

Recruitment Agencies



The Cost of a **Bad Hire**

eBook



Introduction

Recruitment and staffing agencies which supply employers with unvetted candidates are taking a chance with every placement – but just how big is that risk, and what is the true cost of a bad hire if things don't work out?

Hiring the right staff is the key to building and maintaining any business – but how much does it really cost to get it wrong?

On his way to getting acquired by Amazon for \$1.2bn, Zappos CEO Tony Hsieh famously stated that bad hires had cost the company over \$100m, pointing to a 'domino effect' within the organisation caused by inadequate vetting procedures.

More recently, research by the REC estimated the price of a poor hire at mid-manager level (with an average salary of £42,000) at a staggering £132,015, once related costs for training, replacement, loss of productivity and wider team impact are taken into account.





Perhaps more significantly, the REC's investigation revealed that although 85% of HR decision-makers admitted that their businesses had made a bad hire, 1 in 5 of these had no idea how much that error could potentially cost the company.

In fact, 1 in 3 decision-makers felt that there had been no cost to at all to their employer in making the wrong hire at manager, director or senior official level.

In fact, the cost of mis-hires to UK businesses can be extremely high, and recruitment agencies whose livelihoods depend on delivering effective staffing solutions share in the potential fallout if they lack the processes and resources to guarantee the quality of the applicants they provide.

When it comes to hiring new employees, the gap between expectations based on a candidate's CV or interview and the reality of their performance in the role has several causes.

At the application level, inaccuracies and discrepancies on CVs are far more commonplace than many employers and recruiters would like to believe.

A study conducted by job board CV Library reported that over 90% of UK job-seekers had lied on their CVs, with 70% of these going on to get the job based on their falsified profile.

Over half of people surveyed doctored their experience to appear more qualified, and 40% inflated their credentials in order to secure a higher salary.

Most interestingly, applicants are aware of the risks they run but seem ready to take the chance - banking on employers and recruitment agencies failing to uncover their fabrications.





Over three quarters said they would worry about being fired as a result of lying on their CV, while over 80% were concerned about landing a job they weren't qualified or competent to do, struggling in their role as a result.

Once applicants enter interview processes, the problems continue.

Many employers primarily focus interview content on discussing previous experience and evaluating culture fit without any kind of practical assessment, whilst candidates supplied by agencies have often not been pre-vetted to ensure they have the core competencies required for the position.

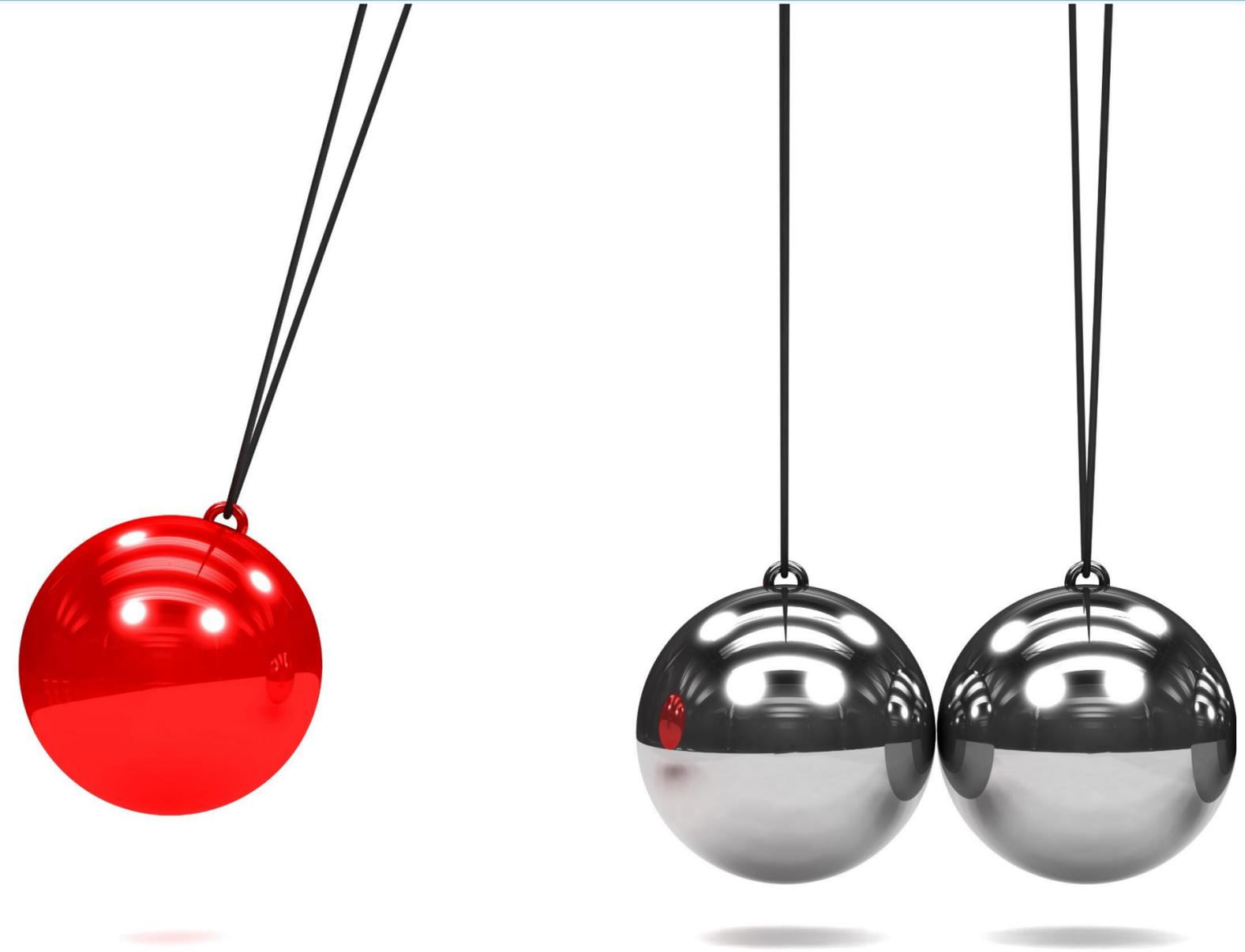
The absence of hard skills testing makes it easier for candidates who have smudged or exaggerated their qualifications to bluff their way through interview, eventually landing a job they are incapable of performing correctly.

Employers in a rush to hire against tight deadlines compound the issue, skipping key appraisals of applicant suitability in order to get roles filled fast.

The impact of making the wrong hire is felt at all levels, from junior and temp workers to senior and management roles, and across all industries.

As part of a detailed report into recruitment fraud, accounting consultancy Crowe estimated the total cost to UK businesses at over £23bn.

In their research, they documented the case of an NHS administrator who was employed for 15 months based on exaggerated qualifications and experience. With concerns flagged over lack of competence, a counter-fraud specialist was brought in to investigate at a cost of £2,000. Added to the £26,000 paid in salary and the £1,545 cost of termination and a replacement hire, the issue left the employer with a total bill of over £29,000.



A Cross-Industry Polemic



In the energy sector, a 48-year old was jailed for a year after lying his way to a £120,000-a-year position as an oil executive overseeing £2m international contracts, inventing qualifications and even academic publications as part of his bogus application.

It took just three months for colleagues to clock his incompetence, but by then the employer had already invested more than £54,000 in salary, relocation expenses and a £10,000 car allowance.

Other examples include government employees, pilots, bankers and local authority workers, each with a similar cost for hiring without adequate due diligence.

Placing an accurate figure on the total impact of a bad hire is a complex process, as the repercussions spread far beyond the amount spent directly on individual employment.

Along with salary, employers need to factor in the wider financial effects of back-filling and replacing candidates who don't work out.

Among the potential costs are:

- ✓ Salary, NI, pension and healthcare contributions
- ✓ Training and onboarding of the outgoing employee
- ✓ Advertising, recruitment and training of replacement employee(s)
- ✓ Loss of productivity of new employee(s)
- ✓ Loss of productivity of team
- ✓ Disruption to projects
- ✓ Disruption to and loss of customers
- ✓ Legal and litigation expenses
- ✓ Damage to reputation and employer brand





On top of this already lengthy list, there is a host of intangible costs to the employer caused by making and then rectifying a poor hiring decision.

As part of a survey profiling more than 2,000 hiring managers and 3,600 full-time workers, CareerBuilder's Chief Human Resources Officer Rosemary Haefner pointed to the broader business impact of mis-hires:

"It's important to note that there's a ripple affect with bad hires. Disengagement is contagious — poor performers lower the bar for other workers on their teams, and their bad habits spread throughout the organization."

The best thing hiring managers can do is put in the time and effort on the front end to make sure they have the best available pool of applicants for every job opening. And, just as importantly, have good procedures in place for evaluating candidates."

When employers depend on recruitment and staffing agencies to source and screen their candidates, this creates a partnership where both parties share in the risk of failing to effectively vet applicants for suitability – even where agencies attempt to ‘pass the buck’ to the employer via the language used in their contracts.

While the cost of a bad hire to employers can be high, the potential consequences for agencies can be even more damaging.

Many UK agencies operate without any form of background check or skills testing as part of their standard process, trusting blindly in the information provided by candidates (and occasionally conducting lightweight reference checks if prompted by the client).

Although the financial cost of having to provide rebates, refunds or source replacements for hires who don't work out is a well-known frustration in the recruitment industry, the full extent of the risk run by agencies who have no formal method to ensure the quality and competency of the applicants they provide goes far beyond this annoyance.



Agencies Hit Hard



Many core industries are heavily regulated, such as education, finance, healthcare, energy, life sciences, transport and manufacturing. In these sectors the implications of a fraudulent hire can be severe, and agencies who unwittingly represent job-seekers lacking the required skills, qualifications or experience can be exposed to potential legal and financial ramifications that could damage them significantly.

There is also the impact on reputation and customer contracts – a single bad hire can cost a recruitment business its relationship with a key client, potentially signaling the loss of tens or hundreds of thousands of pounds in annual revenue, as well as having knock-on effects to other accounts.

Critically, there is an ethical dimension to be considered as well. Recruitment agencies base their professional services around the provision of well-matched job applicants, and yet many lack even the most basic resources for ensuring that the people they supply to their customers genuinely have the experience or abilities they claim.

Just as weighty as the evidence highlighting the risks and costs of a bad hire is the data supporting the benefits of a robust assessment process to complement traditional phone-based and in-person interviews.

Strategy consulting firm the Aberdeen Group reported that businesses using pre-hire assessments are 36% more likely to be satisfied with their new hires, 24% more likely to have a greater percent of employees who exceed performance expectations and 17% more likely to have employees who rate themselves as highly engaged.

They also determined that companies which use pre-hire screenings report a 39% lower staff turnover rate overall.





Key to their research was the observation that fact-based evaluations help mitigate the risk of human error in the hiring process, as well as helping reduce bias:

“Pre-hire screenings provide HR professionals with objective data about candidates’ skills, personalities, cognitive abilities and workplace values. Because they don’t rely on human judgments, they’re also not susceptible to human errors.”

For recruitment agencies, implementing pre-hire tests not only serves to lower risk, it also creates a valuable differentiator in service provision and provides clients with a genuine value-add. For some companies, this can be the key to securing a greater degree of customer commitment - whether in the form of long-term contracts, RPO engagements or simply embedding themselves more firmly in key accounts.

With increasing sources of information on every applicant and so much at stake if things go wrong, the real question is – can recruitment agencies afford to keep helping clients make bad hires?



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- MH, Operations Director (Recruitment Consultants)

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- SG, HR Director Europe (Cosmetics Company)

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