

## Cost of a Mis-hire

ADAPTED FROM TOPGRADING BY BRADFORD SMART

**Job Title of Person Mis-hired or Mis-promoted:** \_\_\_\_\_

**Dates person was in position:** \_\_\_\_\_ to \_\_\_\_\_

(If person was successful in previous job, but failed in a new job, just calculate costs for the years the person was in the new job.)

Describe why this was a mis-hire. What happened? What didn't happen?

**1. Compensation:**

- Base \$ \_\_\_\_\_
- Bonuses \$ \_\_\_\_\_
- Stock options \$ \_\_\_\_\_
- Taxes, benefits, life/health insurance, 401k, etc. (estimate 30% of salary) \$ \_\_\_\_\_
- Car (including gas, insurance, etc.) \$ \_\_\_\_\_
- Other forms of compensation (clubs, associations, perks, etc.) \$ \_\_\_\_\_

Subtotal \$ \_\_\_\_\_

Multiplied by number of years in this position \_\_\_\_\_

**TOTAL COMPENSATION COSTS.....\$ \_\_\_\_\_**

**2. Recruiting costs:**

- Recruitment/search fees (estimate 25% of the position's salary) \$ \_\_\_\_\_
- Outside testing, interviewing, record checking (estimate \$250/candidate) \$ \_\_\_\_\_
- HR time and admin costs for all candidates (estimate \$32/hr) \$ \_\_\_\_\_
- Travel costs (for all candidates, spouses, other executives traveling to meet candidate) \$ \_\_\_\_\_
- Time/expense of non-HR people (estimate \$50/hr per person per candidate) \$ \_\_\_\_\_
- Relocation (moving household good, purchasing house for candidate) \$ \_\_\_\_\_

**TOTAL RECRUITING COSTS.....\$ \_\_\_\_\_**

**3. Maintaining person in job:**

- Administrative assistant for all years \$ \_\_\_\_\_
- Office "rental" (including electricity, etc.) for all years \$ \_\_\_\_\_
- Furniture, computer, equipment for all years \$ \_\_\_\_\_
- Training \$ \_\_\_\_\_
- Other "maintaining" costs \$ \_\_\_\_\_

Subtotal \$ \_\_\_\_\_

Multiplied by number of years in this position \_\_\_\_\_

**TOTAL MAINTENANCE COSTS.....\$ \_\_\_\_\_**

**4. Total severance:**

- Severance fee (salary, benefits, use of office) \$ \_\_\_\_\_
- Outplacement counseling fee \$ \_\_\_\_\_
- Costs in negotiating separation \$ \_\_\_\_\_
- Costs in lawsuit caused by the person (EEOC, harassment, EPA, OSHA, etc.) \$ \_\_\_\_\_
- Administrative costs and wasted time in separation \$ \_\_\_\_\_
- Workers Compensation \$ \_\_\_\_\_
- "Bad press" (loss of corporate goodwill, reputation) \$ \_\_\_\_\_

Subtotal \$ \_\_\_\_\_

Multiplied by number of years in this position \_\_\_\_\_

**TOTAL SEVERANCE COSTS.....\$ \_\_\_\_\_**

**5. Mistakes/failures, missed and wasted business opportunities:**

\$ \_\_\_\_\_

For example, drove a key customer away, mis-hired three people at total cost of \$300,000, impaired customer loyalty, failed to enter new hot market, wasted \$10M on software that had to be scrapped, embezzled \$1M, launched three "dog" products.

**6. Disruption:**

\$ \_\_\_\_\_

(costs of inefficiency in the organization, lower morale, lower productivity, impaired teamwork)

**7. Other:**

\$ \_\_\_\_\_

Specify: \_\_\_\_\_

**8. Sum of all Costs (#1-#7):**

\$ \_\_\_\_\_

**9. Estimated value of contribution of the mis-hire:**

\$ \_\_\_\_\_

Even if a \$50,000-per-year store manager drove away customers and stole \$1M, perhaps he contributed something – for example, hired five excellent employees or came up with a merchandising idea worth \$500,000 per year to the bottom line.

**10. Net cost of Mis-hire: (#8-#9)**

\$ \_\_\_\_\_

- + Sum of all costs (#8)
- Value of Contributions (#9)
- = Net cost of mis-hire

Quality Check: Does the ratio of total costs to estimated value of contributions seem correct? If not, please go back and make adjustments.

## **Non-financial Costs of a Mis-hire**

A mis-hire has impact beyond the immediate financial costs. This impact may be hidden and harder to identify. As business owners, CEOs and strategic thinkers, we might not take time to consider the non-financial costs of a mis-hire. Take a few minutes to think about the emotional toll involved in managing this mis-hire.

1. Who experienced an emotional or morale impact? List by job title:
2. What was your personal emotional response? What was the emotional response of the people in question 1? (Anger, anxiety, sadness, blame, relief, happiness, etc.)
3. In which ways did these emotional responses affect work performance and corporate morale?
4. How do you think your managers would describe the impact on morale? Is their understanding of this impact different from yours?
5. In what ways have the effects of your mis-hire(s) impacted the ability of your organization to achieve goals?
6. In what ways have the effects of your mis-hire(s) impacted your ability to attract top talent in this or other positions?