



The Cost of Poor Leadership

We often talk about the outcomes of positive, ‘transformational’, extraordinary leadership in organizations. And when those of us working with The Leadership Challenge hear about the wonderful changes that occur in the lives of team members and others—especially in their working lives when leaders actively increase the frequency of The Five Practices of Exemplary Leadership®--it confirms our belief in what has been repeatedly validated for over 30 years: great leadership creates great workplaces.

In getting to the point where organizations commit to investing in leadership development, we share with decision-makers all the positive aspects we have seen with other clients as a result of having embedded leadership development into the culture and training of their leaders. Sometimes, however, the cost of the investment to bring about change in leadership behaviors becomes a barrier, or at least a point of resistance.

Often, the benefits of leadership development are difficult to quantify. We know that poor leadership can lead to reduced engagement scores, lower productivity, increased absenteeism, and more. But, what about the cost—in real dollars—of poor leadership?

Clearly there are a number of cost factors to consider, including those related to replacing an employee who leaves and the loss of corporate intelligence; the impact on financial targets; and the deep and successful external relationships disrupted or lost. To drive this point home, whenever I have a representative of HR participating in one of my workshops I ask, “How long does it take to ‘replace’ someone who has left the organization?” By replace, I mean ‘to bring the new person to a level where their performance is the same as the person who has resigned’. Typically, responses range from one to two years (two years being the most common), with one Group HR Director recently responding “six years.”

Of course, it could be argued that the time taken for a new employee to achieve the same level of expertise and productivity as the previous person in that position is dependent on a number of factors. Sometimes the ‘new’ person is better, smarter, faster, younger, older....and more quickly takes up the performance expectations. But whether it takes two years or as many as six, that’s a significant—and yet avoidable—loss of productive hours, let alone extra training costs and other expenses related to onboarding a new employee.

One situation I’m familiar with provides an excellent example of what the cost of poor leadership can look like.

This organization is in the business of providing a range of high-end professional services. Maryam was a Senior Manager. Every year, she was given ‘stretch’ sales targets. But because of

her commitment to succeed, each year she exceeded those targets—often by 15 or 25%. In 2016, her target was increased by 35% from the previous year. Of course she achieved it.

Maryam's staff *loved* her. They were committed and highly engaged. But Maryam had a problem: her manager.

After working long hours to achieve great results and have a high-performing team respond so well to her leadership, she finally decided she had had enough of the poor 'leadership' and consistently negative behavior from her manager. After seven years with the company, she resigned.

I asked her how her team responded when they heard the news. "Four of them resigned."

As a result of Maryam's departure, there have been number of other impacts: the office she worked in had to re-structure, significant organizational 'intelligence' has now left the company with the departure of five staff, and it's likely that some clients with whom Maryam and the other four team members had a successful relationship with may move to another provider, or at least question their loyalty to this organization now that key relationship partners have left.

In my initial somewhat conservative assessment of the cost of her resignation, I had suggested a figure of \$200,000. I later revised my estimate up after learning that Maryam was the top performer in the region terms of revenue generation, and taking into account that four of her staff also resigned as a result of her resignation. Based on these additional facts, the cost to the company is likely to be closer to \$800,000. But let's be conservative. Let's say it's only half that. Even large companies would feel the cost of \$400,000...all brought on by poor leadership.

While this example may be at the higher end of possible costs, even if the cost of replacing a staff member who leaves because of poor leadership is \$100,000 or \$50,000 this can be avoided by embedding leadership development into an organization's culture and making it a priority to nurture and develop exemplary leaders at all levels.

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He produces a weekly Podcast – Moore On Leadership – which is available on iTunes or subscribe here: <http://www.mooreonleadership.com/podcast-2/>