

# What Is the Real Cost of Failed Leader Recruitment?

By Richard Moore, CEO & Partner, Mercuri Urval

We all have vivid stories about inspiring leaders and the remarkable things they achieve.

Leadership matters. Alarming, widely cited research confirms 50% of leaders fail soon after appointment. But at what cost?

To understand the real cost of failed leader recruitment, we need to add together the direct, human, and lost opportunity costs. The result is shocking.

## Direct Costs:

*What is the direct loss caused by a failed leader recruitment?*

Wasted money and resources are the most immediate costs of failed leader recruitment. Hiring costs, compensation while on the job, investment in the executive, severance and a new Executive Search can easily get you to a cost of failure at three times the intended salary.

## Human Costs:

*What is the people and productivity cost of incompetent leadership?*

Failed leadership has also been found – through applied research and practical experience – to damage productivity, mis-control costs, and lead to low morale and high employee turnover. A recent survey of Chief Financial Officers ranked a bad hire's morale and productivity impacts ahead of direct monetary losses. That's why organisations like "The Conference Board" point to a significant slice of profits being at stake. Researchers typically cite at least six times salary is lost when the human cost of failed leadership is considered.

## Opportunity Costs:

*What are the market and reputational losses incurred by the wrong leader?*

Reduced competitive advantage, failure to open new market opportunities and reputational damage are other consequences of recruiting the wrong leader(s). A failed leader recruitment impacts the performance, reputation, and image of a brand severely. Researchers estimate 45% of a brand value, is directly associated to the leadership in place.

## The Real Cost of Failed Leader Recruitment

Add these costs together, and researchers estimate that failed leader recruitment costs at least thirty times the leader's annual compensation, rising to half of an enterprises operating profit for CEOs. So, in most instances, not less than 15 million dollars.

But the real cost is this: High-performing leaders add millions of dollars to their firms' bottom lines and inspire people to achieve great success. Without high performing leaders, you limit people's potential to achieve results and lose vast sums of money.

## Increase Success and Reduce Risk

Imagine another kind of business decision facing a board or CEO. Perhaps, to invest in a new product, technology-system or marketing campaign. Make the right decision and the upside for your people and their results is huge. But the chance of success is around 50/50, and the cost of getting it wrong is at least US\$15m, and probably much more. Would you take a major decision based on those odds, or would you take measures to reduce the risk?

Probably, in such a situation you would want an evidence-based assessment before deciding what to do. No doubt you'd look for an expert working to a properly structured, recognised, and quality assured method. An expert with track record of increasing successful outcomes, able to give clear advice based on your unique situation and precise need. Our experts are ready to help you dramatically increase success in leadership appointment, wherever in the world you may need us.

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