PHASE LINE
Leadership & Consulting, LLC

Cost of Bad Leadership: Literature Review

Background:
Leadership is becoming increasingly recognized as a crucial issue for organizations facing change in a complex and volatile environment. In the age of disruptive digital business models, augmented workforces, flattened organizations, and an ongoing shift to team-based work practices, organizations are challenging their leaders to step up and show the way forward. Year after year, organizations struggle to find and develop future-ready leaders.

In the Global Human Capital Trends survey by Deloitte, 80 percent of respondents rated leadership a high priority for their organizations, but only 41 percent think their organizations are ready or very ready to meet their leadership requirements. Survey highlighted that the organizations must focus on leadership pipelines and development. Eighty percent of the respondents to the survey think that 21st-century leadership has unique and new requirements that are important or very important to their organization's success; and in response to existing leadership programs many organizations are not satisfied with it. Only 25 percent of the respondents say they are effectively building digital leaders, and only 30 percent say they are effectively developing leaders to meet evolving challenges.[1]

Organizations know that they must develop leaders for perennial leadership skills such as the ability to manage operations, supervise teams, make decisions, prioritize investments, and manage the bottom line. And they know that they must also develop leaders for the capabilities needed for the demands of the rapidly evolving, technology-driven business environment—capabilities such as leading through ambiguity, managing increasing complexity, being tech-savvy, managing changing customer and talent demographics, and handling national and cultural differences. Yet even though many organizations have built digital leadership models, updated their frameworks, and invested in new leadership programs, the greater need lie in the combination of developing new competencies and putting them in a new context.

Organizational Gaps in Developing Leaders:
Developing leaders with new competencies requires more than an evolution in the competencies themselves. Equally paramount is for the organization to have the culture, the structure, and the management processes to cultivate the leaders. Three areas listed where significant gaps exist within many organizations.

- **Transparency:** In today's world of the social enterprise, transparency is the most valuable organizational currency. It helps engender trust and respect in a world where many may question an organization's true intent. Yet as important as transparency is, only 18 percent of the survey respondents believed they have a transparent and open model; 37 percent were worried about their ability to create trust, 60 percent were

[1] "Call It What You Like, Engagement Matters," Strategic HR Inc, last modified February 28, 2019, https://strategichrinc.com/article/call-it-what-you-like-engagement-matters/

worried about their employees' perception of transparency in organization, and 27 percent believed that a lack of transparency was creating a competitive disadvantage.

- **Internal Collaboration:** As organizations move into service-centric business models, they're able to benefit when C-suite leaders shift their focus beyond their narrow towers of responsibility and work more closely with one another. The C-suite's roles and work are becoming much more complex and more integrated. Yet eighty-three percent of respondents told that their C-suite executives rarely collaborate or do so only on an ad hoc basis; only 17 percent said C-suite executives at their organization regularly collaborate.

- **Performance Management:** How individuals' success is measured remains a powerful way to shape behavior. However, despite organizations' strong desire to elicit different, more 21st-century behavior from their leaders, respondents described a very traditional approach to how they evaluate top leaders. The top three criteria organizations used to measure leadership success were driving strategy (63 percent), delivering financial results (58 percent), and managing operations well (44 percent).

Leader Pipeline Creation:
On the point of finding the individuals who serve as the leaders, today, organizations approach of simply go out and "hire" new leaders is questionable as leaders from outside who may or may not succeed in the organization's corporate culture. Many organizations continue to struggle to put leaders in place with the experience, capabilities, and motivation to take on both old and new business challenges. If organizations want leadership that is ready for the 21st century, they should first look at their own attributes to create the type of environment that will give rise to leaders' success.

Implications of bad leadership / Poor decision making:

a. Higher staff turnover:
The number one reason why employees quit is that they don't trust their manager and not because they don't like their job.

According to a Gallup survey, 75% of employees left their jobs voluntarily because of their bosses and not the position itself.[2]

Employee turnover costs vary wildly because they cover a variety of direct and indirect costs – including the cost of covering the position while vacant, recruitment fees, the cost of finding a replacement and onboarding. A good rule of thumb from multiple sources breaks down turnover costs by employee level. After all, the more experienced a worker, the more critical they are to the company.

Replacement costs per employee level are:
- Entry-level employees cost 30 to 50 percent of their annual salary.
- Middle-level employees cost 150 percent of their annual salary.
- Specialized or high-level employees cost up to 400 percent of their annual salary.

However, it should be noted that employee turnover is not always bad and losing the lowest performers in your business might be a good thing. A turnover rate of approximately 10% is considered normal and healthy. Weeding out those who underperform on a regular basis or

[2] "Captcha Challenge…," Learning Tools & Flashcards, for Free | Quizlet, accessed June 5, 2019, https://quizlet.com/126064281/buad-414-chapter-1-introduction-flash-cards/.

who do not fit into your company culture enables you to focus on recruiting better talent. The top performers are most often the employees who are engaged and committed to doing their best work. Thus, while estimating the cost of staff turnover, it is essential to account for this healthy turnover rate.

b. Lack of Communication:
Harvard Business School professor Boris Groysberg did a study and discovered something staggering: Mega corporations Nokia, Star Princess Cruise Lines, Enron, British Petroleum and Thai Airways all met their downfall because of poor communication.

The top three reasons why people do not like their jobs are communication related: lack of direction from management, poor communication overall, and constant change that is not well communicated.[3]

David Grossman reported in "The Cost of Poor Communications" that a survey of 400 companies with 100,000 employees each cited an average loss per company of $62.4 million per year because of inadequate communication to and between employees.[4]

A business with 100 employees spends an average downtime of 17 hours a week clarifying communication, translating to an annual cost of $528,443. Seventy percent of small to mid-size businesses claim that ineffective communication is their primary problem. [5]

Debra Hamilton asserted, in her article "Top Ten Email Blunders that Cost Companies Money," that miscommunication cost even smaller companies of 100 employees an average of $420,000 per year.[6]

c. Employee Disengagement
It is a sad truth about the workplace: just 30% of employees are actively committed to doing a good job.

Gallup's 2013 State of the American Workplace report indicates that 50% of employees merely put their time in, while the remaining 20% act out their discontent in counterproductive ways, negatively influencing their co-workers, missing days on the job, and driving customers away through poor service. Gallup estimates that the 20% group alone costs the U.S. economy around half a trillion dollars each year.[7]

The Human Capital Institute lists some interesting financial consequences of employee engagement/disengagement:

- *Fully engaged employees return 120% of their salary in value*
- *Engaged employees return 100% of their salary in value*
- *Somewhat disengaged employees return 80% of their salary in value*

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[3] "The Cost of Poor Communication," SHRM, last modified April 11, 2018, https://www.shrm.org/resourcesandtools/hr-topics/organizational-and-employee-development/pages/the-cost-of-poor-communication.aspx.

[4] "The Cost of Poor Leadership (and Lice)," Trustologie, last modified December 17, 2018, http://www.trustologie.com.au/2018/12/17/the-cost-of-poor-leadership-and-lice/

[5] Tim Eisenhauer, "Why Lack of Communication Has Become the Number One Reason People Quit," The Next Web, last modified November 8, 2015, https://thenextweb.com/insider/2015/11/08/why-lack-of-communication-has-become-the-number-one-reason-people-quit/

[6] "Employee Productivity Statistics: Every Stat You Need to Know," Dynamic Signal, last modified April 21, 2017, https://dynamicsignal.com/2017/04/21/employee-productivity-statistics-every-stat-need-know/

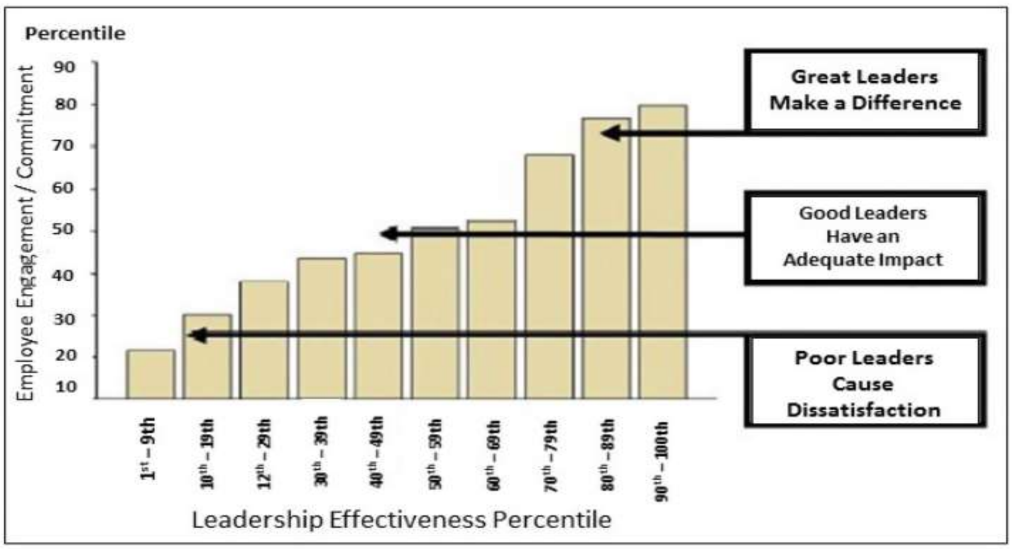
[7] "The High Cost of Poor Leadership," I Help Leaders to Solve Their Hardest People & Organizational Problems, accessed June 5, 2019, http://paratuseducation.ca/uncategorized/the-high-cost-of-poor-leadership/

- *Disengaged employees return 60% of their salary in value*[8]

Gallup estimates that a disengaged employee costs an organization approximately $3,400 for every $10,000 of salary.[9]

Quite simply, the better the leader, the more engaged the staff.

Results from a recent study Harvard conducted on the effectiveness of 2,865 leaders in a large financial services company. A straight-line correlation observed here between levels of employee engagement and measure of the overall effectiveness of their supervisors (as judged not just by the employees themselves but also by their bosses, colleagues, and other associates on 360 assessments). So, at the low end, the satisfaction, engagement, and commitment levels of employees toiling under the worst leaders (those at or below the 10th percentile) reached only the 4th percentile. (That means 96% of the company's employees were more committed than those mumbling, grumbling, unhappy souls.) At the other end, the best leaders (those in the 90th percentile) were supervising the happiest, most engaged, and most committed employees — those happier than more than 92% of their colleagues.[10]



d. Poor Customer Satisfaction:
It doesn't take a rocket scientist to work out that when employees feel that their boss and the companies, they work for cares about them, then they extend that care and attention to customers. The result is better customer satisfaction.

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[8] "How Much Time Do We Spend in Meetings? (Hint: It's Scary)," Job Search, Companies Hiring Near Me, and Career Opportunities | The Muse, last modified October 15, 2014, https://www.themuse.com/advice/how-much-time-do-we-spend-in-meetings-hint-its-scary
[9] "How to Calculate the Cost of Employee Disengagement," Online Learning & Training Platform for Organizations | LinkedIn Learning, accessed June 5, 2019, https://learning.linkedin.com/blog/engaging-your-workforce/how-to-calculate-the-cost-of-employee-disengagement
[10] "Is Bad Communication Costing Your Team?," The Brief Lab, last modified December 13, 2018, https://thebrieflab.com/blog/bad-communication-costing-your-team/

According to the American Customer Satisfaction Index, best-in-class customer service providers typically achieve customer satisfaction ratings of approximately 85%, while average providers score closer to 75%. On average, the gap between average and exceptional satisfaction levels translates into a 3.8% reduction in revenue growth. The outcome is hundreds of thousands of dollars of potential revenue loss for any companies generating $10 million+ annual revenue. Ken Blanchard Group found that great leadership generates a 3%-4% improvement in customer satisfaction scores which corresponds to a 1.5% increase in revenue growth.[11]

e. Not Investing in Team Development:
Leaders should value one of the company's best assets: its people. If a continuous investment is not made in training or development of people, then the leadership is not qualified to lead long-term. The organization will become stale and have difficulty succeeding in a changing global environment.

f. Ineffective Meetings:
Meetings are one of the most commonly used medium to communicate with colleagues across organizations. Communication among team members or across teams or even with external entities is an essential part of organization's function and thus meetings are an important element for any organization. However, if the meetings are ineffective, it results into a colossal loss for the organization. A compounding factor that magnifies the impact is that one hour of meeting results into total loss of multiple man-hours depending upon the number of individuals involved in the meeting.

As per the survey among organizations by The Muse, middle managers spend about 35% of their time and senior managers spend around 50% of their total working hours in meetings. As per the research compiled by ReadyTalk, on an average, employees spend 1/3rd of their time in meetings. As per State of Meetings 2019 research, an average business professional spends three hours a week in meetings.[12]

g. Indecision:
Leader who are indecisive, cost their businesses more money than those who are decisive but make the wrong decisions. General Norman Schwarzkopf once famously said, "When in charge, take charge." And he was right.
Simply put, you acted, then adjust. As a leader, you make a lot of decisions daily. It's OK if a lot of those decisions end up being the wrong decisions; all you have to do is pivot and course correct.

h. Avoiding Recognition:
When employees are not recognized for their accomplishments or are only criticized for their shortcomings, they don't feel valued and work in a state of fear of making a mistake. This is a common problem.

A September 2015 study from Achievers found that 57 percent of the 397 employees surveyed didn't feel recognized for their progress at work. When people aren't recognized, they aren't motivated.[13]

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[11] Andre Lavoie, "Good Things Happen When You Put Employee Motivation First," Entrepreneur, accessed June 5, 2019, https://www.entrepreneur.com/article/273373
[12] "Leadership for the 21st Century: The Intersection of the Traditional and the New," Deloitte Insights, accessed June 5, 2019, https://www2.deloitte.com/insights/us/en/focus/human-capital-trends/2019/21st-century-leadership-challenges-and-development.html
[13] "You Can't Buy Employee Loyalty; You Must EARN It!," Homepage - Caliber8, accessed June 5, 2019, https://www.caliber8.sg/blog/2018/08/you-cant-buy-employee-loyalty-you-must-earn-it

i. Lack of Vision:
Without a direction, employees are aimless. They don't know what the goals are of the company and they don't know why they are working with specific processes. They will accomplish only mechanically, not with any intelligent direction towards a common goal. Employee productivity gets the biggest hit as they are directed less in an ambiguous work environment.

j. Lack of Synergy:
Poor company/departmental leadership inhibits the development of synergy and may result in fragmented departments and work roles. This means that each employee neglects the importance his work plays in achieving organizational objectives.
A good Leader will communicate with employees regularly to convey a range of information and develop synergy. Encouraging employees to share ideas and engage in open discussions benefits the company and ensures that everyone is aligned in pursuing the same goals.
k. Creating a culture of mediocrity:
Poor leadership at the top can slow down any improvement in the abilities of Managers within the Business as a whole. Middle Managers start to emulate their Senior Leaders' styles of managing people and business decisions. This goes on and flows down the chain of command, eventually becoming a culture in the organization and resulting in low morale.

l. Lack of Direction:
Poor leaders are characterized by their lack of ability to provide direction to the team, which may stem from their own lack of vision. Chron says not setting clear expectations keeps workers from understanding what they actually need to deliver. It can cause frustration on both ends when the deliverables are not completely in line with what the department needs.

m. Low Employee Morale:
Low employee morale in your organization can be a result of bad management. When employees complain to each other, complete their tasks with minimal effort or fail to finish their work assignments on time or at all, they may be suffering from a lack of motivation due to a manager who does not relate to the staff.
Employees may perceive inequitable treatment of some co-workers that results in favoritism; or they don't have leadership necessary to keep them on task. In addition, a poor supervisor may not pay attention to the needs of employees, such as allowing a balance between work duties and personal life or providing training.

Conclusion:
Even though, there are many implications of bad leadership on an organization, most of these are interrelated. The impact is seldom on a single factor. Thus, the factors that are resulting into similar impact have been identified and eliminated to avoid double-counting. As a result, following is the list of key cost factors resulted by bad leadership in an organization.
For each of the factors, the components have also been listed down which shall be used in developing the calculator.

Sr.	Factor	Components
1	High Staff Turnover	Total # of employees, Employee distribution by levels (Junior, Mid, Senior), Attrition rate, Average salary by level (Junior, Mid, Senior)
2	Lack of Communication	Lost employee hours per work week (%), Average salary by level (Junior, Mid, Senior), Employee distribution by levels (Junior, Mid, Senior)

3	Employee Disengagement	Norms for % of disengaged employees, Norms of loss per disengaged employee, Average salary by level (Junior, Mid, Senior), Employee distribution by levels (Junior, Mid, Senior)
4	Poor Customer Satisfaction	Total revenue, Norms for loss of revenue due to poor customer satisfaction
5	Not Investing in Team Development	% loss in productivity (revenue)
6	Ineffective Meetings	Norms for total meeting hours per year, Norms for % of ineffective meeting hours Average salary by level (Junior, Mid, Senior), Employee distribution by levels (Junior, Mid, Senior)
7	Indecision	Norms for % of overall costs of above 6 factors

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