

Leadership Matters: The Eye Watering (And Avoidable) Cost of Failed Leader Appointment

For as long as business has existed, Boards, executives and academics have been aware of the importance of effective leaders. Leaders have the largest, most immediate, and longest-term systemic impact on the people who work for an organisation and the results they are able to achieve. Through both applied research and practice, effective leadership has been found to enhance productivity, fuel economic success, sharpen an organisation's competitive edge, attract, and engage relevant talent and open up new market opportunities.

*"With so much prominence placed on the competency and effectiveness of executives, it is no wonder that they have become ubiquitous with firm success."*¹

On the flip side, in their report entitled "Minimize Risk" the Association of Executive Search Consultants summed up how much it matters when leader appointment goes wrong.

*"the risks associated with an unsuccessful hire can be catastrophic."*²

How often do leader appointments fail?

Research into failed recruitment of leaders is wide-ranging and varied, from Kahneman, Sibony & Sunstein's recent expose "Noise"³, to a flurry of studies commissioned by management consultancies and psychologists¹. The results are alarming:

*"Consistently, research indicates that the odds of a successful executive hire approximates a coin toss, regardless of whether the new hire is promoted internally or hired externally."*¹

Conventional leader recruitment is unreliable, it has a Performance Problem. **The success rate is an alarmingly low "coin flip"–50-60%**.^{1,3}

How much exactly does failed leadership cost?

For some time, we have known that filling an organisation's leadership with the wrong people would cause long-term damage to an organisation and its employees. Today, we have an even better understanding of the exact impact—and cost—of poor leadership. With the data to quantify the cost; the intangible is made tangible.

Firstly come the direct costs. The combination of hiring costs, compensation while on the job, investment in the executive, severance and inefficient repeated recruitment can easily take you up to three times the leaders salary. And this is only the beginning.

Secondly comes the, often more hidden, cost of a breakdown in trust it will cause among board members, employees, partners, and clients—particularly if the leader makes their mark through a series of poor decisions. Add the directly related costs such as departures of disgruntled staff, lost sales, damaged customer relationships and so on into the mix and a failed hire can easily cost ten times salary or more:

*"The Conference Board, a think-tank, finds that the costs of changing bosses (severance, search, lost productivity during the transition, and so on) are generally equivalent to 5% of annual profit."*⁴

Thirdly, beyond the direct financial impact that is readily quantifiable, Chief Financial Officers are quick to point to a bad hire's indirect and, even more costly, negative impact on morale and productivity:

*"What the CEO [and leaders] control—the company's biggest moves—accounts for 45 percent of a company's performance."*⁵

*"McKinsey research indicates that companies that put talent at the center of their business strategy realize higher total shareholder returns than their competitors. Individuals who are top performers in highly critical roles deliver 800 percent more productivity than average performers in the same role. For a median sized S&P 500 firm, unsuccessful appointments put >€450m of the firm's value at risk."*⁶

A very expensive coin-flip

Include the full, broad-based negative impacts of failed leader appointment and the cost of failure grows exponentially. In fact, experts like Bradford Smart, estimate the cost of a "mis-hire" at leadership level to be at least 28 times annual salary for vice presidents and executives. If, for example, we are talking about a salary of \$500k, that amounts to around \$15m⁷. It would not be a surprise if, for many companies, this is more than half of operating profits⁸. Whether the leader appointment is a high profile disaster or a more mundane quietly failed appointment—both are bad news. Bad for the leader, bad for optics. Bad for results and bad for people.

*"Widely cited research indicates that nearly half of new CEOs don't make it past 18 months, and the costs of replacing them are staggering."*²

Of course, it is worth pointing out that the reverse is also true; when the selection is right, "high-performing executives can add millions of dollars to their firms' bottom lines."⁹

To sum up, researchers confirm, hiring the wrong leader costs **an eye watering 30 times salary, at least**.

The new market entry and the new CEO appointment

Imagine another business decision facing a Board. Perhaps entering a new geographical market. What would happen if the chance of success was estimated to be around 50%-60%—and the costs of it going wrong were staggering—at least \$15m?

No one would take another step until they had the opinion of experts. Someone working within a properly structured and recognised method who could analyse, define and describe the market opportunities and risks. And work with other experts to build a solid business plan. These experts would have track record and experience of increasing the probability of success in entering new markets and achieving business plan goals. The recommendation would be expressed with data and qualified judgment, and the decision would be signed off after scrutiny of the facts. This decision would not be based on "gut feeling". The new market was not chosen because the CEO liked and knew the country from before or because it was "just over the border". It was chosen based on relevant facts and expert judgement—and no doubt the return on the investment case was carefully documented and factually followed up over time.

Trust science over chance to save time and money in leader appointment

We are often motivated by our affinity bias—what we like, or availability bias—by what is in front of us, when we make decisions. Because we know about our own subjectivity, when we make important and costly decisions, like entering a new market, we overcome these human conditions with facts, structure, expertise and follow-up. By doing so we reduce the risk and radically increase our chances of success. **Apply the same reasoning and scrutiny to leaders appointment and your organisation will outperform.**

Science-based methods put to effective use by trained experts lead to better hiring decisions. Even when conditions in which we make these decisions in are increasingly complex and general success rate are dropping. Even if there is no perfect solution to any prediction—success in a new market or in a leader appointment—with science applied to selection it is possible to outperform.⁹

With the cost of getting it wrong so eye-wateringly high, why not trust science over chance?

To find out how to do that in practice—to secure diverse candidates and appoint a leader with a success rate far, far better than a coin flip—investigate [MU Executive Search™](#).

MU Executive Search™ is tested and proven to be an inclusive, accurate and reliably efficient alternative to conventional leader recruitment. It is Executive Search, evolved.^{10,11,12}



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¹ Kiefer, K., Martin, J. A., & Hunt, R. A. (2022), p3. Multi-level considerations in executive organizational transfer. Human Resource Management Review.

² AESC "Minimize risk" retrieved 10-04-2024 <https://www.aesc.org/profession/minimize-risk>

³ Kahneman, D., Sibony, O., & Sunstein, C. R. (2021). *Noise: a flaw in human judgment, First edition*. New York: Little, Brown Spark.

⁴ Bower, J. L. (2016). *More insiders are becoming CEOs, and that's a good thing*. Business Review (18 March 2016)

⁵ Economist.com. (2020) "Take Me to a Leader".

⁶ McKinsey & Company. (Retrieved 2024) "[Increasing your return on talent: The moves and metrics that matter](#)".

⁷ Smart, B. D. (2005). *Topgrading: How Leading Companies Win by Hiring, Coaching, and Keeping the Best People*. Penguin.

⁸ Executive Springboard. "Taking the risk out of new executive hires", (2017).

⁹ *Solving the Performance and Diversity Problem with MU Executive Search™*. MU (2024).

¹⁰ Jonsson, E. (2023). *Diversity analysis: Gender distribution in the MU Selection process 2019-21*. The Mercuri Urval Research Institute.

¹¹ Jonsson, E. (2024). *Recent Research on Inclusion and Diversity*. The Mercuri Urval Research Institute.

¹² Jonsson, E. (2023) *Success Rate for Leader Appointments*. The Mercuri Urval Research Institute.