

The ROI of Hiring Strong Performers

Organizations that use Korn Ferry's assessments can see ROI in the triple digits.

As the old Danish proverb goes, "Prediction is very difficult, especially about the future."

Yet, we try. We believe we will avoid accidents on the road, overestimating our driving abilities. We think we will get through that flurry of emails later in the day, underestimating the number of things that can throw that plan off track. And we make hiring decisions based on subjective impressions, assuming a new hire will drive stellar results in their new role.

Being aware of these cognitive biases is part of the battle in overcoming them. The other is relying on objective data. And data, perhaps not surprisingly, are great fortune-tellers.

Using Korn Ferry's assessment data, the Korn Ferry Institute found that, in just two short years, a mid-level, high-performing leader can deliver a 289% return on the initial financial investment, while a high-performing senior executive can bring a 278% return. What's more, placing either a mid-level leader or senior executive using Korn Ferry's assessments reaps significant intangible benefits, such as stronger relationships with direct reports and supervisors, teamwork, [engagement and organizational commitment](#), and conflict reduction, according to the data.

This has tremendous implications for an organization. Just consider this: hiring a cadre of 30 new mid-level leaders who stay for an average of three years would mean a return-on-investment (or ROI) of \$2 million to \$4 million in added productivity, on top of the productivity already expected.

Our methodology

Korn Ferry identifies high performers through online assessments and leadership simulations. The computer-based assessments evaluate personality traits, motivational drivers, behavioral competencies, and problem-solving capacity of the candidates, while leadership simulations incorporate behavioral interviews and a variety of live interactive business simulations.

The value of higher performance of a strong hire is based on a number of assumptions and facts, which are subject to adjustment to reflect each company's actual circumstances.

The return side of the ROI equation focuses on the economic value created by talent placed into leadership positions, which is estimated based on two key assumptions:

Compared to average employees, strong performers can generate additional economic value that are much higher than the cost of hiring and employing them.

Korn Ferry leadership assessments help organizations increase the likelihood of finding these strong performers during the selection process—even more so when using simulation assessments, the more rigorous of which are often used for pivotal or executive level roles. The investment side of the ROI equation accounts for the cost of assessment per hire and additional indirect costs, such as travel and lodging for onsite assessments. We estimated the ROI for

four scenarios: senior executives assessed with or without simulations, and mid-level leaders assessed with or without simulations. We calculated the ROI using the following formula:

$$ROI = (Value - Cost)/Cost$$

Our findings

Given the upfront assessment cost, we've found the ROI is lowest in the first year, as those costs reduce the return in that year. The two-year ROI equals the total returns from both year 1 and year 2, divided by the upfront cost. The same applies to three-, four-, and five-year ROI for both senior executives and mid-level leaders (see Figure 1).

Figure 1

The 5-year ROI growth for senior executives and mid-level leaders, assessed with or without simulations.

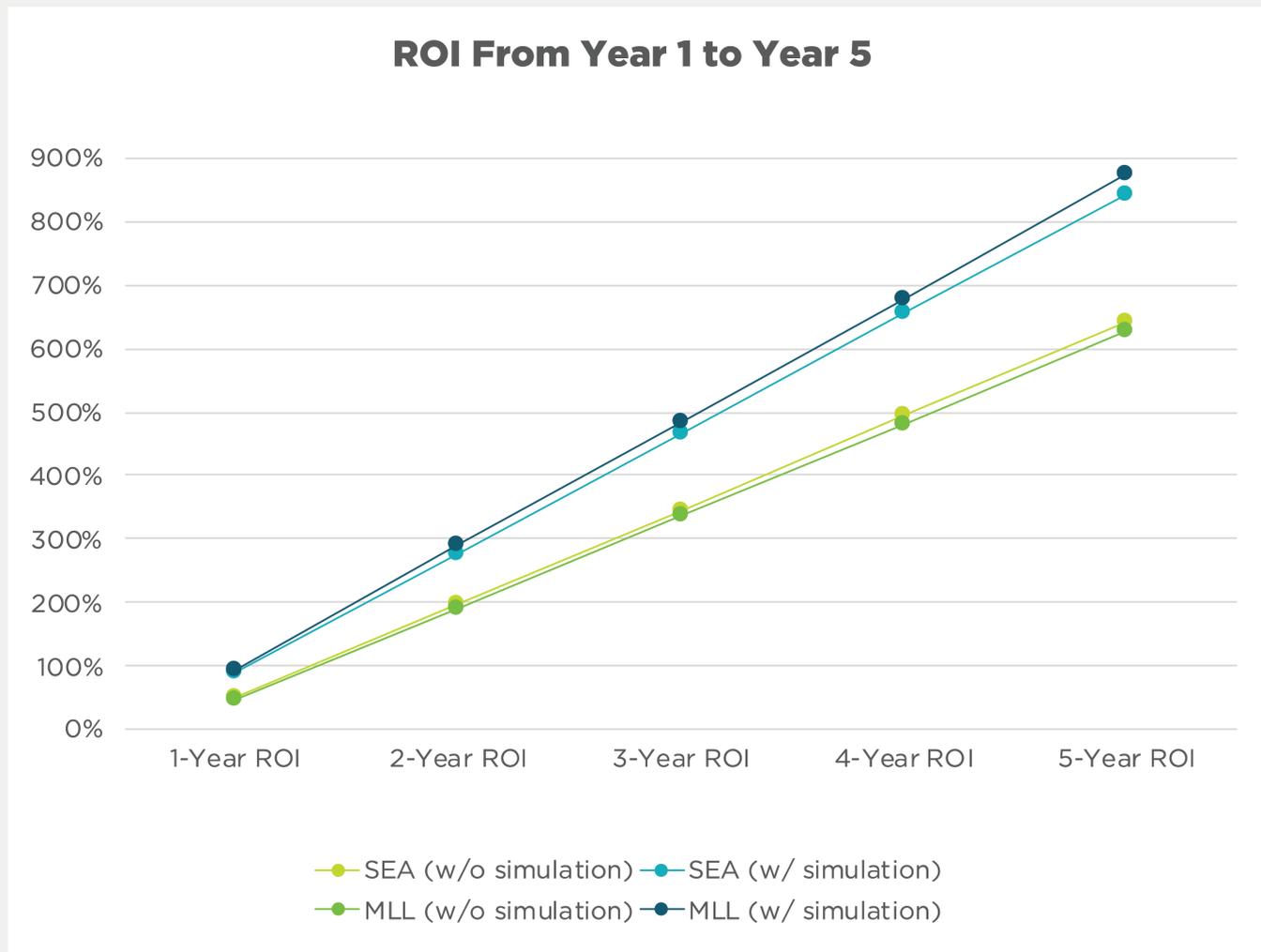


Table 1 below shows an example of estimating the ROI of filling a senior executive position when using Korn Ferry leadership assessments with simulations. The fully-loaded cost for this position is estimated to be \$1,234,590 for one year, which includes average salary, Social Security, Medicare, benefits and bonuses, occupancy costs, and admin costs¹. The fully-loaded costs vary between mid-level leaders and senior executives.

Assuming, conservatively, that the return on labor costs should be at least 10% for this senior executive role to exist, the average economic value created by this position should be at least \$1.36 million. If a strong performer is placed in this position, they are assumed to create an additional 48% of economic value², which is \$651,864 for

one year. Korn Ferry’s assessments increase the incremental probability of finding a strong performer by 23%³, which translates to an expected additional economical value of \$149,929, as a conservative estimate of the return.

The simulation assessment fee to fill a senior executive position is about \$79,400. Given this cost:

- One-year ROI= $(\$149,929 - \$79,400) / \$79,400 = 89\%$
- Two-year ROI= $(\$149,929 * 2 - \$79,400) / \$79,400 = 278\%$
- Three-year ROI= $(\$149,929 * 3 - \$79,400) / \$79,400 = 466\%$

The implication is that the longer the leader stays at the organization, the higher ROI can be captured throughout their tenure.

Table 1

Example of an ROI estimation for a senior executive, using simulation assessments.

Estimating Return	
Fully-loaded cost	\$1,234,590
Return on labor costs	10%
Economic value	\$1,358,049
Productivity increase with high performers	48%
Additional economic value <i>(created by high performers)</i>	\$651,864
Increased incremental probability of finding a high performer through using KF leadership assessments with simulation	23%
Expected additional economic value <i>(the <u>return</u> from investing in a KF leadership assessment)</i>	\$149,929
Estimating Investment	
Cost of assessment to fill one position	\$79,400
Estimating ROI	
1-year return	\$70,529
1-year ROI	89%
2-year return	\$220,457
2-year ROI	278%

¹ Salary estimates are based on average self-reported US salaries of mid-level leaders and senior executives in the KF4D and KFALP assessments database. The additional costs are estimated based on multiple data sources including the Bureau of Labor Statistics, Internal Revenue Service, Building Owners and Managers Association, Computer Economics, Bloomberg BNA, and Unique HR.

² Research on complex jobs indicates that one standard deviation in performance in those jobs is approximately 48% of average productivity (Hunter, Schmidt & Judiesch, 1990). When organizations manage to hire a strong performer, they generate an additional 48% of economic value on top of the average economic value.

³ Research from the Korn Ferry Institute found the correlation between Korn Ferry leadership assessments and performance is estimated at an average $r = .55$ for assessments with simulation (Goff, 2014). Therefore, using the Korn Ferry assessments with simulation increases the probabilities of identifying a strong performer by 23%.

Conclusion

Talent decisions are strategic decisions—and assessments provide the valuable, objective information organizations needed to make the right call when hiring.

But the benefits of using assessments extend beyond ROI. Research also shows that assessments can boost retention and support leadership development within an organization. Indeed, one Korn Ferry study showed that, among the highest scorers on the firm's CEO Readiness Assessment, fewer than 2% leaders left the CEO role within 18 months. Furthermore, another Korn Ferry study found that around 97% of leaders who participated in Korn Ferry simulation assessments felt the assessment would lead them to do things differently, resulting in their increased effectiveness.

There is no room in hiring for subjective judgments. Hiring managers can manage risk and increase probability of return by investing in proven high-validity assessments.

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About Korn Ferry

Korn Ferry is a global organizational consulting firm. We work with organizations to design their organizational structures, roles, and responsibilities. We help them hire the right people and advise them on how to reward, develop, and motivate their workforce. And, we help professionals navigate and advance their careers.

About the Korn Ferry Institute

The Korn Ferry Institute, our research and analytics arm, was established to share intelligence and expert points of view on talent and leadership. Through studies, books, and a quarterly magazine, *Briefings*, we aim to increase understanding of how strategic talent decisions contribute to competitive advantage, growth, and success.