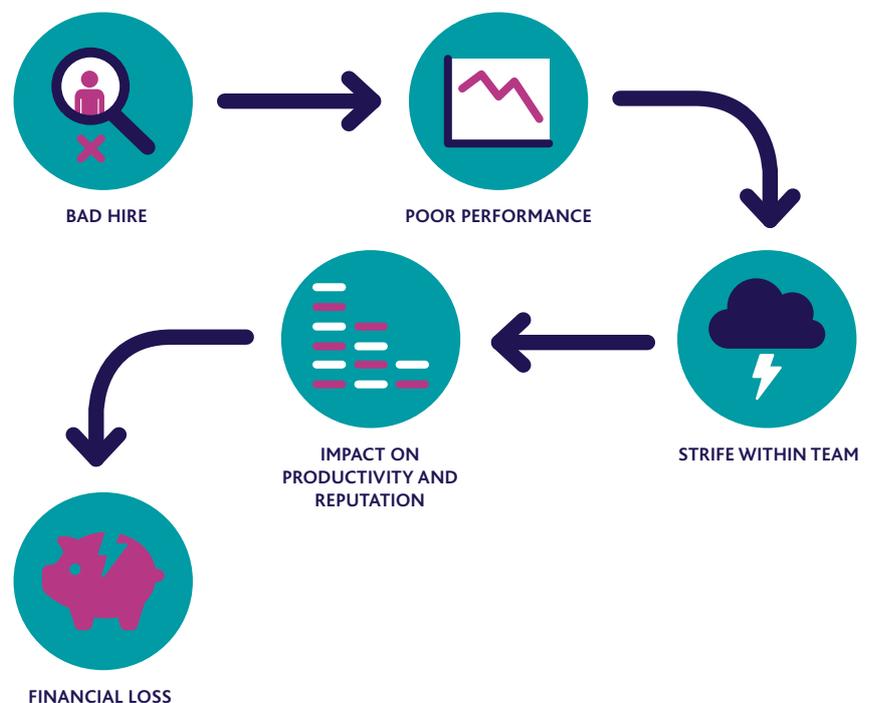
Almost a third of respondents (32 per cent) identify the better quality of service when hiring in-house as a reason for not using a recruitment agency. Unsurprisingly, there is a considerable discrepancy between small and large companies when considering the quality of service; more than four in ten (45 per cent) large companies report that the quality of service when hiring in-house is better, compared with a fifth (22 per cent) of small companies. Larger companies are likely to have more resources, the knowledge in terms of the sectors and regions covered as well as a skilled HR department to ensure quality of service throughout the recruitment process. It is noteworthy that only around one in five (23 per cent) respondents cite past bad experiences with recruitment agencies as a reason why their business has chosen to hire a new permanent member of staff without the help of a recruitment agency, with large companies classifying this as one of the least important reasons (19 per cent).

In response to growing concerns expressed by stakeholders over the impact of a bad hire, a number of studies published in recent years have emphasised how having to hire, fire and recruit a replacement employee is expensive and time-consuming. With a focus on quantifiable costs such as recruitment and training costs, businesses are becoming more wary of the significant impact of a bad hire on overall business spending. Progressively, employers also recognise the implications of a bad hire on productivity and reputation.

The direct, tangible costs of a bad hire include the staff time wasted and the company money wasted on finding and hiring a candidate. For some bad hires there are wider implications. The candidate may be dissatisfied with or unsuited to the role, or may even become disruptive at the workplace. It could be that they're not fully qualified to take on the role, which would incur the additional costs of having to supervise the candidate or up-skill them on immediate tasks that need to be completed. A dissatisfied employee can then cost a company its reputation if that employee chooses to talk negatively about the company. In fact, repeated bad reports about a company by its staff can result in an irreparably tarnished reputation, which could dramatically hinder the hiring process both in the short term and the long term.

Tim Barton, O'Neill & Brennan

In this challenging and highly competitive work environment, which is exacerbated by scarcity of candidates and skills shortage, effective resourcing strategies are becoming ever more critical for employers. It is not sufficient for employers to merely acknowledge there is a significant effect of bad hires on business performance. It is vital that employers consider, calculate and assess the full costs of poor hiring decisions, as any related expenses incurred to recruit, hire and train quality candidates by far outweigh the adverse, far-reaching implications of a bad hire on organisational success. Unless the real costs of poor hiring decisions are properly evaluated, there is no impetus for stakeholders to work towards reducing the astounding 85 per cent of bad hires recorded by respondents.



ACTION

Ensure appropriate selection methods and professional recruitment practices are in place in each and every important stage of the process in order to source and retain the best talent available for every job. A bad hire is not merely an ephemeral mistake, but a major liability that could threaten the financial success of your business. In order to improve hiring strategies, you must ensure you measure success and failure.

PEOPLE ALWAYS
THINK 'IT'S A
RECRUITMENT FEE'.
IT REALLY ISN'T.
THAT'S THE TIP OF
THE ICEBERG.

CHRIS DUNNING-WALTON, INFOSEC PEOPLE

04

IDENTIFYING THE REAL
COSTS OF A BAD HIRE



2 in 5

**NEW HIRES TURN OUT
TO BE BAD HIRES WITHIN
THE FIRST 18 MONTHS.**

There is always an element of risk when selecting a new employee, but the stakes now are higher than ever – a bad hire can have a substantial impact on individual, team and organisational performance. It is not simply a case of finding a replacement employee; hiring the wrong person for the job may prove to be the source of a series of interwoven adverse effects, leading to financial loss.

Almost nine in ten (85 per cent) HR decision-makers report that a business they have worked for hired a permanent member of staff who was a bad fit for the job. This figure does not reflect the actual frequency of all bad hires that each business made. According to a survey of thousands of hiring managers globally, conducted by the CEB in 2013, more than one in five hires are bad or regretted decisions.² Indeed, Leadership IQ estimated that within the first 18 months, at least two in five new hires turn out to be bad hires.³ Poor hiring decisions prove to be far more common than initially thought. But what impact does a bad hire have on the organisation? Evidently, costs are expected to vary according to the different types of role, occupational classification and size of the organisation. Nonetheless, while calculating all consequences is challenging, it is important to recognise that the impact of poor hiring practices extends well beyond purely monetary concerns and obvious, billable costs. Accordingly, this report develops a methodology that allows stakeholders to recognise and, where possible, calculate an array of costs associated with poor hiring decisions.

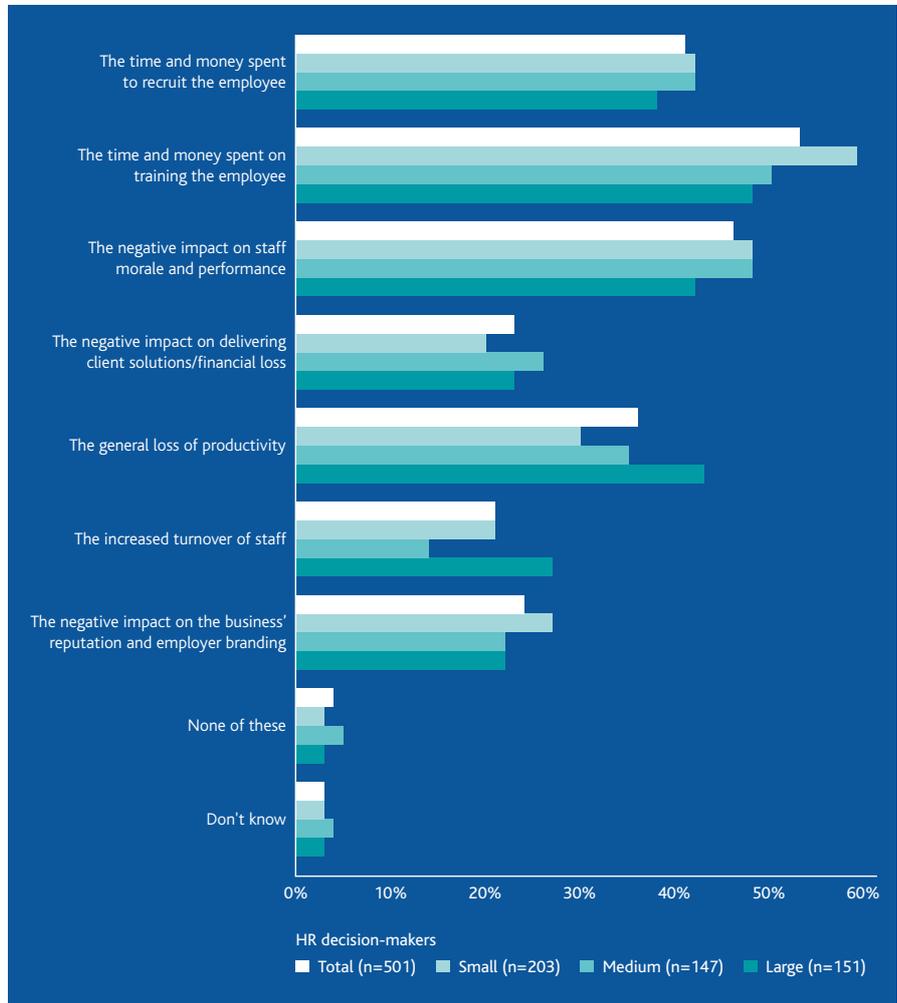
Which are the biggest costs for employers?

Hiring the best person for the job is a pressing challenge for all stakeholders involved in the recruitment process. Almost all respondents (93 per cent) in our survey acknowledge that a poor hiring decision has direct effect on the performance and financial implications listed.

² CEB Global. (2013) *One in Five Hires Are 'Bad' Hires*. Available at: <https://www.cebglobal.com/blogs/one-in-five-hires-are-bad-hires-2/>

³ Following a three-year study, Leadership IQ reveals 46 per cent of newly hired employees will fail within 18 months. Results were compiled after studying 5,247 hiring managers from 312 public, private, business and healthcare organisations. Collectively these managers hired more than 20,000 employees during the study period. Available at: <https://www.leadershipiq.com/blogs/leadershipiq/35354241-why-new-hires-fail-emotional-intelligence-vs-skills>

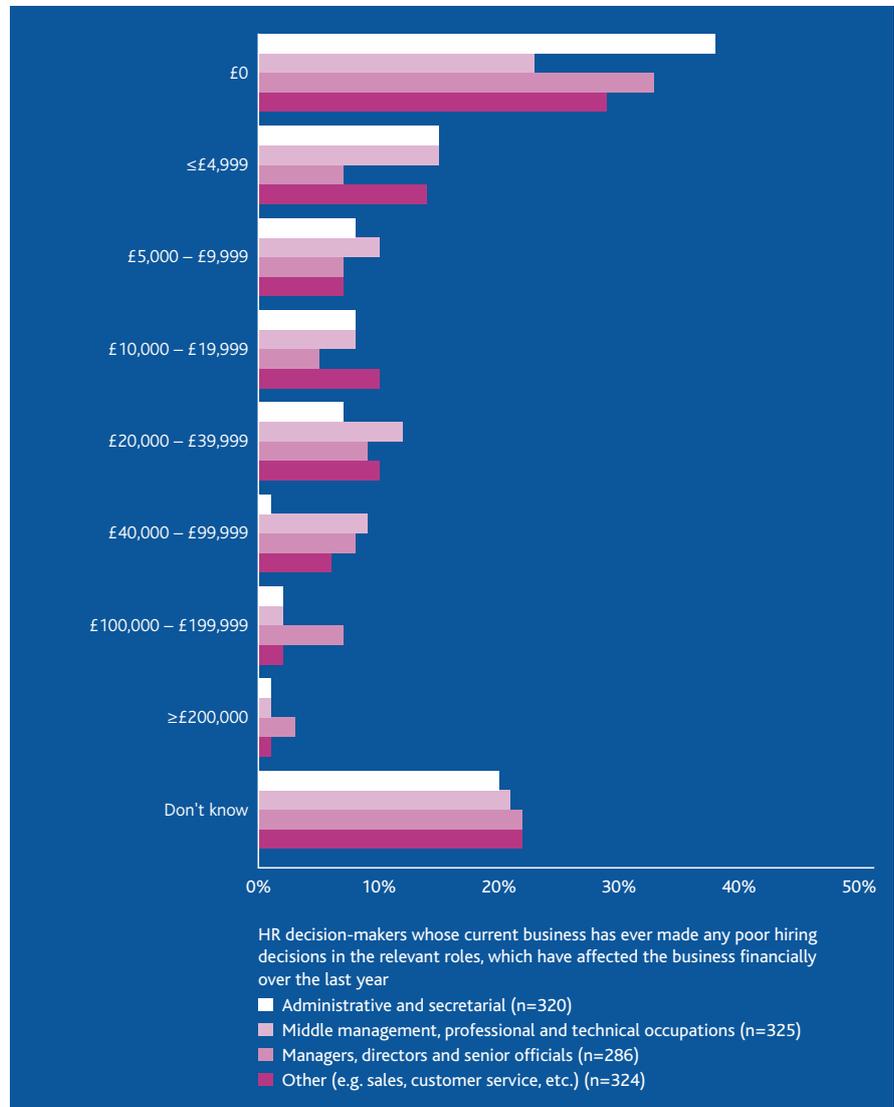
FIGURE 2: WHICH THREE, IF ANY, OF THE FOLLOWING WOULD YOU SAY ARE THE BIGGEST COSTS OF A BAD HIRE FOR THE BUSINESS? (PLEASE SELECT UP TO THREE ANSWERS) BY ORGANISATION SIZE



When asked to determine the three biggest costs of a bad hire for the business, over half of all respondents (53 per cent) cite the time and money spent on training the employee as the biggest cost, followed closely by the negative impact on staff morale and performance (46 per cent), and the time and money spent to recruit the employee (41 per cent). More than a third (36 per cent) of respondents identify the general loss of productivity as one of the biggest costs associated with hiring a permanent member of staff who proved to be a bad fit for the job. The negative impacts of a bad hire on the business’s reputation and on financial loss are regarded as one of the biggest costs by almost a quarter of respondents (24 per cent and 23 per cent, respectively), whereas around a fifth (21 per cent) of HR decision-makers viewed increased staff turnover as a big cost.

But how are all these costs interpreted in measurable terms by stakeholders and reflected in the organisation’s financial planning?

FIGURE 3: APPROXIMATELY HOW MUCH MONEY DO YOU ESTIMATE POOR HIRING DECISIONS HAVE COST YOUR BUSINESS IN THE LAST YEAR, IN EACH OF THE FOLLOWING TYPES OF ROLE?



Survey respondents were asked to consider the financial implications of poor hiring decisions that have affected the business in the last year, attempting to rationally qualify all the substantial costs of a bad hire they have identified above. Unsurprisingly, when looking at the highest estimated losses, proportionally more expect these to have come from senior members of staff. One in ten (10 per cent) respondents whose current business has ever made a poor hiring decision in a senior management role expect the bad hire to have cost their business £100,000 or more in the last year. Whereas for those whose current business has ever made a poor hiring decision in a middle management role, just 3 per cent expect it to have cost this amount, and similarly 3 per cent of those whose current business has ever made a poor hiring decision in an admin and secretarial role expect it to cost their business £100,000 or more in the last year. Remarkably, a significant proportion of respondents report that while their business had at some point made a poor hiring decision in a particular role, it has made no financial loss as a result over the past year. Almost four in ten (38 per cent) believe that a poor hire for an administrative



1 in 5

HR DECISION-MAKERS
'DON'T KNOW' HOW
MUCH A BAD HIRE COSTS.

role had cost them nothing over the past year. Interestingly, even at the highest management level, a staggering third of respondents (33 per cent) believe there had been no cost to their business in the past year. For middle management, professional and technical occupations, this figure stands at nearly a quarter (23 per cent). This, in fact, emphasises the striking inconsistency between respondents' views on biggest costs of poor hires as indicated in Figure 2 and their understanding in financial terms. It is also worth noting that the proportion of HR decision-makers responding 'don't know' for each role stands at around a fifth. This highlights a significant gap in knowledge amongst stakeholders about how much a poor hiring decision really costs their business.

What are the tangible costs of poor hiring decisions?

The value of a bad hire to the organisation includes those costs which are easily quantifiable and predominantly associated with the recruitment, training and termination of a bad hire as well as those of the rehiring process. When considering the costs of a bad hire, most refer to the headline costs including agency fees, advertising expenses, subscriptions to social media and other databases. Many companies reason they can reduce their headline costs by taking recruitment solely in-house. Nonetheless, this necessitates a properly trained HR team is in place, readily capable to promote sound recruitment practices across all levels in the organisation. Companies will need to invest in people and resources in order to develop and continuously support a competent HR department – these considerations should be taken into account when calculating the overall cost of in-house recruitment.

We came to the decision that we shouldn't have hired them originally because they weren't culturally the right person for the business. That was very expensive; it was the cost to advertise that job, to have the whole recruitment process go on, to have line managers involved in panel interviews, then the whole onboarding of that employee. And when one person leaves there are lots of different questions that they get asked, and the team are thinking, 'We have got to work twice as hard as we did before but getting the same amount of money so I might just start looking elsewhere as well.' It will take another three months to get a replacement in and you might have to hire a temp, somebody might go off sick because of stress. There are many different costs that are associated with a bad hire.

HR decision-maker

According to a recent survey of 200 recruiters across agency and in-house positions conducted by CV-Library, the majority of businesses (56.7 per cent) spend up to £5,000 on hiring a new recruit, 21.3 per cent admit it costs them between £5,000

and £10,000, while 15.6 per cent can spend up to £20,000 to make a new hire.⁴ Furthermore, the Chartered Institute of Personnel and Development estimates that the median cost per hire for senior managers/directors in 2015 reached £7,250, which was considerably higher than the median cost per hire of £2,000 for other employees. This reflects the significant variance in the amount spent by employers to recruit more-skilled positions.⁵ However, these figures allow for advertising, agency or search fees only.

In terms of replacement costs, when calculating the immediate costs of newly hired employees who leave the company voluntarily or are terminated before the end of their first year, PricewaterhouseCoopers looks primarily at the cost to hire a replacement, compensation and benefits paid to the departed employee, cost of training, systems and tools, and cost of hiring manager. In view of this, PricewaterhouseCoopers estimates that total costs can be 50–150 per cent of the annual salary for the job.⁶ In a more detailed analysis of the financial impact of overall staff turnover, Oxford Economics has found that across five key sectors (IT/tech, accounting, legal, media/advertising and retail), the loss of an employee earning an annual salary of £25,000 or more carries an average financial impact of £30,614, ranging from £20,113 for retailers to £39,887 for legal firms. These costs take into consideration the impact of lost output while a replacement employee gets up to optimal productivity, which is estimated to be an average of 28 weeks with an attached cost of £25,181, as well as the logistical impact of recruiting and absorbing a new worker, including the cost of advertising, agency fees and cost of interviewing and inducting a new employee. The logistical cost reaches on average £5,433 across sectors.⁷

The overall implications of staff turnover become more pressing for employers selecting new hires, as *Harvard Business Review* points out that as much as 80 per cent of employee turnover is the result of bad hiring decisions.⁸ However, as data from the Chartered Institute of Personnel and Development shows, when measuring overall labour turnover rates and associated costs, 'just 15% of organisations in the UK reported that their organisation calculates the cost of labour turnover.'⁹ In light of the significant costs associated with staff turnover and its irrefutable link to bad hires, employers must consider its impact when measuring the overall costs of a poor hiring decision.

4 CV-Library. (2017) *The real cost of bad recruitment*. Available at: <https://www.cv-library.co.uk/recruitment-insight/wp-content/uploads/2017/02/cvl-the-real-cost-of-bad-recruitment.pdf>

5 CIPD. (2015) *Resourcing and talent planning 2015*. Available at: <https://www.cipd.co.uk/knowledge/strategy/resourcing/surveys>

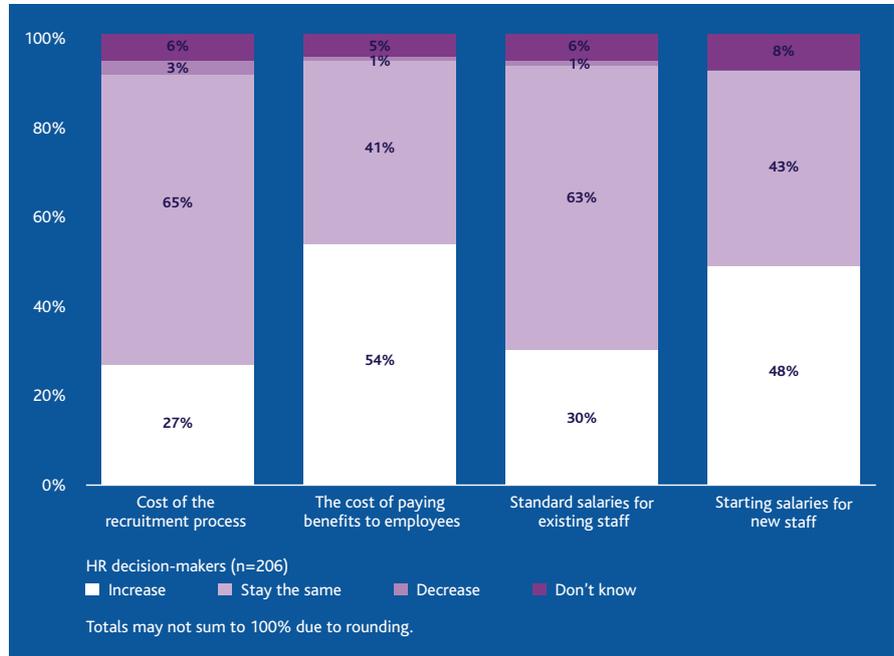
6 Saratoga and Global Best Practices. (2008) *Best practices for retaining new employees: new approaches to effective onboarding*. PricewaterhouseCoopers. Available at: https://www.pwc.com/us/en/hr-saratoga/assets/retaining_employees_onboarding.pdf

7 As expected, these costs vary substantially across three key variables – the sector in question, the size of the company hiring a new employee and the background of the worker being recruited. Overall, Oxford Economics estimates that the impacts of labour turnover in 2013 were greatest in the IT/tech and legal sectors, with a total cost of £1,873 million and £805 million, respectively, accounting for over 3.5 per cent of the output of each sector per year. Oxford Economics. (2014) *The cost of brain drain: understanding the financial impact of staff turnover*. Available at: <http://www.oxfordeconomics.com/my-oxford/projects/264283>

8 Available at: <https://hbr.org/>

9 CIPD. (2015) *Resourcing and talent planning 2015*. Available at: <https://www.cipd.co.uk/knowledge/strategy/resourcing/surveys>

FIGURE 4: COMPARED WITH THE LAST 12 MONTHS, IF YOU HAD THE SAME NUMBER OF STAFF OVER THE NEXT 12 MONTHS, DO YOU EXPECT THAT COSTS FOR EACH OF THE FOLLOWING EXPENSES WILL INCREASE, DECREASE OR STAY THE SAME?



Cost projections relating to the recruitment process, salaries and benefits over the next 12 months further highlight the potential increasing financial impact of poor hiring decisions on businesses. According to our survey of 206 employers conducted by ComRes, over half of employers expect the cost of standard salaries for existing staff to increase over the next year. Similarly, nearly half expect the cost of paying benefits to employees, such as pensions, to increase. When looking to take on new staff, three in ten employers across the UK believe costs for their salaries will increase. It is worth noting that a quarter of employers anticipate recruitment costs such as advertising and agency fees to increase over the next 12 months. The potential growing financial impact of bad hires on businesses resulting from increasing salaries, benefits and recruitment costs is an additional incentive for employers to ensure robust recruitment practices in order to reduce the escalating proportion of poor hiring decisions, currently standing at 85 per cent.

What are the lasting, hidden costs of a bad hire?

Increasingly more employers recognise that poor hiring decisions can have a longer-term effect on organisational performance and profitability. As highlighted by respondents, a bad hire has an adverse impact on staff morale, productivity and the reputation of the business. These costs associated with poor hiring decisions

are very difficult, if not impossible, to measure. Nonetheless, they all translate into poorer financial performance.

It's difficult to quantify other things like lost revenue and lost customers as a result of not being able to deliver, so there's a huge amount of other fairly grey areas. Also, if you've got three people who are all having to cover that role and are essentially 20 per cent less effective for 12 weeks, that costs you money. People always think 'it's a recruitment fee'. It really isn't. That's the tip of the iceberg. It's a huge amount of other things that companies forget it's going to cost them when they lose people.

Chris Dunning-Walton, InfoSec People

Managing bad hires and trying to hire better candidates can be a vicious circle. Quite often organisations hire someone who's wrong for a role and if the individual has a bad experience and shares this in their industry, it could result in fewer people applying next time. As a result, organisations continue to take people who aren't quite right and the cycle continues. The impact of making the wrong decision, or making too quick a decision, could be catastrophic for the organisation. At BAE Systems we aim to take the emphasis off speed in hiring candidates and put the effort into securing quality hires. Clearly it's important to ensure that everybody involved with the recruitment process is engaged and in agreement with this approach.

Alex Martin, BAE Systems

In its annual FraudTrack reports, accountancy firm BDO highlights the extent of the threat of a bad hire to UK businesses due to fraudulent activity and draws particular attention to reputational damage, loss of customer base and low employee morale.¹⁰ In 2015, 153 organisations identified and recorded a total of 585 confirmed insider fraud cases to the Cifas Internal Fraud Database citing employment application fraud, account fraud and dishonest action by staff to obtain a benefit by theft or deception as the three main types of internal fraud.¹¹ In such cases, Cifas reveals that the impact upon the morale of the fraudster's colleagues and the cost associated with a damaged reputation are deemed to be the greatest threats, with costs far exceeding the actual amount initially lost.¹²

Surprisingly few companies have taken a systematic approach to dealing with toxic workers, namely employees who prove to be unproductive, divisive and draining. In a survey conducted by KPMG, 88 per cent of business leaders admitted they have allowed a toxic worker to stay in the business too long, costing them between £2,000 and £10,000 per month. According to the same survey, nearly

¹⁰ BDO's FraudTrack includes all fraud cases valued at over £50,000 in the UK. Annual FraudTrack reports available at www.bdo.co.uk

¹¹ Cifas. (2016) *Employee fraudscape 2016*. Available at: www.cifas.org.uk

¹² Cifas Internal Fraud Database. (2013) *The true cost of insider fraud*. Research undertaken by University of Portsmouth. Available at: <https://www.cifas.org.uk/secure/contentPORT/uploads/documents/External-Cifas-The-True-Cost-of-Internal-Fraud.pdf>



88%

**OF BUSINESS LEADERS
HAVE ALLOWED A TOXIC
WORKER TO STAY IN THE
BUSINESS TOO LONG.**

half of all staff said they currently work with a toxic worker.¹³ The consequences of retaining a toxic worker are potentially far-reaching. The employer may lose business and have its reputation damaged as a result of that individual interacting with customers in a destructive manner. A toxic worker also creates tensions within the team, as procedures that were not handled competently will have to be repeated, hence adversely affecting productivity. Staff grievances and low morale owing to disruption and increased workload hinder quality and overall performance and may, in turn, lead to increased staff turnover. The latter becomes particularly problematic if the organisation competes in a labour market sector that is impeded by scarcity of candidates and specialist skills. Low staff morale and associated staff turnover are also particularly damaging in those cases where employees had developed successful relationships with clients, hence negatively impacting on the business's reputation and its ability to deliver client solutions successfully. Customer dissatisfaction is conducive to loss of business.

The financial liabilities of a bad hire can include induction, training and salary costs. In reality, however, these are often outweighed by the hidden costs; a bad hire may affect morale, staff retention, productivity, perception and how the business is judged by clients and customers. A bad hire is effectively the lost opportunity to hire the right person for the role. When it becomes clear beyond a certain point that the person is not the right fit, it is about being brave enough to admit mistakes and make the necessary contingencies and new hiring decisions. Unfortunately, in a lot of cases the employers will try to make it work for as long as possible until the situation becomes untenable.
Paul Jarrett, Renaix

In recent years, poor people management practices and the associated cost inflicted upon the organisation has garnered attention. In 2004, a report carried out by the Future Foundation for the SHL Group put the annual overall cost of selecting and managing poor hires in the UK at over £12 billion. The figure is based on the average earnings of managers and the proportion of time spent managing under-performers. It also suggested that it takes almost eight months for a new employee to reach a reasonable level of performance, with managers spending a quarter of their time dealing with under-performers. With one in eight people leaving their jobs before even reaching this level of performance, the financial burden increases significantly. The staggering amount lost through poor people management in the UK accounted for 1.6 per cent of total GDP, which is a considerably higher proportion compared with Sweden (0.59 per cent) and the US (1.05 per cent).¹⁴

Gradually, bigger organisations are becoming vocal about the impact of poor hiring decisions on long-term gains, illustrating that even the most successful companies are not immune to hiring mistakes. Zappos CEO Tony Hsieh indicated

¹³ KPMG Enterprise. (2016) *Talent competition: how to keep your best people and avoid toxic workers*. Available at: <https://home.kpmg.com/uk/en/home/insights/2016/05/how-to-keep-your-best-people-and-avoid-toxic-workers.htm>

¹⁴ The Future Foundation. SHL Group. (2004) *Getting the edge in the new people economy*. Findings based on a survey conducted in seven countries in organisations with turnovers of more than £1 million.

that the biggest category of mistakes is actually in resourcing, with one bad hire leading to a domino effect of more poor hiring decisions. In 2010, Hsieh revealed that, 'If you add up the cost of all bad hires and the bad decisions they made, over 11 years it has cost the company well over \$100 million.'¹⁵ In 2014 Yahoo made headlines when it fired Chief Operating Officer Henrique de Castro, leaving the internet company with a severance package of \$58 million. De Castro had lasted just 15 months in the job before Chief Executive Officer Marissa Mayer concluded he was not a good fit for the role.

The implications of a bad hire on the business are enormous. The cost of a bad hire at a chief executive level could be as much as 40 times their salary and can actually break your business. In addition to the more tangible costs, the effect that a bad hire might have on morale is significant, especially if it is the second or third bad hire in a row. Employees lose faith, they do not believe the organisation has the ability to hire or retain at that level and consequently consider looking for another job. Indeed, very few people really want to consider the cost of a bad hire, whether this is overt or covert.

Andy Raymond, Redline Group

Clearly, businesses cannot afford to stick with regretted hiring decisions. In light of the extensive implications of bad hires, this study provides a general methodology allowing stakeholders to identify and, where possible, calculate a range of potential costs associated with their decisions to hire and fire, or retain, a bad hire. As such, the table of costs and the accompanying example presented below are a general guidance. Stakeholders are invited to use these when seeking to make business judgements of a bad hire, adjusting accordingly.

¹⁵ Blodget, H. (18 October 2010) Exclusive interview with Tony Hsieh: How being a little bit weird made Zappos a fortune. *Business Insider*. Available at: <http://www.businessinsider.com/henry-blodget-tony-hsieh-zappos-2010-10?IR=T>

TABLE 1: POSSIBLE COSTS ASSOCIATED WITH BAD HIRES

Factors to consider	Details	Cost calculations
Wasted salary	<ul style="list-style-type: none"> Weeks, months or years the mis-hire or under-performer had/has been with the company 	<ul style="list-style-type: none"> % of average annual earnings
Increased sickness and absence	<ul style="list-style-type: none"> Mis-hires often have higher than average levels of sickness and other absence 	<ul style="list-style-type: none"> % of average annual earnings
Compensation/salary settlement	<ul style="list-style-type: none"> Salary settlement and severance package, including bonuses and benefits. This cost is higher the more senior position the leaving bad hire holds 	<ul style="list-style-type: none"> £ agreed
Training	<ul style="list-style-type: none"> Costs associated with the education and training of mis-hires and under-performers can be estimated as a share of company's total annual investments into this area 	<ul style="list-style-type: none"> £ share of annual expenses on training divided by the average number of employees
Replacement costs	<ul style="list-style-type: none"> Time and money spent on new recruitment process Time and money spent on new training Lost productivity until new recruit reaches optimal productivity (average of 28 weeks) Lost productivity of co-workers and supervisors for their time spent on bringing the employee up to speed 	<ul style="list-style-type: none"> £ advertising costs; e-recruitment costs, internet postings £ agency fees £ internal referral rewards % of annual earnings of hiring managers and interviewers for time spent on recruitment process £ induction and training costs: share of annual expenses on training divided by the average number of employees % of annual earnings of new recruit until reaching optimal productivity; in case of temporary substitution before new permanent employee joins, involve costs of lost productivity twice % of annual earnings of co-workers and supervisors for their time spent on bringing the new hire up to speed
Impact on rest of team/ staff morale		<p>Estimated 5–50% drop in staff morale leading to:</p> <ul style="list-style-type: none"> poor management and lost productivity, as % of annual revenue per colleague affected increased staff turnover, average 120% of annual earnings¹⁶
Loss of business/lost revenue	<ul style="list-style-type: none"> Costs associated with missed/delayed deliverables and loss of customers due to under-performers and lost productivity resulting from low staff morale 	<ul style="list-style-type: none"> Calculate the revenue per employee by dividing total company revenue by the average number of employees. Calculate the lost revenue by multiplying the number of weeks the bad hire had/has worked for the company by the average weekly revenue per employee. Similarly, calculate the lost revenue until replacement reached optimal productivity
Impact on reputation and branding	<ul style="list-style-type: none"> A negative impact on the company's reputation affects both existing and prospective clients 	<ul style="list-style-type: none"> Lost revenue and loss of sales opportunities¹⁷
Fraud	<ul style="list-style-type: none"> Theft, embezzlement and other fraudulent activities committed by bad hires 	<ul style="list-style-type: none"> £ financial loss and legal fees Damaged reputation leading to lost revenue and loss of sales opportunities (see above)

Scenario

In January 2015, Company Z, of 80 employees, hired Employee A to join a team of five audit professionals, with a starting salary of £42,000. It provided four weeks of training. However, Employee A failed to meet expectations and was subsequently let go eight months later. The company combined in-house and agency to recruit a replacement. Employee B joined the company five months later and also received four weeks of training. Until the new appointment, the rest of the team had to work overtime to cover for the vacant position and also had to rectify mistakes made by the bad hire. Team resources were reallocated and procedures were repeated. At that point, staff morale was very low and complaints were raised, due to disruption and increased workload. This, in turn, had affected quality. Before Employee B reached optimal productivity, at about five months into the job, Senior Team Member C left the company as a result of the problematic structure and work dynamics.

EXAMPLE: CALCULATION OF COSTS FOR COMPANY Z ARISING FROM A BAD HIRE

Employee A – Direct costs	
Wasted monthly salary x 8 months	£28,000
Training provided	£1,500
Total	£29,500
Employee B – Direct costs	
Recruitment costs – agency fees (15% of annual salary)	£6,300
Recruitment costs – advertising (in addition to recruiter's advertisements)	£200
Time spent by two senior staff members (one hiring manager and one director with a combined average salary of £45,000, total of two weeks) for recruitment activities, including interviews and selection – % of monthly earnings	£1,730
Training provided	£1,500
Lost productivity until reaching optimal levels (1st + 2nd months = 25% productivity, 3rd + 4th months = 50% productivity, 5th month = 75% productivity)	£9,625
Total	£19,355
Team morale – Indirect costs	
Lost productivity: five team members with average salary of £35,000 at an average 80% productivity for ten months (five months before Employee B joined + five months until Employee B reached optimal productivity) – £5,832 per team member	£29,160
Staff turnover – Employee C on a £45,000 salary, average 120% of annual earnings	£54,000
Total	£83,160
GRAND TOTAL	£132,015

16 Estimated average cost of 120% of annual earnings draws on Oxford Economics calculations but this figure is expected to rise for senior and executive positions. Oxford Economics. (2014) The cost of brain drain: understanding the financial impact of staff turnover. Available at: <http://www.oxfordeconomics.com/my-oxford/projects/264283>. Other sources, such as the Society for Human Resource Management, often estimate turnover costs to be 100% to 300% of the base salary of the replaced employee, with 150% commonly cited. Available at: <https://cnmsocal.org/featured/true-cost-of-employee-turnover/>

17 Some experts estimate that on average 10% of sales opportunities are lost. Available at: <http://theundercoverrecruiter.com/cost-bad-hire-avoid/>

For a case of a bad hire with a salary of £42,000 who was fired within a year and, subsequently, replaced, with impact on productivity and staff turnover, the accumulated costs reach a shocking £132,015. For other calculations, this amount will vary according to basic salary, period of employment and position of the individual – for instance, costs will increase if the individual deals with clients directly as loss of business and impact on reputation are involved – as well as size of team and company, particularly when calculating lost productivity. Other factors, such as fraudulent activity or payment of severance, could also be considered. Nonetheless, this represents a striking example of how expensive a poor hiring decision can become and how necessary it is for employers to properly evaluate in order to mitigate the costs of hiring mistakes.

ACTION

Be proactive, not reactive, when it comes to poor hiring decisions. When all implications are properly assessed and measured, bad hires cost businesses vast amounts and, as such, affect the business's ability to succeed financially. Recognise and calculate how much a bad hire really costs the business – this will give you the impetus to strive to be more rigorous in future selection processes.

**IN ORDER TO
GET IT RIGHT
WE MUST LOOK
DEEP INTO THE
CANDIDATE AND
THEIR FIT.**

HANNAH COURTNEY, LINE UP AVIATION

05

**RECOGNISING HIRING
MISTAKES**

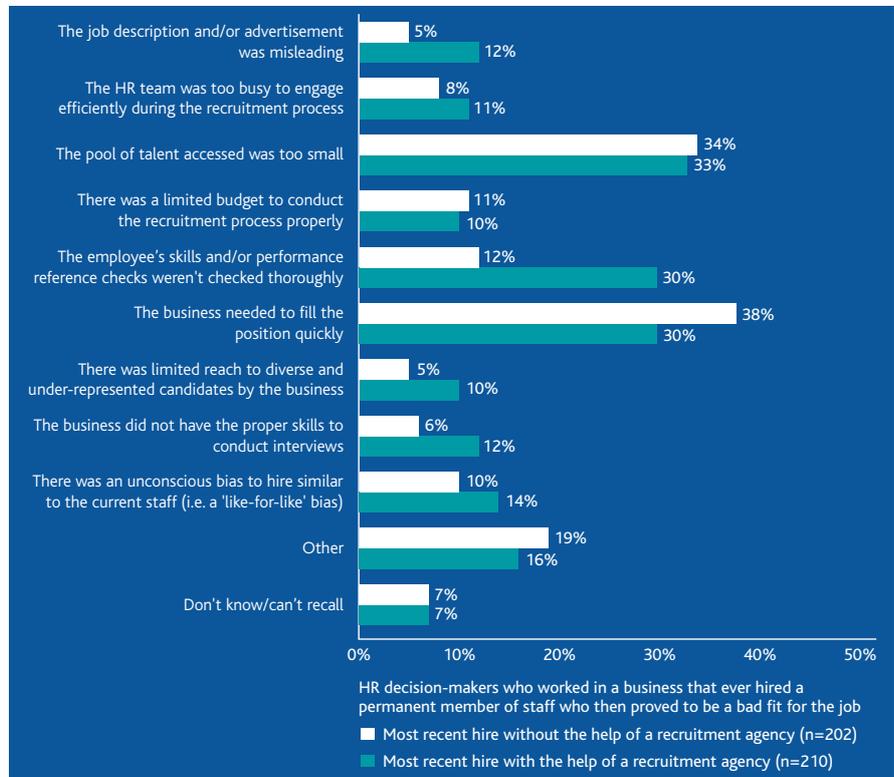
With resourcing strategies becoming ever more critical and the vast financial implications of poor hiring decisions more evident, it is vital to ensure effective and responsive practices throughout the recruitment process. When does the element of risk when hiring a new member of staff increase perilously? Understanding the fundamental hiring mistakes being made will enable stakeholders to take the necessary action to place good hiring practices in the forefront of their strategic planning.

Recruitment is a complex process with many stages and success is influenced by a variety of factors. Demonstrating how common poor hiring decisions are, as highlighted by almost nine in ten HR decision-makers from different-sized organisations, is testament to the multifaceted nature of decision-making and the risks facing employers. As such, it is essential to recognise and classify the main reasons why the wrong person for the job is hired. Only by identifying, and subsequently addressing, hiring mistakes will stakeholders learn to mitigate the huge costs of bad hires.

Why does a bad hire happen?

Employees are the most valuable asset of any business. Nonetheless, UK businesses are under-investing when called upon to make the all-important hiring decisions and miss out important stages of the recruitment process; not enough time is spent to carry out adequate research on candidates and company needs, verifiability of skills and references are lacking, and the pool of talent accessed can be too small. Concerns over the capability and interviewing skills of decision-makers have also been raised, as has a lack of collaborative hiring. The latter requires that a group of players with different perspectives and knowledge is involved in the selection process.

FIGURE 5: THINKING ABOUT THE MOST RECENT TIME A BUSINESS YOU WORKED FOR HIRED A PERMANENT MEMBER OF STAFF WHO THEN PROVED TO BE A BAD FIT FOR THE JOB, WHICH, IF ANY, OF THE FOLLOWING ARE REASONS WHY YOU THINK THE PERSON WAS HIRED, EVEN THOUGH THEY WERE NOT THE RIGHT FIT FOR THE JOB? BY RECRUITMENT METHOD USED FOR MOST RECENT BAD HIRE



1 in 3

HR DECISION-MAKERS SAY BAD HIRES OCCUR BECAUSE BUSINESSES NEED TO FILL THE POSITION QUICKLY.

When asked about the most recent time a business they worked for hired a permanent member of staff who then proved to be a bad fit for the job, a third of HR decision-makers surveyed suggest it is because the businesses needed to fill the position quickly; this response is more common amongst employers who made the bad hire without the use of a recruitment agency, 38 per cent, compared with 30 per cent of employers who made the bad hire using a recruitment agency. By looking to fill the position quickly, either to address new staff needs or to replace a former mis-hire, employers carry out inadequate research on abilities and candidate suitability. It is tempting for business leaders to hire a candidate who has not proved to be the right fit for the job and the organisation in order to fill the position quickly. Nonetheless, when considering the substantial impact of such decisions, as Zappos CEO Tony Hsieh emphasised, employers should be 'willing to sacrifice the short-term benefits for the long-term gains'.¹⁸

We look for a particular set of skills and experience within management consulting. If the hiring managers are keen to progress someone because they've shown the aptitude for those skills but have not necessarily got the experience in that area before, then we do progress candidates through the process. That's probably one of the biggest reasons for a mis-hire, the transition period from industry to consulting is longer than both the candidate and the hiring manager anticipate.

Charlotte MacKenzie, Capgemini Consulting

¹⁸ Blodget, H. (18 October 2010) Exclusive interview with Tony Hsieh: How being a little bit weird made Zappos a fortune. *Business Insider*. Available at: <http://www.businessinsider.com/henry-blodget-tony-hsieh-zappos-2010-10?IR=T>



1 in 3

HR DECISION-MAKERS SAY BAD HIRES OCCUR BECAUSE THE POOL OF TALENT ACCESSED WAS TOO SMALL.

First and foremost, have a clear recruitment strategy, know what you are trying to achieve and have set goals. Create a well-drafted job description to consider responsibilities, skills, personality, culture and expectations. During the hiring process ensure all interviewers are thoroughly briefed and aligned with the hiring strategy. Once hired, employers need to ask themselves, 'did we attract the right person for the role?' If the answer is yes, but we could have recruited better, they have made a hiring mistake.

Paul Jarrett, Renaix

Accessing a large enough pool of talent is also an important factor. Around one in three (32 per cent) respondents say the bad hire had occurred because the pool of talent accessed was too small. For those from large businesses this reason rises to 42 per cent, regardless of whether this bad hire was made with or without the use of a recruitment agency. Indeed, the use of a recruitment agency does not have much of an effect on larger employers' perceptions of the talent pool.

Interestingly, just over one in five (21 per cent) HR decision-makers surveyed who had seen their business make a bad hire say that their most recent one was because the employee's skills and/or performance references were not checked thoroughly. This rises to almost a third (30 per cent) amongst employers whose most recently made bad hire was found using a recruitment agency, compared with only 12 per cent who recruited in-house.

Other hiring mistakes pointed out by respondents include an unconscious bias to hire similar to the current staff (11 per cent) and limited budget to conduct the recruitment process properly (10 per cent), followed by misleading job description and/or advertisement (9 per cent), busy HR team engaging inefficiently during the recruitment process (9 per cent) and limited reach to diverse and under-represented candidates (7 per cent). However, there are notable variations among those employers whose most recently made bad hire was with or without the help of a recruitment agency.

Respondents who used a recruitment agency place more emphasis on the bad hire being due to poor hiring decisions resulting from a misleading job description and/or advertisement (12 per cent) and the business's lack of proper interviewing skills (12 per cent), significantly higher than those who hired without the help of an agency (5 per cent and 6 per cent, respectively). Also, the number of respondents citing limited reach to diverse and under-represented candidates as a main reason for regretted hiring decisions doubles when using a recruitment agency compared with those hiring in-house (10 per cent versus 5 per cent).

There are a number of reasons why bad hires happen. There is sometimes a disconnect between what the company wants and what the candidate wants. Managers can panic if they are trying to hire somebody quickly, they get the first person available or they do not have the right recruiter supporting them. They may not have looked at business planning or workforce planning. The hiring manager or the recruiter might not be able to quite understand what the business actually needs and source

the right skills from a very competitive market which has skill shortages and talent gaps. Therefore, they are recruiting on previous experience or skills which do not anticipate the current or future requirements of the job. Too often the recruiter has not adequately challenged or benchmarked the job specification to the market or they are too restricted by the technical or overly competency-based requirements of a job profile and they fail to recruit for future potential.

Dan Richards, EY

It is important to share your vision as a business, but also to share what the real world looks like right now – the good, the bad and the ugly. If you hire the wrong person for a job, it's typically because the business is either showing the wrong thing or looking for the wrong thing. So it is really just about getting the business better at knowing who it really is and what it is actually looking for. Great hiring really is about getting real on all levels with all people.

Ruth Penfold, Shazam

Crucially, as indicated by HR professionals in individual interviews, there is also an inability to identify the suitability of candidates and to match the right people to the right jobs. Failure to set a clear corporate vision and objectives, to ensure the candidate is a good match for the team as well as to invest in coaching and integrating the new recruit contributes to costly mis-hires. Demotivated and devalued new recruits leave their jobs before they have the opportunity to become competent at the tasks set and, subsequently, the talent and the potential of the workforce are lost.

Fierce competition, shortage of candidates and scarcity of skills are some of the key challenges facing the UK labour market. Picking and retaining the best talent available for the job is not only a priority but a necessity for business leaders. Yet, employers admit to making regretted hiring decisions, which, until completely rectified, put a significant financial burden on the organisation. From looking to fill the position quickly and accessing a small pool of talent to hiring like-for-like and failing to perform the necessary skills and reference checks, stakeholders are missing out important stages of the recruitment process.

ACTION

Be confident in recognising hiring mistakes made in the past and aim to rectify these through improved recruitment and employee integration practices. One must learn from past hiring mistakes in order to get it right in the future.

**THE STARTING
POINT IN
SELECTING THE
RIGHT HIRE IS
UNDERSTANDING
WHAT IT IS YOU,
THE EMPLOYER,
REALLY WANT.**

ADRIAN WIGHTMAN, INNOGY

06

**ENABLING EMPLOYERS
TO MAKE A
SUCCESSFUL HIRE**

In today's interdependent work environment, finding the right match of skills, abilities and vision for the job and for the company is an intricate skill. Yet, it is this precise skill that will enable all stakeholders involved to circumvent making poor hiring decisions and, in doing so, avoid the substantial costs that impede good financial performance and organisational success.

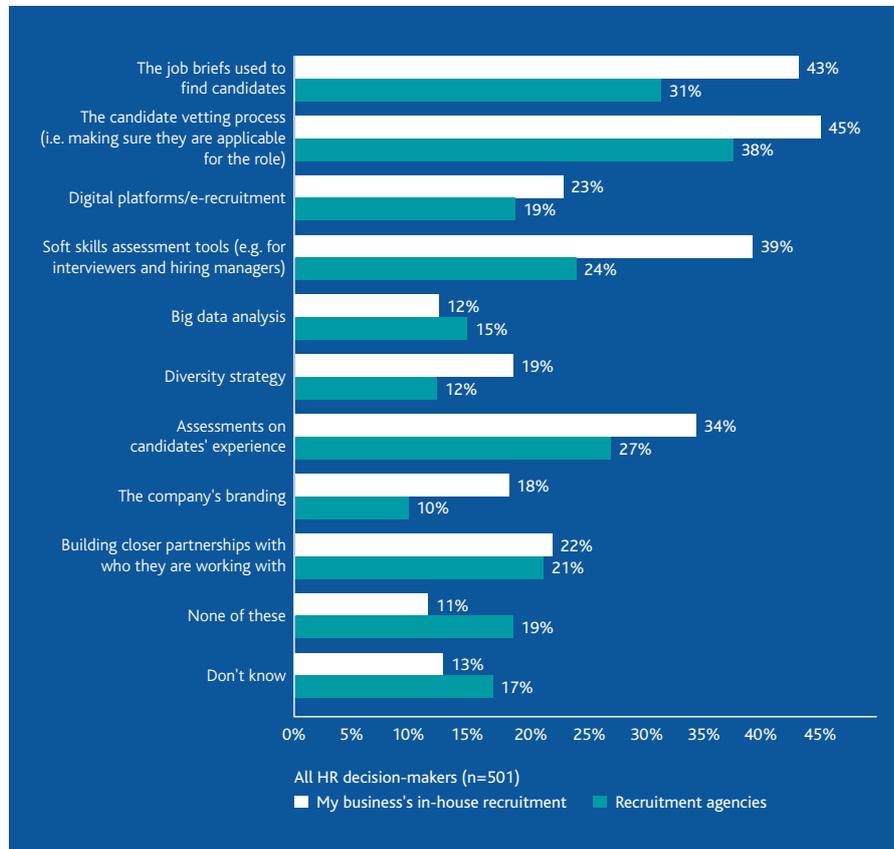
Employers are the ultimate hiring decision-makers. But as they increasingly combine a variety of in-house and outsourced approaches to find the right candidate for the position, it is vital that all those involved in recruitment activities are equipped with the appropriate knowledge, skills and behaviours in order to apply a clear methodology. This will allow stakeholders to evaluate candidates against skill and other requirements. As such, a reinvigorated recruitment process is required, with employers, HR professionals and recruiters building a closer partnership. If they are to successfully address the staggering 85 per cent of those admitting to bad hires, employers must accept that hiring the right candidate for the job takes time, and must develop and execute soundly a comprehensive resourcing plan. If hiring needs are not properly defined, tested against and adequately addressed, the proportion of those admitting to bad hires will hit a new record.

When there has been a bad hire, that is actually the time to sit down and, without any sense of blame, ask what went wrong. What did we do collectively or individually and what can we learn from it? Because if we did not learn from it last time, there is every chance we will make exactly the same hiring mistake again. With the right engagement from all parties involved, we can massively reduce the risk of repeating a bad hire. I would advise employers to be completely open and honest about the challenges and past hiring mistakes.

Andy Raymond, Redline Group

Having first identified the most common mistakes that lead to poor hiring decisions, stakeholders were subsequently asked to consider the main areas that would require further investment and development in order to improve hiring practices both in-house and externally through recruitment agencies.

FIGURE 6: WHICH, IF ANY, OF THE FOLLOWING SHOULD YOUR BUSINESS' IN-HOUSE RECRUITMENT AND RECRUITMENT AGENCIES INVEST IN/DEVELOP, IN ORDER TO IMPROVE HIRING PRACTICES? (PLEASE SELECT ALL THAT APPLY)



The most common area that HR decision-makers think is worth investing in to improve hiring practices is the candidate vetting process, cited by 45 per cent for in-house recruitment and 38 per cent for recruitment agencies. When looking only at responses from those who admit that a business they worked for made a bad hire, these figures rise to 47 per cent and 40 per cent, respectively. For all HR decision-makers, the job brief used to find candidates closely follows in areas to improve, but more so for their business's in-house recruitment (43 per cent) than recruitment agencies (31 per cent). This is particularly important for large employers, where half (49 per cent) say their business should develop the job briefs used to find candidates to improve hiring practices. Employers are to be mindful of the language used in job briefs and adverts as this will determine which applicants are attracted. Moreover, a job brief that lists too many essential criteria can eliminate entirely eligible candidates, quite often because those candidates rule themselves out.

Markedly, almost four in ten (39 per cent) respondents think their in-house recruitment team should invest in soft skills assessment tools, a stark difference from the 24 per cent who believe recruitment agencies should. Indeed, employers must ensure that all who take part in interviews during the selection process undergo interview training in order to acquire all the relevant skills to conduct interviews properly and fairly. Equally important, the interview process must be structured and formalised. Assessment of candidates' experience is also important

to respondents, with a third (34 per cent) of HR decision-makers believing their business should invest in it and a quarter (27 per cent) believing recruitment agencies should.

Hiring mistakes happen when the process is not as thorough. If the employer is adamant on hiring somebody straight away without fully checking their skills and references, without properly interviewing them, then that employer has taken a chance on someone. The more chances a business is willing to take, the higher the risk of a bad hire. Whereas if the employer performs all the necessary checks and conducts interviews appropriately, they increase their chances of hiring the right fit for the role.

Graeme Wolf, HEXA

A bad hire can strain our relationship with our client and potentially ruin our reputation. In order to get it right we must look deep into the candidate and their fit. They might have the right skills, experience and qualifications, but we must consider the impact on team dynamics. If it is a team of 30-year-olds and I am putting a 60-year-old in there, it might work, but we would need to know if that would be acceptable to the team. It is important to be conscious of the questions that need to be asked and the information required in order to put forward the right candidate for the job.

Hannah Courtney, Line Up Aviation

The only area that marginally more HR decision-makers thought agencies should invest in or develop compared with their own business's recruitment team is big data analysis (12 per cent versus 15 per cent), suggesting that employers look for expertise and information more from agencies than their own recruitment teams. For almost all of the approaches listed, a higher proportion of respondents from large businesses think they require development and investment, compared with small and medium-sized employers. A stand-out example is that almost a third (31 per cent) from large organisations think in-house recruitment teams should invest in building close partnerships with recruiters, compared with just 18 per cent from small and medium-sized organisations.

With almost nine in ten (85 per cent) respondents having admitted to making a bad hire, these findings become even more pertinent; by acknowledging the key areas pertaining to in-house recruitment practices that require improvement, employers are called upon to put this knowledge into practice and, in doing so, evade the staggering costs of bad hires.

However, there are notable inconsistencies between the most common hiring mistakes identified by HR decision-makers and the main areas they believe would require further development in order to improve hiring practices. Of respondents who worked in a business that hired a bad member of staff, only around one fifth (21 per cent) say one of the reasons the most recent bad hire was taken on was due to a lack of thorough checks of employee skills and/or performance



47%

OF THOSE ADMITTING TO A BAD HIRE THINK THEIR IN-HOUSE RECRUITMENT TEAMS SHOULD DEVELOP CANDIDATE VETTING PROCESSES.

references. These respondents then cite areas such as soft skill assessments and candidate vetting processes as some of the main areas worth investing in for their business's in-house recruitment, with more than four in ten selecting them (41 per cent and 47 per cent, respectively). An even more striking discrepancy relates to job briefs used to find candidates. While only around one in ten (9 per cent) blame their business's most recent bad hire on a misleading job description, a third (33 per cent) think their business should develop the job briefs used to find candidates in order to improve in-house hiring practices. Similarly, whereas only 9 per cent report the business not having the proper skills to conduct interviews as a reason why the most recent bad fit was hired for the role, over four in ten (41 per cent) think their business's in-house recruitment team should invest in soft skills assessment tools to improve hiring practices. These inconsistencies in views reveal an incapacity to fully understand in a coherent and logical manner the factors and actions involved during the selection process. As a result, there is an increased risk of failing to address the vast implications of poor hiring decisions.

It is noteworthy that of those respondents whose business had made a bad hire, a fifth (21 per cent) state 'none of these' areas requires further improvement or 'don't know' when asked to consider where to improve/develop their business's in-house recruitment practices. This compares with a third (32 per cent) when considering areas that recruitment agencies should invest in. Yet again, this reveals a considerable gap in knowledge amongst stakeholders about recruitment processes currently being followed as well as a limited ability to reflect upon past hiring mistakes. This is of utmost concern given the striking calculations of poor hiring decisions that are provided in this report.

Employers can overcome hiring mistakes by having a clear understanding of the selection process, as well as the culture of the team and the organisation. Our in-house recruitment team is set up to support the process and advise the hiring decision-makers on how to develop criteria and promote best practice in recruitment. However, if they decide to hire in their own image, then some incorrect and costly decisions are made.

Charlotte Johns, Transport for London

Recruitment is about understanding your client and understanding your candidate. The probability of making a good-quality hire is much greater if the client tells you what they need and why they're hiring for this role. Managing the expectations of the potential candidate in a factual and transparent way comes down to having the right brief.

Tim Barton, O'Neill & Brennan

Tackling unconscious biases and promoting a diversity strategy is another area cited by respondents as conducive to improving their hiring practices. The 2017 McGregor-Smith Review on 'Race in the Workplace' highlighted the lingering biases that continue to disadvantage certain groups and how these should be tackled through training. The review further recommends that unconscious bias training

should be mandatory for all employees and that 'senior management teams, executive boards and those with a role in the recruitment process should go further and undertake more detailed training workshops'.¹⁹

Some argue that it is impossible to fully eradicate unconscious bias. It is therefore necessary to take steps to increase objectivity in the recruitment process. In 2015, name-blind recruitment was introduced by the civil service, the BBC, the NHS and local government, together with private sector companies HSBC, Deloitte, Virgin Money and KPMG. The REC and its members are supportive of name-blind recruitment as one of the means of introducing objectivity into the recruitment process and ensuring that appointments are made based on merit rather than anything else. Online tools such as Applied, developed by the Behavioural Insights Team, can assist with this, as can name-blind long-listing. While tools and methods such as this may not be suitable for every firm or sector, recruiters should test new approaches where they can and actively promote these to the employers they work with in order to do more on the inclusion agenda. It is important that diversity outcomes should be monitored and targets embedded as a KPI for both employers and recruiters. It is only by measuring outcomes that stakeholders can identify any issues and take steps to address them.

It is important to ensure a good partnership between the HR team and line managers so that you are given adequate information and time to get the best possible candidate in. By ensuring best practice in talent acquisition you can reduce the risk of a bad hire. If it does not work out, we go through the process and look for any mistakes that could have been avoided. Were the competencies all met? How was the onboarding score? Sometimes it could be that they were actually a good hire but we let them down within the first weeks of employment. That is why it is essential we have best practice in place internally.

Ashley Hever, Enterprise Rent-A-Car

'Why should I come and work with you?' There is a statement attached to coming to work for somebody, with somebody. You want to feel a part of the greater cause. But some companies get that wrong. We are here to advise and guide, but not dictate. People are tired of recruiters telling them what they need rather than asking them what they need and then suggesting alternatives. Recruitment by definition means consulting; it means listening and advising.

Chris Dunning-Walton, InfoSec People

¹⁹ Race in the Workplace: The McGregor-Smith Review (2017). The review also recommends that companies with 50 or more employees should publish a breakdown of employees by race, ideally by pay band, on their website and in the annual report. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/594336/race-in-workplace-mcgregor-smith-review.pdf

Notably, employers are increasingly concerned over staff retention. This, however, is directly linked with assessing how well the individual would fit into the work environment. A highly skilled new hire may prove to be a bad fit for the job if the employer fails to match core character traits to the company's vision and values. Furthermore, a hiring decision may prove misguided if little guidance and training are provided or the new recruit feels the job or workplace is not what they expect. Accordingly, employers should instigate recruitment processes that will maximise the engagement, commitment and potential of new recruits, and provide training and advancement opportunities.

Determining how to allocate money and resources in order to enhance employee performance and productivity remains the cornerstone of organisational success. In this highly competitive business environment, only the most competent HR practices and strategies with a particular focus on employee development and performance management will succeed.

How can employers and recruiters minimise hiring risks?

Almost nine in ten (85 per cent) respondents have admitted that a business they worked for has made a bad hire; it is high time that a comprehensive step-by-step recruitment process is implemented that will enable all stakeholders to minimise the risk of poor hires and mitigate related costs. Based on respondents' views on common mistakes made and areas that require further investment, below are key recommendations and action points for both employers and recruiters.

ACTION

Action points for employers and HR professionals

Recruitment stages	Key points
Role definition and ideal person profile	<ul style="list-style-type: none"> • Move beyond listing the scope and responsibilities of the job; define the required skills, knowledge and personal qualities • Link activities to company brand equity. All recruitment communication to reflect and promote the company brand, vision and values
Attract applicants	<ul style="list-style-type: none"> • Be aware of how candidates conduct their job search; assess platforms being used to reach and attract candidates including digital platforms. Developing e-recruitment can help broaden the selection pool, reduce costs and build the company brand • Be diversity-conscious; advertise jobs in different recruitment sources to promote interest from diverse and under-represented groups and check job description for biased language • Embrace a flexible workforce; offer flexible working arrangements and adaptive working practices, wherever possible, as a way of boosting inclusion and attracting talent
Select the best candidate	<ul style="list-style-type: none"> • Take your time over hiring decision – most regretted decisions are a result of filling the position quickly. Look beyond the candidates' skills and look for traits that match the company values and vision • Determine your selection criteria; improve vetting process and gauge candidates' abilities • Implement soft skills assessment tools; ensure HR decision-makers and interviewers are competent and have the necessary skills • Identify and tackle unconscious bias (for example hiring like for like) and discriminatory practices • Deliver a high standard of candidate experience with ongoing communication during the recruitment process, including two-way feedback for all those interviewed
Hiring and beyond	<ul style="list-style-type: none"> • Train new recruits and provide them with a solid understanding of job requirements and team dynamics • Provide regular feedback reiterating the 'onboarding' goals and vision of the company • Offer career development opportunities to motivate employees and maximise their potential • Request regular feedback from employees and conduct exit interviews • Keep up to date with new recruitment/resourcing approaches

ACTION

Action points for employers, working together with recruitment agencies

Recruitment stages	Key points
Select partner	<ul style="list-style-type: none"> Investigate the criteria used to select agencies (quality of service, agency expertise, and so on) Determine costs, for example no-win no-fee policy, retention agreement
Role definition and ideal person profile	<ul style="list-style-type: none"> Make sure the briefs you provide recruiters are detailed and clearly state your needs; help recruiters understand your company goals, values and vision Ensure you talk the same language and optimise the shared process
Attract applicants	<ul style="list-style-type: none"> Work closely and collaboratively to use different recruitment platforms and assess and reach candidates of diverse backgrounds

ACTION

Action points for recruitment agencies

Recruitment stages	Key points
Role definition and ideal person profile	<ul style="list-style-type: none"> Work closely with and be ready to challenge employers to ensure all recruitment communication reflects and promotes the company brand, vision and values
Attract applicants	<ul style="list-style-type: none"> Promote a diverse, flexible, inclusive workforce and provide a larger pool of talent to employers. Have a 'multiplier effect' by supporting employers in embedding diversity and flexibility Use social data to predict and identify people who may be open to new opportunities Use a diverse range of platforms to advertise jobs, for example older workers may not be online
Putting forward the best candidates	<ul style="list-style-type: none"> Look beyond the candidates' skills and look for traits that match the company values and vision Determine your selection criteria; improve vetting process and gauge candidates' abilities Implement soft skills assessment tools; improve recruiters' interviewing skills and also ensure your clients have appropriate interviewing skills Identify and support employers in tackling unconscious bias and stereotyping within the recruitment process (for example hiring like for like) Provide tailored support to candidates; for example, those returning to work after a career break may need guidance on interview preparation
Hiring and beyond	<ul style="list-style-type: none"> Adhere to the highest principles of ethics, professional conduct and fair practice. Preliminary work conducted should be thorough and appropriate in order to avoid potential recruitment risk Aim at increasing employer satisfaction and respond to employer's specific needs. Customer experience improvement is a continuous process

APPENDIX 1:

METHODOLOGY

This report is largely based on a survey of HR decision-makers in the UK, as well as a series of interviews with professionals from the business and recruitment industries covering a range of sectors. The calculations and findings of this report are based on the cost of poor hiring decisions for permanent staff only – as such, the insights provided by both recruitment leaders and HR professionals apply to permanent staff.

This report includes testimonies, which illustrate the everyday challenges of recruiting, and action points to enable all those involved in recruitment to refine their resourcing strategies and avoid making poor hiring decisions in the future.

The following research activities underpin this report:

- A survey of 501 HR decision-makers produced by YouGov. Fieldwork was undertaken 21–28 April 2017. The survey was carried out online. The respondents were senior managers and above from private sector GB businesses (excluding micro-businesses) who have major decision-making responsibility for HR; this excludes micro-businesses (those with up to nine employees) and includes small, medium and large businesses. There was a robust number of respondents in each business size and a spread across business industry and region.
- Seven telephone interviews with senior HR professionals who are signatories to the Good Recruitment Campaign.
- Six telephone interviews with senior recruitment professionals, whose recruitment agencies are REC members.
- A survey produced by ComRes, who interviewed 206 employers and owners involved in hiring by telephone between 28 March and 26 April 2017. Data were weighted to be representative of UK adults in employment by region, broad industry sector and public/private sector split.
- A review of the relevant literature.

APPENDIX 2:

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Good Recruitment Campaign signatories

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- Dan Richards, Recruiting Leader (UK and Ireland), EY
- Adrian Wightman, Resourcing Manager, Innogy

REC members

- Tim Barton, Director, O'Neill & Brennan
- Hannah Courtney, Senior Recruitment Consultant, Line Up Aviation
- Chris Dunning-Walton, Managing Director and Head of Search, InfoSec People
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