

# Cost of Hiring and Developing People

Special White Paper Supplement  
from Corporate Class Inc.

By Jim Olson

Senior Consultant, Corporate Class Inc.



EXECUTIVE PRESENCE

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*"From my early days in management I observed and experienced that when a company compromises its hiring or training practices, it never achieves superior performance levels. Consistently hiring people who fit the requirements of a given position and have the potential to grow with the business is critical.*

*Then, orienting and training them thoroughly from the outset makes success almost inevitable. With this as a key part of a company's culture, it shows everyone inside and outside the organization that you truly care about your people!"*

—Jim Olson

**J**IM OLSON compiled this analysis and financial estimate in late 2016. The numbers are consistent with his experience in his corporate executive career and as Chair of Maple Leaf Foods Human Resource and Compensation committee from 2011 to 2015, where Jim continues to sit on the Board of Directors.

**This Special Report covers the cost of hiring and developing people across three organizational levels:**

- ◆ Entry-Level University Recruits
- ◆ Mid-Level Management
- ◆ Senior Executives

**All the expenses are outlined:**

- ◆ Recruitment and Interviewing
- ◆ Signing bonus
- ◆ First year compensation
- ◆ Relocation and Housing
- ◆ Onboarding and Training
- ◆ Staff Diversion

**Plus, all the costly implications of hiring failures and mistakes**

# Cost of Hiring and Developing Entry-Level University Recruits

**Total cost for first year: \$315,000**

(See Figure 1.1 for details)

**Figure 1.1 Recruiting and Onboarding Costs:**

<b>On campus recruiting</b> (interviewer 3 days + expenses)	<b>\$5,000</b>
<b>Second interview at company</b> (multiple interviews and screening/expenses; assumes 5 candidates interviewed for 1 hire)	<b>\$20,000</b>
<b>First year compensation</b> (see Typical Profile..., point 4)	<b>\$135,000.</b>
<b>Relocation to job</b> (assumes candidate is single and rents; 2 trips, temporary living expenses, moving possessions, etc.)	<b>\$20,000</b>
<b>Onboarding expenses</b> (assumes a 3-month orientation to company and job, on the job training, ramping up performance over the first year)	<b>\$85,000</b>
<b>Diversion by other staff</b> assisting in training, etc. (allowance)	<b>\$50,000</b>
<b>Total for first year</b> (approximately 2.5 x direct compensation)	<b>\$315,000</b>

## Typical Profile for Entry-Level University Recruits:

- ◆ MBA degree
- ◆ Hired by a major corporation
- ◆ Recruited off-campus
- ◆ Annual starting compensation: \$100,000 base per year + 35% for indirect benefit costs = \$135,000 annually, for first year's direct compensation

## Other Implications:

- ◆ If the person is a hiring mistake, or treated poorly, and leaves after a year or less, all the above is lost, and will need to be re-spent on a replacement
- ◆ Lost business opportunities of poor performance and productivity by someone who is a bad fit or unmotivated

# Cost of Hiring and Developing Mid-Level Management

**Total cost for first year: \$1,005,000.**

(See Figure 1.2 for details)

**Figure 1.2 Recruiting and Onboarding Costs:**

<b>Recruiter fees</b> (35% of base and bonus + \$15,000 recruiting expenses for research, interviews, advertising, travel etc.)	<b>\$105,000</b>
<b>Interviewing expense</b> for candidate screening (pool of 8)	<b>\$20,000</b>
<b>Interviewing expense</b> for short list at company (pool of 3)	<b>\$15,000</b>
<b>Follow-up interviews with finalist</b> (includes spouse)	<b>\$10,000</b>
<b>Management expense interviewing</b> (allowance estimate)	<b>\$20,000</b>
<b>Signing bonus</b> (assumes buy out of lost bonus, etc.)	<b>\$50,000</b>
<b>First year compensation</b> (see Typical Profile..., point 4)	<b>\$300,000</b>
<b>House hunting expenses</b>	<b>\$10,000</b>
<b>Guarantee sale</b> of current house and buying expenses for new house (assumes \$500,000 home and 25% in various fees, etc. The cost of housing and expenses may be significantly higher in major business centers such as Toronto)	<b>\$125,000</b>
<b>Relocation</b> (move possessions, temporary living, etc.)	<b>\$50,000</b>
<b>Onboarding expenses</b> (orientation, ramp up on performance)	<b>\$150,000</b>
<b>Staff diversion, etc.</b> during assimilation	<b>\$150,000</b>
<b>Total for first year</b> (approx. 3 x direct compensation)	<b>\$1,005,000</b>

## Typical Profile for Mid-Level Management:

- ◆ Candidates with a strong performance track record requiring being lured from current employer
- ◆ Executive recruiters are used to screen candidates, etc.
- ◆ Has family and will be relocating requiring buying and selling housing, etc.
- ◆ Annual compensation: \$200,000 base, \$50,000 annual bonus, \$50,000 for benefits and other possible perk's = \$300,000 annual target compensation

## Other Implications:

- ◆ If the person is a hiring mistake all the above expenses are a complete write-off
- ◆ Impact on subordinates' performance based on motivating and demotivating behavior difficult to measure, but may be significant
- ◆ If it's necessary to replace the person, typically a 6-month time frame is required to repeat the recruiting process
- ◆ At this level the employee likely deals with suppliers and/or customers outside company. The company's external reputation and the contribution by those constituents to the company's performance may be negatively affected

# Cost of Hiring and Developing Senior Executives

**Total cost for first year: \$4,615,000**

(See Figure 1.3 for details)

**Figure 1.3 Recruiting and Onboarding Costs:**

<b>Recruiter fees</b> (assumes 50% of base and bonus all in)	<b>\$375,000</b>
<b>Interviewing expenses</b> (pool of 3 finalist candidates)	<b>\$20,000</b>
<b>Follow-up interviews</b> with finalist (includes spouse)	<b>\$20,000</b>
<b>Management interviewing</b> expenses (allowance)	<b>\$50,000</b>
<b>Signing bonuses</b> (cover lost bonus, unvested equity, etc.)	<b>\$1,000,000</b>
<b>First year's compensation</b> (see Typical Profile..., point 7)	<b>\$1,350,000.</b>
<b>Guarantee sale</b> of current house and buying new house (assumes \$1,500,000 house and expenses of 50% for fees, time on market, etc. which may be significantly higher in major business centers such as Toronto)	<b>\$750,000</b>
<b>Family relocation</b> (assumes significant amount of personal property, several family members and more time in temporary living)	<b>\$150,000</b>
<b>Onboarding expenses</b> (travel and time to see total business, meet outside constituents, etc. over first 3 months)	<b>\$400,000</b>
<b>Staff diversion, coaching</b> by executive in charge, etc.	<b>\$500,000</b>
<b>Total for first year</b> (approx. 4 x annual compensation)	<b>\$4,615,000.</b>

## Typical Profile for Senior Executives:

- ◆ The vice president and C-Suite levels
- ◆ Strong industry reputation and career equity at current employer
- ◆ Senior executive recruiter from a leading firm required for identification
- ◆ Executive has significant “unvested” long-term compensation that requires “making whole” as part of any offer
- ◆ Scheduling interviews more difficult and requires more time to accommodate work and travel schedules
- ◆ Relocation, housing, etc., is more complex. May have older family that requires more temporary living expense due to school timing, two-income households, etc.
- ◆ Annual compensation: \$500,000 base, \$250,000 annual bonus, long term incentives with value of \$500,000, benefits and perk's value at \$100,000 for a total annual compensation of \$1,350,000. Potentially this may double for key C-Suite positions

## Other Implications:

- ◆ Making whole on long-term lost compensation, pensions, etc., varies significantly based on age, time with prior employer, long-term compensation practices of the prior employer, etc.
- ◆ If it is a family with a professional spouse, an incentive one-time bonus could be higher, plus, expense to assist spouse in job search at new location
- ◆ Impact on organization's motivation/demotivation exponential that of middle management
- ◆ Same for impact on company's reputation outside the organization
- ◆ If the hire is a mistake, at least a year will be lost replacing the person with all the same accompanying expenses and risks
- ◆ Hiring the next person will be more difficult and expensive, as the public nature of a senior departure makes any new candidates to replace them much more wary of making a change and taking on the associated risks

## About Jim Olson and Corporate Class Inc.



**Jim Olson**, Senior Consultant,  
Corporate Class Inc.

### Corporate Class Inc.

60 Bloor Street West, Suite 401  
Toronto, ON, Canada M4W 3B8  
Tel: 1.416.967.1221 Ext 107  
Email: [team@corporateclassinc.com](mailto:team@corporateclassinc.com)  
[corporateclassinc.com](http://corporateclassinc.com)



### About Jim Olson

Jim Olson has over 35 years' experience in the food and beverage industry in North American and international markets, and over 17 years in senior executive roles for major global manufacturers.

Since 2011, Jim Olson has been a member of the Board of Directors of Maple Leaf Foods. Previously, he served as a director of Winn-Dixie Stores and PepsiCo's Snack Ventures Europe. He has extensive Board committee experience.

Jim is a member of NACD (National Association of Corporate Directors) and recipient of NACD Fellowship, the highest echelon of corporate-director qualifications. As a Board Leadership Fellow, Jim is recognized for his expertise on corporate governance and commitment to excellence in the boardroom, notably, the importance of continued education to enhance boardroom skills.

[To learn more about Jim Olson's extensive corporate experience >](#)

### About Corporate Class Inc.

We provide Executive Presence Training to multinational businesses, Fortune 500 companies, and government agencies to optimize performance and advancement potential across every organizational level.

Recognized across North America for coaching and training aspiring leaders, in 2013 we introduced EPT to international clients. Today, we facilitate customized coaching, workshops, and seminars to organizations around the world, from Europe to the Gulf Region and across North, Central, and South America.

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