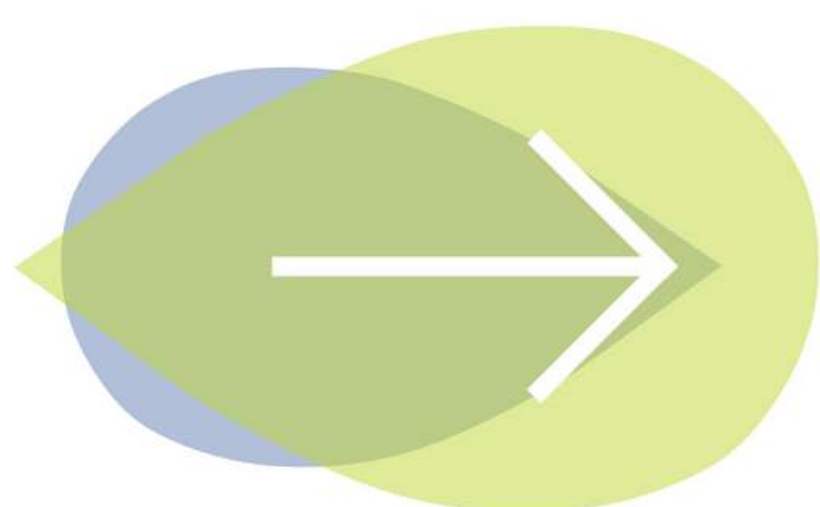


Case Study: The True Cost of Hiring



Abdi Walla is the vice president (VP) of sales at an international agricultural wholesale distributor. The organization is preparing for their busiest season, but Abdi is faced with a major problem: the North American regional sales manager, who oversees the organization's largest market, just announced that she is resigning.

In her exit interview, she shared that she had received a competitive offer at an organization that promised more opportunities for career advancement. Abdi was happy for her of course; she was one of his top managers, and he knew she deserved more opportunities for development. However, he couldn't shake the short-sighted perspective that this was incredibly bad timing for him to lose one of the best members of his team.

Perceiving no other option than to find a replacement as soon as possible, Abdi contacted his human resources (HR) department and began a process that would cost him \$80,960 and 172 hours over the next 22 weeks as he advertised the job, screened candidates, conducted interviews, and trained the new hire. This case provides a breakdown of the time and money spent on the hiring process, offering a transparent summary of the true cost of hiring.

HIRING COSTS = \$80,960 + 172 hrs

COST SOURCES

- ✓ **Direct costs** such as advertising and recruiting fees, as well as training costs, hiring bonuses, and premiums for external hires.
- ✓ **Indirect costs** such as time spent on the interview and onboarding process, as well as productivity lost along the way.



CAUSAL ANALYSIS: REASONS FOR LEAVING

When Abdi's sales manager, Pamela Brown, submitted her two-week notice, he was shocked. Pam had not only been a superstar employee, but by all accounts, she had seemed engaged in her work and satisfied with her job. Abdi met with her one-on-one following her exit interview to gather more information on how he as a manager, and the organization, could better attract and retain top talent. Brown's feedback revealed that, while the company had a great culture, supported a healthy work-life balance, and provided its employees with competitive benefits and compensation, many mid-level managers did not see opportunities for career advancement. Abdi would have to work with the executives to establish a clearer leadership pipeline to ensure that other managers did not soon follow in Brown's footsteps. Abdi discussed the matter briefly with HR, who told him that Brown was not alone.

In 2023, nearly 1 in 5 individuals who left their jobs did so because of "career" reasons, such as upward mobility and new development opportunities.¹ In fact, according to the Work Institute's 2024 Retention Report, career development was the most cited reason by respondents for leaving their jobs in 2023. It has been the top reason cited by employees for leaving their jobs every year since the Work Institute began tracking this data in 2010.²

For more than a decade, career development has been the top reason cited by employees for leaving their job.

In the long run, Abdi was determined to address the issue of career development opportunities at his organization. He knew these efforts would pay off because he had recently come across a study by Deloitte, which showed that organizations with a strong learning culture have 30-50% higher retention rates.³ However, in the immediate term, he had a pressing issue to attend to: hiring another regional sales manager as soon as possible.

THE VACANCY: STRAINING THE SYSTEM

A recent LinkedIn Global Recruiting Trends report cited that it could take anywhere from a few days to four months to fill a vacant role.⁴ This meant Abdi's organization was spot on the average in terms of how long the regional sales manager's position remained vacant: eight weeks. During that time, Abdi and his team were working night and day — including the occasional weekend — to cover Brown's workload during their busiest time of year. Despite making up her hours, Abdi still felt they had lost a significant amount of productivity during Brown's absence, prior to filling her role.



THE HIRING PROCESS: DIRECT AND INDIRECT COSTS

Not only was the team down in terms of sales productivity, but Abdi and his direct reports also had to commit significant time and energy to working with HR during the hiring process. Abdi recorded the hiring costs for future reference and was shocked by the significance of the totals he added up:

Direct Costs of Hiring

<i>Expense</i>	<i>Cost</i>	<i>Calculation/Source</i>
Advertising and Promotion	\$150	Estimated price per posting (based on bulk discounts)
Recruiting Agency Fees	\$18,000	Avg. = 20% of the employee's salary ⁵
Training	\$954	Avg. training expense per hire ⁶
Hiring Bonuses	\$11,000	Avg. signing bonus = 12% base salary ⁷
Salary Premiums for External Hires	\$17,000	Avg. premium paid for external hires = 19% ⁸
TOTAL	\$47,104	

Figure 1. Direct costs of hiring; monetary expenses associated with the hiring process. Numbers are based on the average United States (U.S.) regional sales manager salary of \$90,000 per year.⁹

Indirect Costs of Hiring: Quantifying Time Spent on the Hiring Process

<i>Process</i>	<i>HR</i> <i>(Estimated # hours per role)</i>	<i>Supervisor</i>	<i>Team</i>	<i>Total Hrs</i>	<i>Avg. \$/hr</i>	<i>Cost</i>	<i>Total</i>
Exit							
Exit Interview	2	2	0	4	\$48	\$192	
Exit Admin	4	0	0	4	\$48	\$192	
Total Exit							\$384
Hiring							
Preparing Job Description	0	2	1	3	\$48	\$144	
Preparing/Publishing Job Posting	2	0	0	2	\$48	\$96	
Screening Applications (estimated time = 1 min/app.)	4	0	0	4	\$48	\$192	
Shortlisting Candidates	2	2	0	4	\$48	\$192	
Interview #1 (2 hrs/interview)	12	0	0	12	\$48	\$576	
Interview #2 (2 hrs/interview)	12	12	0	24	\$48	\$1,152	
Interview #2 (2 hrs/interview)	12	12	12	36	\$48	\$1,728	
Discussions & Decision	0	2	6	8	\$48	\$380	
Total Hiring							\$4,460
Onboarding							
Admin	4	0	0	4	\$48	\$192	
Orientation	2	2	6	10	\$48	\$480	
Training ¹⁰		57		57	\$48	\$2,736	
Total Onboarding							\$3,408
TOTAL							\$8,252



Figure 2. Table quantifying the time spent on hiring processes per role. Assumptions: 250 applications,¹¹ six candidates interviewed,¹² three rounds per interview (first round with HR, second round with HR and supervisor, third round with HR, supervisor, and one member of the team). Estimates conservatively based on industry averages.

IMPACT ANALYSIS: LOST PRODUCTIVITY

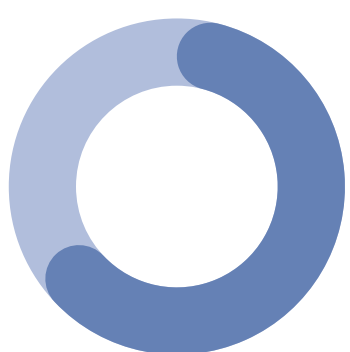
In addition to the time spent on the hiring process, Abdi wanted to quantify the impact of lost productivity. He started by jotting down a few observations:



He had noticed a trend among previous employees where, following their notice of resignation, they were no longer able to work with the same drive and long-term strategic focus as before. This was, of course, completely understandable, given that they were on their way out, but it meant that Abdi was losing some of his employees even before they were gone.



During a role's vacancy, 100% of productivity was lost. Others on Abdi's team would step in to manage key tasks, however, this reduced their capacity to fulfill their own roles and responsibilities. At the end of each day, an entire role's worth of work was still foregone, regardless of how the impact was divided.



Even after a new hire was found, it took them a while to complete the onboarding process and become familiar with the role. On average, Abdi estimated that new employees operated at 25% capacity during the first month of onboarding activities, then 50% and 75% respectively during their second and third month with the company. During this time, new employees were building relationships, getting to know the roles and responsibilities of others on their team, and beginning to lay a foundation for institutional knowledge. They were also completing routine tasks for the first time, which involved a steep learning curve, and becoming familiar with long-term projects, their goals, current status, and important next steps. Only after about 12 weeks, in the fourth month of the employee's time with the organization, would they begin to operate at full capacity.



Abdi did some calculations based on these estimates and was astonished by the total cost of lost productivity during the hiring process:

Lost Productivity During the Hiring Process

<i>Process</i>	<i>Productivity</i>	<i>Effort Lost</i>	<i>Weeks</i>	<i>Weekly Pay</i>	<i>Cost of Effort Lost</i>
Following notice of resignation	60%	40%	2	\$1,730	\$1,384
Vacancy	0%	100%	8	\$1,730	\$13,840
Onboarding — Weeks 1-4	25%	75%	4	\$1,730	\$5,190
Onboarding — Weeks 5-8	50%	50%	4	\$1,730	\$3,460
Onboarding — Weeks 9-12	75%	25%	4	\$1,730	\$1,730
TOTAL					\$25,604

Figure 3. Cost of lost productivity per role hired for. Assumptions: Two weeks notice given for resignation; role is vacant for eight weeks;¹³ productivity during the onboarding period is 25% of full capacity during the first month and increases by 25% during the second and third month. Full capacity is reached at 12 weeks.¹⁴

THE TRUE COST OF HIRING

Combining the cost of time spent and productivity lost with the total hard costs of hiring, Abdi was surprised to discover that he was spending almost as much on hiring a new regional sales manager as he would be paying the regional sales manager during their first year of work:

Total Direct Costs		\$47,104
Indirect Costs		
Time Spent	\$8,252	
Lost Productivity	\$25,604	
Total Indirect Costs		\$33,856
GRAND TOTAL		\$80,960



NOTE: The failure rate of new hires can be as high as 46%, therefore all costs may need to be doubled.¹⁵



TRENDS IN TURNOVER

Armed with this perspective, Abdi booked a meeting with HR to get more information about the company's trends in turnover. HR told him that Abdi's company had not been immune to The Great Resignation that followed the COVID-19 pandemic. During this period, nearly 5% of the organization's management-level employees quit in pursuit of other job opportunities, and the primary driver of resignations was a lack of development opportunities. Abdi's company was not alone in this. A 2021 survey by employee management platform provider Lattice found that 43% of people who quit their jobs did so because they felt their career path had been stalled, and 38% of Gen Z workers (born after 1997) indicated they were looking for jobs with greater transparency regarding career path and development.¹⁶ HR told Abdi that the resignation rate had slowed, but Brown's departure was one among many that bore the same characteristics of the development opportunities-driven exodus that followed the pandemic.

TAKING ACTION: PREVENTATIVE MEASURES

Based on this information, Abdi was more confident than ever that his organization needed to invest in building a talent development program with the goal of establishing strong career pathways for high potential employees. While researching talent development solutions the following week, Abdi discovered SIGMA's Succession Planning Guide. After downloading the guide, he discovered a comprehensive six-step succession planning process, as well as intentionally designed tools and templates that could be used to build a proven talent development plan. Most importantly, SIGMA offered a Succession Planning Launch that promised to get the entire process done in just two half-day workshops. Abdi booked a call with one of SIGMA's consultants to discuss the possibility of working together. SIGMA prepared a customized proposal, tailoring the six-step succession planning process to the unique needs of Abdi's organization. They also provided Abdi with a guide on how to get buy-in from senior management for succession planning. Abdi took this proposal to the CEO and board of the organization, and he was met with nearly unanimous support for the investment.

"Abdi," one of the board members told him, "I think you've just put your finger on one of the most important strategic challenges this organization is facing, and you've come with a feasible solution. Well done."



THE ROI OF SUCCESSION PLANNING

A year later, Abdi was reflecting on the succession planning process his organization had implemented with the help of SIGMA’s consultants. Since then, they had retained at least two middle managers who had been considering alternative job opportunities. As a result, they had saved more than \$160,000 and 340 hours of hiring work. The return on investment (ROI) of succession planning was effectively 610% (305% for each manager-level employee retained). That made the \$20,000 and six hours spent with SIGMA one of the best investments the company had ever made.

ROI of Succession Planning with SIGMA

305%

HIRING COSTS = \$80,960 + 172 hrs

SUCCESSION COST = \$20,000 + 6 hrs

INVEST IN YOUR FUTURE

If you are interested in succession planning with SIGMA, send us an email or book a call with one of our consultants. We would be happy to speak with you about the specific needs of your organization and provide you with customized resources and recommendations.

 **EMAIL**

 **CALL**

 **BOOK A MEETING**

“[SIGMA] was phenomenal. I am in the process of standardizing our succession processes across our Americas region and this is exactly what I wanted. Brittney and Helen gave me the resources I needed to help my team be able to easily understand how to identify critical roles easier and then begin to build out each of their benches in a methodical way. I can’t wait to start using all the tools!”

Jen Kilman, Director, Talent Development, *Omron Management Center of America*



ASSUMPTIONS

- Hiring for a position at the manager level, reporting to a supervisor at the VP level.
- The new hire will work closely with three other individuals, who, apart from the HR generalist and supervisor, will be somewhat involved in the hiring/onboarding process (i.e., informing job description, discussing candidates, and assisting with informal training).
- Salary of role being hired for: \$90,000 (approx. avg. salary for a regional sales manager in the U.S.)¹⁷
- Salary of HR generalist: \$67,000 (approx. avg. salary for an HR generalist in the U.S.)¹⁸
- Salary of supervisor: \$160,000 (approx. avg. salary for a VP in the U.S.)¹⁹
- Salary of team members: \$90,000 (avg. = same as role being hired for)

CALCULATIONS

- Average salary of those involved in the hiring process = \$99,400
 $(\$67,000 + \$160,000 + \$90,000 \times 3) / 5 = \$99,400$
- 52 paid weeks, 40 hours per week = 2,080 paid hours per year
- Average weekly pay: approximately \$1,900
 $\$99,400 / 52 \text{ weeks} = \$1,912 \text{ per week}$
- Average pay per hour: approximately \$48
 $\$100,000 / 2,080 \text{ hours} = \47.79 per hour

REFERENCES

- [1] WorkInstitute. (2024). 2024 Retention Report. Decoding the Emerging Workforce to Accelerate Retention, Engagement, and Profits. WorkInstitute. Retrieved from <https://workinstitute.com/retention-reports/>.
- [2] WorkInstitute. (2024). 2024 Retention Report. Decoding the Emerging Workforce to Accelerate Retention, Engagement, and Profits. WorkInstitute. Retrieved from <https://workinstitute.com/retention-reports/>.
- [3] Becoming irresistible: A new model for employee engagement, Deloitte Insights, 2015.
- [4] LinkedIn. (2017). Global Recruiting Trends 2017. LinkedIn. Retrieved from <https://www.slideshare.net/slideshow/linkedin-global-recruiting-trends-report-2017/67674531>.
- [5] McGee, S. NA. Recruitment Fees. HR Encyclopedia. Retrieved from <https://eddy.com/hr-encyclopedia/recruitment-fees/>.
- [6] Freifeld, L. (November 14, 2023). 2023 Training Industry Report. training. Retrieved from <https://trainingmag.com/2023-training-industry-report/>.
- [7] Half, R. (July 26, 2023). Sign-On Bonuses: The Reality of When and How to Use Them. Robert Half. Retrieved from [https://www.roberthalf.com/us/en/insights/research/sign-on-bonuses-the-reality-of-when-and-how-to-use-them#:~:text=The%20amount%20varies%20widely%20by,\(more%20on%20that%20below\)](https://www.roberthalf.com/us/en/insights/research/sign-on-bonuses-the-reality-of-when-and-how-to-use-them#:~:text=The%20amount%20varies%20widely%20by,(more%20on%20that%20below)).
- [8] E. Krell. (January 7, 2015). Weighing Internal vs. External Hires. SHRM. Retrieved from <https://www.shrm.org/hr-today/news/hr-magazine/pages/010215-hiring.aspx>.
- [9] Indeed. 2024. Regional sales manager salary in United States. Indeed. Retrieved from <https://www.indeed.com/career/regional-sales-manager/salaries>.
- [10] Freifeld, L. (November 14, 2023). 2023 Training Industry Report. training. Retrieved from <https://trainingmag.com/2023-training-industry-report/>.
- [11] Debnath, P. (August 7, 2023). How Many Applications Does it Take to Get a Job? [2023]. LinkedIn. Retrieved from <https://www.linkedin.com/pulse/how-many-applications-does-take-get-job-2023-pintu-debnath/>.
- [12] Hired. (February 5, 2024). How Many Candidates Should You Interview for a Job? Hiring Best Practices. Hired. Retrieved from <https://hired.com/blog/employers/how-many-candidates-should-interview-job/>.
- [13] LinkedIn. (2017). Global Recruiting Trends 2017. LinkedIn. Retrieved from <https://www.slideshare.net/slideshow/linkedin-global-recruiting-trends-report-2017/67674531>.
- [14] Bliss, B. (February 27, 2000). The Business Cost And Impact Of Employee Turnover. ERE. Retrieved from <https://www.ere.net/articles/the-business-cost-and-impact-of-employee-turnover>.
- [15] Schawbel, D. (December 17, 2013). Hire for Attitude. Forbes. Retrieved from <https://www.forbes.com/sites/danschawbel/2012/01/23/89-of-new-hires-fail-because-of-their-attitude/>.
- [16] Mearian, L. (January 6, 2022). No end in sight for the Great Resignation; workers keep quitting for better pay, benefits. Computerworld. Retrieved from <https://www.computerworld.com/article/1616665/no-end-in-sight-for-the-great-resignation-workers-keep-quitting-for-better-pay-benefits.html>.
- [17] Indeed. 2024. Regional sales manager salary in United States. Indeed. Retrieved from <https://www.indeed.com/career/regional-sales-manager/salaries>.
- [18] Ibid.
- [19] Ibid.