

# How to Avoid Making That Million Dollar Mistake



By Patti Pokorchak, MBA

## The Shocking Cost of Mis-Hires And How to Avoid Making That Million Dollar Mistake

It's not easy to hire someone more powerful or smarter than you are; it takes a self-confident and self-aware leader to hire to their weaknesses. Sales and marketing executives are excellent at selling themselves, even if that's all that they can sell.

An unsuspecting Human Resource manager can be easily fooled by a slick façade and glib charm. Some HR professionals have stated that they cannot hire sales or business development people because they don't have the insight into the sales candidate's mindset. Even experienced sales VPs & directors can fall victim to a slick spiel.

### The cost of "C-Suite" mis-hires can be 27 times their salary

Shocking but true, these calculations are based on research by *TopGrading* author Dr. Brad Smart. Even if you dispute these numbers somewhat, the costs are still significant.

Level	Costs vs. Base Salary
Supervisor	4 X base salary
Sales Rep	6 X base salary
Mid Manager	8 X base salary
Vice President	15 X base salary
Executive	27 X base salary

Source: [Cost of Mis-Hires -Topgrading](#) <sup>1</sup>

Even after six years of business school, including obtaining an MBA and having run my own companies for over 20 years, I was surprised that the cost of hiring the wrong person could be so high, between — \$500,000 – and \$1 million, and that's only for a sales professional, never mind the C-Suites.

Initially, I argued that it just couldn't be that much. If you're also a doubter, look at my spreadsheet below. You can use it to calculate your own cost of a mis-hire.

**Note:** this is for a typical Business Development or Sales Professional position, used as this position is in every company and is typically the most visible and easily calculated mis-hire or successful hire.

<b>Base Salary</b>	<b>\$100,000</b>		
Commission	50,000	50%	% of base salary
<b>Total Compensation</b>	<b>\$150,000</b>		
<b>COSTS:</b>			
Recruiting Cost	25,000	25%	% of base salary
Employee Overhead	15,000	10%	% of total compensation - Benefits
Opportunity Cost (Revenue Loss)	250,000	25%	Loss based on \$1,000,000 target
Disruption Cost	100,000		Manager, admin and colleagues
Severance	24,000	25%	of Total Compensation
<b>Cost of a Mis-Hire:</b>	<b>\$540,000</b>		

This shows that the costs of a sales professional mis-hire at 5.4x their base salary. Even if you disagree with some of the numbers, you can see that the costs of hiring the wrong person are significant.

In this [Globe and Mail article](#)<sup>2</sup> from November 27, 2012, even higher numbers are quoted—the cost can be up to 24 times the salary for executive C-Suite positions, based on a survey done by Dr Bradford Smart, author of *Topgrading*.

They cite the example of John Browett who was recruited from electronics retailer Dixons in the U.K. to serve as Apple's retail chief and appeared to be a good pick. His package was worth \$56 million over five years but he lasted less than 7 months before Apple's CEO Tim Cook determined that he was just not a good fit. Ouch! This proved to be an expensive and very public mistake.

The same can be said about the recent firing of Thorsten Heins of Blackberry. He had been a part of the company for seven years, the last two as CEO. That shows that even promoting within can lead to a major mis-hire, costing a rumoured \$22 million for his severance package.



In 2013, most of the major sports teams in Toronto – basketball, baseball, soccer and hockey - have had high profile firings, some after just nine months on the job. However, it appears that either there are very few executive firings or these terminations are kept quiet. Searching for examples revealed no high profile examples in corporate Canada with the exception of Heins.

## How Can You Reduce The Risk Of A Million Dollar Mistake?

**So what can you do to avoid the risk of hiring the wrong person?**

The old adage of “hire slow, fire fast” has never been truer.

It’s all in the hiring for:

1. Suitability,
2. Eligibility and
3. Sustainability

Many job postings will get flooded with resumes of highly qualified candidates, as well as those who apply for every job. Even when searching for CEOs, we will get between 150 and 200 resumes.



## What do you do with 200+ resumes for a position?

First, you must seriously look at using some kind of **suitability** tool that is economical to administer to all applicants. At Derhak Ireland, we use [Epic Software’s RoleFit™](#) <sup>3</sup> as a benchmark to quickly see how suitable a candidate is for that position. This typically eliminates anywhere from 50 to 80% of the applicants.

RoleFit™ is an online 10-15 minute assessment that asks the candidate to self-assess themselves on 54 core competencies, of which 20 are key to the position applied for. Not a performance appraisal, it just shows what the candidate finds draining and what they find energizing. It’s amazing to see some people in positions for which they are not a good fit. It can cost under \$5 an applicant and does not need a specialized consultant to interpret the results.

There are many assessment tests and profilers available – you’ve probably taken one or more of these yourself - DISC, Myers-Briggs, Personality Dimension or Kolbe at some point in your career. They all tell you something about yourself and the candidate.

## Then what?

This pre-assessment for suitability is only the beginning of the search process. Next is checking for their **eligibility** for the position: The recruiter must understand what kind of

environment and structure the person will be working in, and with whom – personalities do matter here. You can then formulate the right questions and criteria to evaluate every candidate consistently. You can more easily and objectively compare the various candidates to determine which ones are the best fits.

Derhak Ireland has a proprietary process called Matrix & Mapping™ which we liken to eHarmony® dating. It allows us to rank and evaluate candidates on the 10-12 criteria that are necessary for the exceptional candidate to be successful in this position, at this company. It allows for more objective comparisons to be made, thus making the selection process more transparent.

Sustainability is determined by using parts of Dr. Brad Smith's *TopGrading* process, which is a highly detailed and lengthy interview by two seasoned HR recruiters. We've adapted this process as we find that most candidates can keep up a great façade for the first 45 to 60 minutes of an interview but then after we ask them deeper questions, that façade begins to crumble and we see the real person, warts and all.

## **How can you insurance against the risk of a mis-hires?**

As an executive search partner has written this white paper, it should come as no surprise that we'd recommend using our services or at least asking you to let us make a pitch if you've used other 'headhunters' in the past.

## **How is Derhak Ireland different from some better known executive search organizations?**

See how your existing talent search partner compares. Do they:

- Offer you an up to 24-months guarantee?
- Advertise a 97.6% retention rate over 24 months?
- Offer performance-based fees?
- Only have senior partners conducting all the interviews?

If you answered "no" to any of these questions, then you should consider us. We use a rigorous 40-step process to find the ideal candidate for you. We've been in the executive search business for over 20+ years, and have the 97.6% retention rate track record to prove that our process works.



If you don't use an external recruiter, is your initial reaction -- recruiters are too expensive? Then consider this: a recruiter's search fee is like a 5% insurance fee against the risk of a mis-hire. Here is how we calculate that:

Going back to our sales professional example, most search firms would charge you 25-30%. Let's assume it's 25% of the base salary of \$100,000. When you compare this \$25,000 fee to the potential mis-hire cost of over \$500,000, the search fee is starting to look more reasonable, don't you think?

Plus when you outsource the initial assessing and selection, you do not need to skim through 200+ resumes, 250+ LinkedIn profiles, hundreds of calls and emails and up to a dozen 2-hour interviews like we do. You interview only 3-4 of the short-listed candidates and hire the one that you feel is the best all-round fit. What is your time worth? Suddenly the search fee has a great ROI, all things considered.

There is a reason we're affectionately called headhunters – we hunt better heads that stay longer and perform better. We help you increase shareholder value and gain a competitive edge by helping you hire only exceptional employees.

Leadership IQ, a top-rated provider of cutting-edge research, tracked 20,000 new hires and found that 46% of them failed within 18 months, 89% of the time it was for attitudinal reasons and only 11% for a lack of skill.<sup>4</sup>

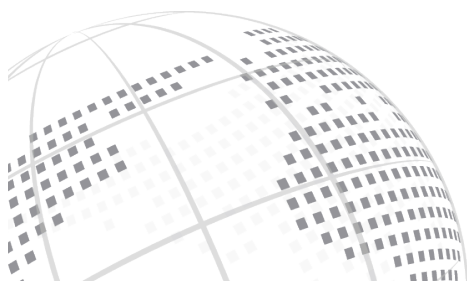
## **Can you afford to lose 46% of your new hires every 1.5 years?**

You can avoid that kind of turnover when you do the following:

1. Take your time to hire carefully and slowly through 1.5 hour+ interviews using consistent in-depth questions
2. Understand the personalities involved, and
3. Make sure that you are seeing the real person, not their interviewing façade

Great employees for your company are out there. But it's like matchmaking and finding your soul mate. It takes patience and kissing lots of frogs to find your prince or princess.

**Exceptional employees take time to find but they are well worth the wait.**



**About the Author - Patti Pokorchak, MBA** has worked for IBM, Siemens, Learning Tree Int'l and several tech startups in Europe and Canada. She has managed international sales teams and her thousands of sales calls in 15 countries has fine-tuned her people and questioning skills that she is able to quickly get to the true essence of a person. She helped start and operate a software company in 1992, which is still operating. After running a successful hobby farm and garden centre, she became a digital headhunter and small business coach.

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### **About Derhak Ireland Executive Search Partners**

Derhak Ireland is one of the leading best practices and innovation firms in executive recruiting, with processes, assessments, tools and results like no other. We provide our clients with the information to make confident hiring decisions. We are known as being the finders of the needle-in-the-haystack kind of exceptional candidates.

Our promise to you is that we will find you better candidates than you can find yourself.  
**Guaranteed. Derhak.com.**

### **About Women in Biz Network (WIBN)**

WIBN connects, educates and empowers over 10,000 professional women to grow within their professional lives across Canada and online. Our events connect women both in-person and online through our events, website, interactive webinars and social media.

WIBN is one of Canada's fastest growing online women's network.  
[WomenInBizNetwork.com](http://WomenInBizNetwork.com)

### **Sources:**

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2. Globe and Mail, November 27, 2012 <http://www.theglobeandmail.com/report-on-business/careers/management/mis-hires-and-how-to-avoid-them/article5739340/>
3. RoleFit (RFS®) Suitability Assessment <http://www.ascentii.com>
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