

# The cost of a bad hire



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**Ever hired the wrong person for the job?** You're not alone.

Around 95% of organisations admit they make **bad hires** each year. In fact, around 10% of **employee turnover** in Australia is attributed to poor hiring decisions.



Those small decisions can have a big impact, affecting each stage of the employee life cycle, from hiring to firing and everything in between. So, what's the real cost of a bad hire to your business?

We look at what to consider when building the business case for terminating a bad hire or, more importantly, going the extra lengths in your recruitment process to find the right person.

## HARD TO QUANTIFY COSTS – PRODUCTIVITY AND MORALE

**What's the cost of a bad employee while they're working for you?** That's difficult to evaluate, but given the ripple effect a bad hire can have on morale and overall productivity, it needs to be considered.



Lower productivity can happen due to a manager's time being monopolised by an underperforming employee. Alternatively, some employees may be trying to cope with a higher workload to compensate for an under-engaged colleague. All this can lead to lower morale, reduced output and increased absenteeism.

Easier to quantify is the risk of losing a client. If your employee provides poor service, you run the risk of your client taking their business elsewhere. Worse, your dissatisfied client may share their bad experience with others, multiplying the impact to your business's reputation and bottom line.



### THE COST?

Hard to quantify, but the easiest to blow out. **Absenteeism alone is said to cost an average \$347 a day per employee.**

## NOT JUST INCOMPETENT, BUT CRIMINAL

**What's worse than an underperforming employee?  
A criminal one.**

According to KPMG, **fraud** is on the rise in Australia. In the 12-month period ending September 2017 there were 155 frauds reported with a value of \$482million.

60% of those cases were perpetrated by employees or managers.

The Association of Certified Fraud Examiners (ACFE) classifies **business fraud** into three categories – asset misappropriation, corruption and financial statement fraud.



In practical terms, that means stealing stock, selling company intellectual property, creating fake invoices or false in-house requests for fund transfers to steal money, using corporate credit cards for personal expenses and stealing client funds.

### THE COST?

According to a global fraud report, every case of fraud costs an organisation around 5% of its revenue.

## THE BACKGROUND OF CRIMINALS... is not what you think.

According to the ACFE 2018 Global Fraud Study, the majority of those found or charged with fraudulent behaviour at work were first-time offenders.

### It found that, in terms of fraud-related criminal history:

- 89% had never been charged or convicted.
- 6% had been charged but not convicted.
- 4% had prior convictions.



### More telling was the person's employment record. Of those convicted of fraud:

- 85% had never been terminated or punished.
- 6% had previously been punished.
- 9% had previously been terminated.

Men are more likely to commit fraud than women, but the rate of female fraudsters is **on the rise**.



## FIRING AN EMPLOYEE

So you've hired the wrong person and it's clear that the smart thing to do is to let them go as soon as possible.

There are several costs involved in letting someone go.



In Australia, fired employees are **entitled** to any unpaid wages, any unused holiday pay and, depending on their award or contract, any pro rata long service leave.

Severance pay is not compulsory for companies with less than 15 people, but it can be a useful offering. Many companies offer a severance package in exchange for a waiver of legal rights.

More importantly, unless you follow a strict process around terminating someone's employment, as set out by **Fair Work Australia**, you run the risk of an unfair dismissal claim.

### THE COST?

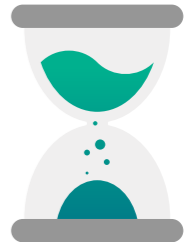
All of the employee's wage and leave entitlements. In addition, if you get the dismissal process wrong, the average total costs of an unfair dismissal case are currently around \$13,500, according to the **Australian Productivity Commission**.

## HIRING A NEW EMPLOYEE

Once you've fired a bad employee, you will need to replace them.

Costs include direct costs, like advertising the position or engaging third-party specialist recruitment services.

You will also have in-house costs, such as time taken by HR to run the recruitment process, including vetting résumés, employee screening, interviews and internal liaison. There is also the time of managers or others involved in the interview process, including the post-interview debrief.



Another internal cost to consider, says industrial relations resource WorkplaceInfo, is the **lost productivity** of your employees who cover the position until the role can be filled.



The cost can be calculated at one-third of the employee's daily recruitment cost multiplied by the number of days taken to fill the position.



## THE COST OF A NEW HIRE?

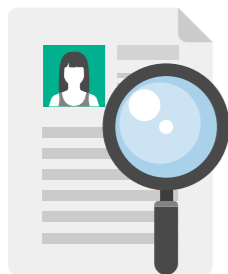


We used the calculator provided by **Caliper** to estimate the cost of employing someone internally for an average Australian salary of around \$80,000. Including a six-month probation period and two-day induction, the total cost of hiring that person was nearly \$45,000.

The more senior the person, the more it will cost. It can cost as much as **200% of the salary** of the most senior members of your organisation to replace them.

## HOW DOES BAD HIRING STILL HAPPEN?

Some candidates have been schooled in the art of making an average résumé look amazing. They might have even done a class in how to blitz an interview.



On the employer side, many companies admit to falling down in the **interview** process, with 69% citing it as the reason for hiring the wrong person.

Also, hiring fatigue is a real thing. Maybe you found a candidate that falls short of your ideal, but is at least a warm body filling an empty chair. Many companies make the mistake of hiring this person when they would be better off hiring no one and starting their recruitment process again.

## IN THE NEWS

Fraudsters come in many guises, from junior staff members to the most senior employees. Motivations for fraud also vary, whether it's greed, desperation or just for the thrill. However, the impact of fraud goes beyond stolen dollars – these stories often hit the media, reflecting badly on the company brand.



In 2019, former Victorian banker, Andrew Matthews, was **jailed** for defrauding his employer, NAB, of more than \$640,000. He used the loot to purchase a new luxury car, among other things.

Even more shocking was the behaviour of Perth office worker, Lynette Corrie, who was **jailed** in 2018 for stealing \$1.2million from two employers over eight years. Admitting she stole because she 'wanted nice things', Corrie used the money to go shopping, dine with friends and buy other luxuries.



## THE EASY WAY TO AVOID TROUBLE?

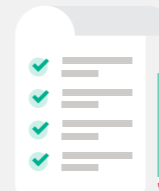
To hire the right candidate first time, every time, you need to create a strong set of guidelines and thorough processes. Be clear about what you need in terms of skills and experiences. Know what types of personalities fit into your company culture. Develop a structured interview process with consistent questions and stick to it.

By following a rigorous recruitment process, you should find the 'perfect' candidate. Their résumé will be impeccable. They will seem genuine and thoughtful in an interview. However, how can you tell if they are too good to be true? The only way to be sure is to verify their claims. Run a full pre-employment screening and check all their referees; this can save you time and money in the long run.



### HOW CVCHECK CAN HELP

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