

The Real Cost of a Bad Hire

What happens when you make a bad hire? It costs you time and money! Below are the results of a survey of ten major companies and what bad hires cost them.

Survey Results: Cost of a "Mis-Hire"

- Survey of clients by consultant Bradford D. Smart, Ph.D.
- Study published in Topgrading: How Leading Companies Win by Hiring, Coaching and Keeping the Best People, Prentice Hall, 1999.
- Participants included: Motorola, GE, AlliedSignal, Con Agra, Gateway, R.R. Donnelley, CompUSA, Office Depot, First of America, and FMC.
- Average cost of mis-hire by salary range:

Base Salary	Average Base	Cost of Mis-Hire	x Base
Less than \$100,000	\$62,000	\$845,000	14 x base
\$100,000 - \$250,000	\$168,000	\$4,708,000	28 x base

Survey Results: Cost of a "Mis-Hire" Continued

	Base Salary Less than \$100,000	Base Salary \$100,000 - \$250,000	All Salaries
Sample Size	N = 28	N = 26	N = 54
Base Compensation	\$62,000	\$168,000	\$113,000
Number of Years in Job	2.5 years	1.75 years	2 years
Costs			
• Cost in Hiring	\$13,000	\$101,000	\$55,000
• Compensation (All Years)	\$188,000	\$555,000	\$365,000
• Cost of Maintaining Person in Job	\$44,000	\$99,000	\$70,000
• Severance	\$17,000	\$168,000	\$90,000
• Mistakes, Failures, Wasted Business Opportunities	\$536,000	\$3,559,000	\$1,992,000
• Cost of Disruption	\$47,000	\$226,000	\$133,000
Total Costs	\$845,000	\$4,708,000	\$2,705,000
Value of Contribution	\$126,000	\$436,000	\$272,000
Investment ⁽¹⁾	\$245,000	\$755,000	\$489,000
Return on Investment (ROI) ⁽²⁾	-293%	-566%	-334%

⁽¹⁾ Investment = Cost in Hiring + Compensation + Cost in Maintaining

⁽²⁾ ROI = $\frac{\text{Value of Contribution} - \text{Total Costs}}{\text{Investment}} \times 100$

Source: Topgrading: How Leading Companies Win by Hiring, Coaching and Keeping the Best People, Bradford D. Smart, Ph.D., Prentice Hall Press, 1999 (as excerpted by Audio-Tech Business Book Summaries).