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Management Consulting

THE COST OF A BAD HIRE

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The Purpose Of Recruitment And Selection

The overall goal of recruitment and selection for a position is to cost-effectively attract, detect and select those people who are most likely to optimally contribute to the organisation within that position at a particular point in time and then into the future. This definition clearly highlights the set of common errors made by organisations during their recruitment and selection efforts:

1. Spending exorbitant amounts of staff time and money recruiting and selecting for positions where the variation in future performance between any potential applicant is relatively small. This cannot be justified on a cost-benefit basis (cost-benefit)
2. Even if an applicant is a world-class professional within a particular area of expertise it does not mean that that same individual will be an excellent, good or even average manager (job fit).
3. Utilising the best techniques available is pointless if you do not attract any good applicants (recruitment marketing)
4. Having the best applicant pool available is pointless if your selection techniques do not reliably or validly predict future job performance (predictive power)
5. An applicant who is overqualified for a position may not repay the investment of the recruitment and selection exercise and initial training before leaving (recruit fit)
6. The best applicant pool and the best selection techniques are useless if the position is not understood by either the selection committee or the applicants.
7. A recruitment and selection process that takes too long may cause your organisation to miss the opportunity window which generated the requirement for the position in the first place and/or cause you to lose the best applicants (timeliness)
8. Permanently hiring an employee suited particularly well for a temporary workplace need (workforce management)

Recruitment and selection is an opportunity to either reward a very high performing employee in order to unleash their potential in a new position or to bring in the fresh perspective and new skills of an external recruit. Recruitment and selection is not:

1. the blind following of procedure as set out by departmental policy (the process requires a great deal of thought and planning and a high level of commitment to the goal of recruitment and selection),
2. the detection of talented and/or experienced people (instead you need to maximise the job and person fit),
3. a necessary evil (recruitment and selection is an opportunity to expand the range of skills and potential in your organisation), or
4. something anyone can do well (recruitment and selection is a very difficult task requiring extensive knowledge of the position, the organisation, the labour market, recruitment strategies and selection techniques).

It is surprising how few organisations treat the process of recruitment and selection with respect. Even with today's relatively short tenures we are making 6 and seven figure decisions when we hire a recruit. For instance, if an electrical engineer has an average tenure in your organisation of 5 years and an average salary of \$65,000, you are making a \$325,000 purchase when you hire the recruit (ignoring the cost of capital and inflation). Think of the

effort your company would require you to make for a similar value capital equipment purchase.

In contrast we tend to concentrate on meeting our legislative obligations to the applicants and we tend to follow established protocol when recruiting and selecting. We continue to use standard recruiting sources, rather than a range of recruiting strategies (eg word-of-mouth, recruitment agencies, adverts in the targeted publications, professional bodies) and we tend to rely on automated keyword resume scanning and panel interviews despite the weight of research showing that these techniques are useless for predicting job performance. The consequences to an organisation's competitive advantage can be devastating.

Have you ever formally evaluated the performance of your Recruitment agency or asked them to prove they are supplying high performing applicants for your organisation. The chances are you have not! The chances are also that you are using the recruiting service as a cost-cutting and effort reducing service rather than a method to obtain the best quality applicants. Hunter and Hunter (1984) showed that interviews are all but useless in determining a potential applicant's subsequent job performance and that almost all other methods of selection (ie behaviour and intelligence testing, job matching, reference checking, role playing, assessment centres) are much better predictors of performance than the interview. And yet the interview is the most frequently used and often the only used method of selection. In other words many organisations are not take recruiting and selecting seriously.

Stages Of Recruitment And Selection

There are four stages to all recruitment and selection:

1. Assess the job and determine its human requirements
2. Attract well targeted applicants
3. Assess the applicants objectively and validly
4. Select the applicant with the closest fit to the job's human requirements and your organisations culture and future needs

Never forget the first step, as it is crucial to the goal of maximising job fit. Too often selection committees try to detect the most talented and/or the most experienced applicant without really knowing what talent and experience that the applicants need for the job. Further recruitment efforts normally extend only to the standard advertisement in the standard publication. Selection committees must ask themselves if such an advertisement reaches the most lucrative markets or whether further efforts are justified. We tend also to use purely subjective evaluation techniques and then enumerate the results to give the impression of empiricism and objectivity.

We must begin to use a better, more objective range of techniques to improve our hit rate of excellent selection decisions. In most countries we are obligated by law to utilise objective techniques in an effort to minimise discrimination. It may not be too long before the use of such subjective, inaccurate and inappropriate techniques as automated resume scanning and panel interviews will be challenged in an industrial court. Finally, we must learn to hire the best person for the job, not necessarily the most qualified applicant. High performing academics do not necessarily become high performing university administrators. It is job fit

that is important, the best person for the job and the future of your organisation, not necessarily just the best person (as measured by some other dimension).

The Costs Of Recruitment And Selection

There are three kinds of costs associated with recruitment and selection:

1. the costs of undertaking the exercise itself,
2. the costs of making a bad selection decision and
3. the cost of taking too long to come to a decision.

The Cost Of The Exercise

Recruitment and selection is an expensive process. It can involve:

1. job analysis,
2. creation of a job description,
3. endorsement of the job description (senior management endorsement takes time)
4. evaluation of the job description,
5. endorsement of the evaluation,
6. position creation,
7. formation of a selection committee,
8. search for potential redeployees,
9. search for potential transferees,
10. creation of an advertisement, (or contact of a recruitment agency or..)
11. dissemination into one or more publications,
12. distribution of the position descriptions
13. acceptance of applications
14. photocopying applications and distributing them to the selection committee
15. assessment of applications
16. Shortlisting
17. selection (often just an interview)
18. checking referees
19. offering the position
20. notifying unsuccessful applicants
21. providing feedback to unsuccessful applicants

If you are unlucky (and/or not careful) you may also find yourself answering an appeal over the recruitment and selection process. Appeals are a costly and time-consuming process that can also become quite emotive.

It should also be noted that positions with lower remuneration tend to attract a greater number of applicants. This tends to create the converse situation that lower level recruitment and selection costs more than that for higher level positions. It may also be that the difference between applicants for the lower level positions will not vary dramatically (basically any of the applicants could do the job as well as any of the others). Obviously, under such circumstances, intensive investment in the recruitment and selection exercise is not justified

unless it is spent in determining which candidates will more likely contribute to the organisation after their tenure in the vacant position. Generally though, recruitment and selection committees should consider more cost effective strategies

Cost Of A Poor Recruitment And Selection Decision

The costs of poor recruitment and selection decisions are basically the cost of having the less than optimal candidate in the position more often. The following are a few of the many costs of a poor performing employee:

- less excellent ideas and more mediocre ones
- poorer role model for subordinate staff
- less competencies/knowledge to pass onto workmates
- higher requirement for training (higher cost & more down time)
- more errors and fix up work
- greater reliance on peers, who then spend less time on their own tasks
- less satisfied customers, managers, staff, peers and suppliers
- lower quality product with greater wastage, higher cost, less deadline compliance
- taking up a position that could be held by a high performer
- the high performer you could have hired working for a competitor instead
- placing a high performer for a different position somewhere where they will be a low performer
- giving the position itself a bad name (as well as the organisation) through poor work quality, low output levels, tardiness, negligence, less learning on the job and poor advice
- lower pool of talent for succession and replacement planning
- less motivation and satisfaction of the employee
- higher risk of having to undertake diminished performance intervention
- higher risk of having to do the whole recruitment and selection exercise again
- decreased effectiveness of training and performance management
- decrement to overall service level to customers
- increased risk of disaster

There is no 100% reliable and 100% valid selection technique that can discriminate between a high performer and a low performer for any position, so there will always be the odd selection decision that turns out badly. The trick is to make your selection processes as objective, consistent and valid as possible to minimise the number of poor selection outcomes. Given the potential costs of poor recruitment and selection and the potential benefits of excellent recruitment and selection, managers need to review the range of selection techniques before them and choose the most appropriate ones for the vacant position and organisational circumstances. Research suggests a greater use of appropriate behavioural assessment tools and assessment centres are far better at predicting job performance than relying on industry experience, resumes and interviews.

The Cost Of Taking Too Long Over Recruitment And Selection

There are a number of crucial costs resulting from tardy recruitment and selection. They include:

- Losing the opportunity window which justified the position in the first place
- Losing the opportunity to get the best applicants before your competition
- Having a non-producing position for an extended length of time
- Unavailability of the professional knowledge associated with the position
- Organisational structures settling around not having the position
- Increasing the workload and stress of surrounding staff
- Having a less than optimal replacement temporarily in the position
- An increasingly complex mess to clear for the incoming hire's first weeks on the job
- Longer period of confusion for suppliers and customers regarding contact points
- Reduction in the availability of the recruitment pool
- Corporate embarrassment (recruitment and selection is contact with the outside world and a demonstration of our workplace efficiency)

Cost Summary

The ideal recruitment and selection exercise would perfectly assess the human requirements of a position, attract the very best applicants in the world, detect which of those is the very best for the position for now and in the future, set up no harmful expectation in the successful applicant, have a 100% success rate of job offers and all be done instantly and at no cost. Obviously this ideal is unachievable. You generally need to trade off the level of expenditure on recruiting and the time spent on selecting against the potential gains of hiring a better employee. Sometimes these judgements are hard to make, but if you are aware of the tradeoffs you can at least make better judgements than if you blindly follow procedure in every case.

What Should I Do?

Firstly you need to assess the performance of your recruitment and selection. Are recruits leaving soon after joining? Is the performance of the best employees predictable from the results during the selection exercise? How satisfied are supervisors with the results from their recent recruitment and selections? How satisfied are your recruits? Did any of the industry high fliers unsuccessfully apply to your organisation?

If you use a recruitment agency ask them to demonstrate the effectiveness of their recruiting techniques for predicting job performance. For the cost-effective first brush techniques for culling obviously unsuitable candidates; are they basing this purely on years of industry or occupational experience? Or purely on lack of formal qualification? Or purely on the age of the candidate? Or whether the candidate's CV has certain key words included? Make sure you know what they are using and that such a system will only remove those who could not do well. If there is doubt, potential candidates should progress to the next, more detailed level of analysis. Next, ask them to demonstrate the effectiveness of their selection techniques for predicting job performance. Do not accept case studies or industry recommendations as proof, as the satisfied organisations may be happy with the ease of using the service rather than its ability to detect high performing candidates.

Look at the range of recruitment strategies your organisation uses. Are you using one source all the time or are you using a range of sources? Are your public advertisements well targeted or are they only in generic newspapers? Are you only using word of mouth or do you use recruitment agencies, unsolicited applications, and job ads as well? Do you know the relative state of the relevant labour markets (ie unemployment rate, labour market fluidity, unionisation rates)?

Look at the range of selection techniques open to your supervisors. Is their adequate infrastructure for them to use psychometric techniques? Are they aware of the relative strengths and weaknesses of certain selection techniques? Has your recruitment and selection process turned into a procedure that must be completed step by step or is it a method of improving your organisations performance? Is your organisation aware of the costs of a bad hire?