

Poor Leadership Comes with a Price Tag

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We all know poor leadership when we see it. Virtually anyone who has held a job for any significant length of time has a story about the impact of a bad boss. Whether it's inconsistent or surprising feedback, poor communication, unpredictable behavior, self-centered actions, lack of direction or guidance, or avoiding difficult situations, many have weathered the storm and learned lessons about what to avoid as a leader. However, not everyone weathers the storm; in fact, the number one reason people cite for leaving an organization is their direct leadership.

I once met a man at a networking event who was very interested in the leadership work that I was doing. We talked about the organizational impact of a poor leader, and he gave an example of someone who set up a non-profit organization with a few friends. Within a year, it had grown to about 20 people. However, by the time the second year wrapped up, the organization had almost completely collapsed in on itself, as people couldn't take the leadership style of the founder. The last time he heard, the organization only had three or four people in it.

So, there is a cost to poor leadership, but what exactly is the cost and how does it most often manifest itself? The following are three areas that can be impacted and some costs associated with them:

1. **Turnover:** As mentioned earlier, turnover is highly related to dissatisfaction with leadership. The Society for Human Resource Management has a slide show on their website¹ that estimates it costs anywhere from 100-300% of an employee's salary to replace them. So, if you are leading a 500-person company and, due to poor leadership, your turnover is 15%, compared to your competitors at 10%, you are losing 25 people per year more than similar companies. Assuming \$75,000 salaries, you are spending between \$1.875 million and \$5.625 million more than your competition replacing lost people.
2. **Employee Disengagement:** Studies on employee engagement^{2,3} have shown that about 71% of employees are not fully engaged. Even scarier, 26% of people are actively disengaged at work. An additional study showed⁴ that increasing employee engagement by just 5% in a 10,000-person company could increase the bottom line by \$40 million annually. If the ratio holds for our fictional 500-person company, this would add \$2 million to the bottom line. Similar to turnover, employee

engagement is highly related to leadership effectiveness.

3. **Conflict:** Unfortunately, conflict is everywhere in organizations. The healthy approach is to address it quickly in a way that preserves the dignity of all affected parties. However, often it is easier in the short term to side step the real issues or to ignore it completely. This just allows the conflict to fester and spread, sometimes turning a simple misunderstanding into a full-fledged hostile work environment. One source⁵ created a conservative estimate of nearly \$250,000 that one significant conflict could cost an organization. Multiply this by the number of major conflicts in your organization, and that represents a lot of money going down the drain.

The best leaders in organizations work effectively to limit the impact of these three factors. They understand that every action (or inaction) sends a cultural message. Check the pulse of the organization regularly and see why people are leaving – or why they’re staying. Develop incentives (and ensure you’re incentivizing the right behavior) that will drive employee engagement. Create and consistently uphold high standards – this will make it easy to determine who your high performers are. Lastly, address conflict quickly and fairly. Otherwise, it will act as a slow cancer, killing the productivity of your team and your credibility. These costs of poor leadership can be immense. What are you doing in your organization to overcome these challenges and make your business more profitable? Please let us know on [Twitter](#) and [Facebook](#), and share this post with others who might find it helpful. Get the printer friendly version of this post [here](#).

¹ https://www.shrm.org/multimedia/webcasts/Documents/12ruyle_2.pdf

² www.gallup.com/poll/150383/majority-american-workers-not-engaged-jobs.aspx

³ www.towerswatson.com/assets/pdf/2012-Towers-Watson-Global-Workforce-Study.pdf

⁴ Taleo Research, Profitable Talent Management, 2011

⁵ bullyinginworkplace.webs.com/Cost%20of%20Conflict%20To%20An%20Organization%20pres_send.pdf