

The Terrible Cost of Not Hiring the Right Person... *the First Time*

And other insightful calculations designed to show you the true costs associated with your human capital.

Costs Due to a Person Leaving

1. Calculate the cost of the person(s) who fills in while the position is vacant. This can be either the cost of a temporary or the cost of existing employees performing the vacant job as well as their own. Include the cost at overtime rates.
2. Calculate the cost of lost productivity at a minimum of 50% of the person's compensation and benefits cost for each week the position is vacant, even if there are people performing the work. Calculate the lost productivity at 100% if the position is completely vacant for any period of time.
3. Calculate the cost of conducting an exit interview to include the time of the person conducting the interview, the time of the person leaving, the administrative costs of stopping payroll, benefit deductions, benefit enrollments, COBRA notification and administration, and the cost of the various forms needed to process a resigning employee.
4. Calculate the cost of the manager who has to understand what work remains, and how to cover that work until a replacement is found. Calculate the cost of the manager who conducts their own version of the employee exit interview.
5. Calculate the cost of training your company has invested in this employee who is leaving. Include internal training, external programs and external academic education. Include licenses or certifications the company has helped the employee obtain to do their job effectively.
6. Calculate the impact on departmental productivity because the person is leaving. Who will pick up the work, whose work will suffer, what departmental deadlines will not be met or delivered late. Calculate the cost of department staff discussing their reactions to the vacancy.
7. Calculate the cost of severance and benefits continuation provided to employees who are leaving that are eligible for coverage under these programs.
8. Calculate the cost of lost knowledge, skills and contacts that the person who is leaving is taking with them out of your door. Use a formula of 50% of the person's annual salary for one year of service, increasing each year of service by 10%.
9. Calculate the cost impact of unemployment insurance premiums as well as the time spent to prepare for an unemployment hearing, or the cost paid to a third party to handle the unemployment claim process on your behalf.
10. Calculate the cost of losing customers that the employee is going to take with them, or the amount it will cost you to retain the customers of the sales person, or customer service representative who leaves.

11. Subtract the cost of the person who is leaving for the amount of time the position is vacant.

Recruitment Costs

1. The cost of advertisements (from a \$200.00 classified to a \$5,000.00 or more display advertisement); agency costs at 20 - 30% of annual compensation; employee referral costs of \$500.00 - \$2,000.00 or more; internet posting costs of \$300.00 - \$500.00 per listing.
2. The cost of the internal recruiter's time to understand the position requirements, develop and implement a sourcing strategy, review candidates backgrounds, prepare for interviews, conduct interviews, prepare candidate assessments, conduct reference checks, make the employment offer and notify unsuccessful candidates. This can range from a minimum of 30 hours to over 100 hours per position.
3. Calculate the cost of a recruiter's assistant who will spend 20 or more hours in basic level review of resumes, developing candidate interview schedules and making any travel arrangements for out of town candidates.
4. The cost of the hiring department (immediate supervisor, next level manager, peers and other people on the selection list) time to review and explain position requirements, review candidates [background](#), conduct interviews, discuss their assessments and select a finalist. Also include their time to do their own sourcing of candidates from networks, contacts and other referrals. This can take upwards of 100 hours of total time.
5. Calculate the administrative cost of handling, processing and responding to the average number of resumes considered for each opening at \$1.50 per resume.
6. Calculate the number of hours spent by the internal recruiter interviewing internal candidates along with the cost of those internal candidates to be away from their jobs while interviewing.
7. Calculate the cost of drug screens, educational and criminal [background checks](#) and other reference checks, especially if these tasks are outsourced. Don't forget to calculate the number of times these are done per open position as some companies conduct this process for the final 2 or 3 candidates.
8. Calculate the cost of the various candidate pre-employment tests to help assess a candidates' skills, abilities, aptitude, attitude, values and behaviors.

Training Costs

1. Calculate the cost of orientation in terms of the new person's salary and the cost of the person who conducts the orientation. Also include the cost of orientation materials.
2. Calculate the cost of departmental training as the actual development and delivery cost plus the cost of the salary of the new employee. Note that the cost will be significantly higher for some positions such as sales representatives and call center agents who require 4 - 6 weeks or more of classroom training.
3. Calculate the cost of the person(s) who conduct the training.

4. Calculate the cost of various training materials needed including company or product manuals, computer or other technology equipment used in the delivery of training.
5. Calculate the cost of supervisory time spent in assigning, explaining and reviewing work assignments and output. This represents lost productivity of the supervisor. Consider the amount of time spent at 7 hours per week for at least 8 weeks.

Lost Productivity Costs

As the new employee is learning the new job, the company policies and practices, etc. they are not fully productive. Use the following guidelines to calculate the cost of this lost productivity:

1. Upon completion of whatever training is provided, the employee is contributing at a 25% productivity level for the first 2 - 4 weeks. The cost therefore is 75% of the new employee's full salary during that time period.
2. During weeks 5 - 12, the employee is contributing at a 50% productivity level. The cost is therefore 50% of full salary during that time period.
3. During weeks 13 - 20, the employee is contributing at a 75% productivity level. The cost is therefore 25% of full salary during that time period.
4. Calculate the cost of coworkers and supervisory lost productivity due to their time spent on bringing the new employee "up to speed."
5. Calculate the cost of mistakes the new employee makes during this elongated indoctrination period.
6. Calculate the cost of lost department productivity caused by a departing member of management who is no longer available to guide and direct the remaining staff.
7. Calculate the impact cost on the completion or delivery of a critical project where the departing employee is a key participant.
8. Calculate the cost of reduced productivity of a manager or director who loses a key staff member, such as an assistant, who handled a great deal of routine, administrative tasks that the manager will now have to handle.

New Hire Costs

1. Calculate the cost of bring the new person on board including the cost to put the person on the payroll, establish computer and security passwords and identification cards, business cards, internal and external publicity announcements, telephone hookups, cost of establishing email accounts, costs of establishing credit card accounts, or leasing other equipment such as cell phones, automobiles, pagers.
2. Calculate the cost of a manager's time spent developing trust and building confidence in the new employee's work.

Lost Sales Costs

1. For sales staff, divide the budgeted revenue per sales territory into weekly amounts and multiply that amount for each week the territory is vacant, including training time. Also use the lost productivity calculations above to calculate the lost sales until the sales representative is fully productive. Can also be used for telemarketing and inside sales representatives.
2. For non-sales staff, calculate the revenue per employee by dividing total company revenue by the average number of employees in a given year. Whether an employee contributes directly or indirectly to the generation of revenue, their purpose is to provide some defined set of responsibilities that are necessary to the generation of revenue. Calculate the lost revenue by multiplying the number of weeks the position is vacant by the average weekly revenue per employee.



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