



THE ROI OF LEADERSHIP DEVELOPMENT: INTEGRATING RESULTS AND LEADERSHIP DEVELOPMENT

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You're the CEO of a mid-size manufacturing company. Your VP of HR has just recommended that your organization invest \$100,000 in Leadership Development. But how do you know that this would be money well spent? What impact will it have on your bottom line? Could the same be achieved with an investment of just \$50,000? What would happen if you spent \$200,000? Or nothing at all?

The challenge of assessing the Return on Investment (ROI) of apparently soft, people-oriented initiatives has been with us for years. Indeed, it is often our inability (or unwillingness) to measure these programs that has caused some organizations to refuse to invest in leadership development, others to question the value of such programs and still others to implement programs based purely on the instinct that this was the right thing to do with little focus on business results.

We believe it is possible to measure the ROI of a leadership-development initiative; however one must first understand the challenges involved. In addition, we need to understand how the very best leadership-development initiatives can be clearly linked to organizational strategies – and vice versa. Only then is it possible to devise a measurement system that is relevant, accurate and useful.

THE CHALLENGE OF MEASURING RETURN ON INVESTMENT

There is no doubt that measuring the return from a leadership-development initiative is challenging. This is due to a number of different factors. Perhaps the most significant is the fact that leadership development in itself is a very complex subject. In many cases there is confusion simply about the definition of the term leader. Some organizations define leaders as those in an authority position; others focus more on the behaviour of individuals, regardless of their position. Our language often does little to help us in this respect.

When we talk about improving organizational leadership capability we are often unclear as to whether we're talking about individual leadership development or organizational-wide leadership initiatives. Typically, leadership development involves not only a focus on developing individual skills, but also developing relationships between individuals (group development), as well as developing organizational systems (organizational development).

The situation is further complicated by the fact that leadership development does not necessarily have an immediate return, but instead is best regarded as a long-term investment. Improvements to organizational effectiveness that can be attributed to an increased leadership capability within the organization are often not evident until a year or more after the leadership intervention. With such a time delay it is difficult to derive a true cause-and-effect relationship.

In addition, leadership and its results are often described as subjective. This is the nature of the concept. Leadership involves people and the perceptions of these people. Consequently, in measuring

the impacts of leadership development we will, by definition, measure the perceptions of others. Many are uncomfortable endorsing valid measurements based upon these apparently subjective perceptions.

DOES IT MATTER ANYWAY?

What is commonly referred to as leadership development is, most often, leader development. In other words, a leadership-development initiative is put together in the hopes of making individuals more effective leaders. This assumes that when individuals are more effective leaders, they will produce better outcomes for the organization.

Although rarely acknowledged, similar assumptions are present in many training initiatives. Upon close examination, it is possible to see many parallels between the assessment of the effectiveness of leadership-development programs and more conventional hard-skill training programs. For example, suppose the organization wishes to develop the computer skills of its managers. Courses are designed, and participants attend with the objective of increasing their computer literacy. On completion of the course, the course quality is typically assessed by asking managers about their change in skill level as a result of this course. However, does the organization take a long hard look at the value of their investment? How has the apparent increase in computer literacy impacted the bottom line? Was this hard-skills training a sound investment? Typically these questions are not asked, and training investments are considered worthwhile simply if participants have acquired new skills – regardless of the value of that acquisition.

The similarities between this form of training and leadership development are obvious. On completion of a leadership-development initiative, some form of assessment does take place. Typically this is done through the use of 360-degree assessments in which participants, direct reports, peers and managers are asked to comment on the participants' leadership skill. Feedback is also sought from the participants themselves, both on their perception of the leadership-development experience and their own leadership ability. Such assessments are valuable in looking at possible behavioural change in leaders. They attempt to measure the extent to which individuals have become more effective leaders. However, as with the hard-skill training, they do little to demonstrate the value of the investment that was spent on leadership development.

Despite the many parallels between the assessments of both hard- and soft-skill training courses, most organizations seem to have significantly less problem justifying expenditure on hard-skill courses, than on soft-skill courses such as leadership development. Why? Perhaps the answer lies in our assumptions concerning what skills managers must have and what skills the organization is responsible for developing, versus what is simply a natural and innate ability. Few would question the importance of a manager being computer literate. It is generally accepted that as the world of technology changes, so organizations have the responsibility to ensure that managers remain current and well skilled.

However, with leadership development it is different – despite the fact that our knowledge of leadership is growing in leaps and bounds. Perhaps this is because leadership is a socially constructed concept, something that happens both inside and outside the workplace. It has more to do with who we are as people, than with the organization itself. Thus we assume that because we have grown up in a social environment, we should have the social skills necessary for us to lead. When we make this assumption, we can see why organizations need a clear justification for spending money on leadership development.

The fact remains that without some form of measurement that directly relates the investment in leadership development to bottom-line results, those in charge of organizations will be tempted to rely on their assumption that these soft skills “just develop” in individuals.

A PROCESS OF MEASURING ROI

Oftentimes the assessment of a leadership-development program’s quality focuses on the individual and the extent to which they are seen to have changed their leadership behaviour. While 360-degree assessments measure the change in individual behaviour, realistically they do little to reassure the CEO that the investment was a sound business decision. They also do little to account for the group and organizational impacts. The bottom line is, even if leaders are seen as being more effective, and even if participants are all happy with their leadership-development experience, does this really translate into tangible results?

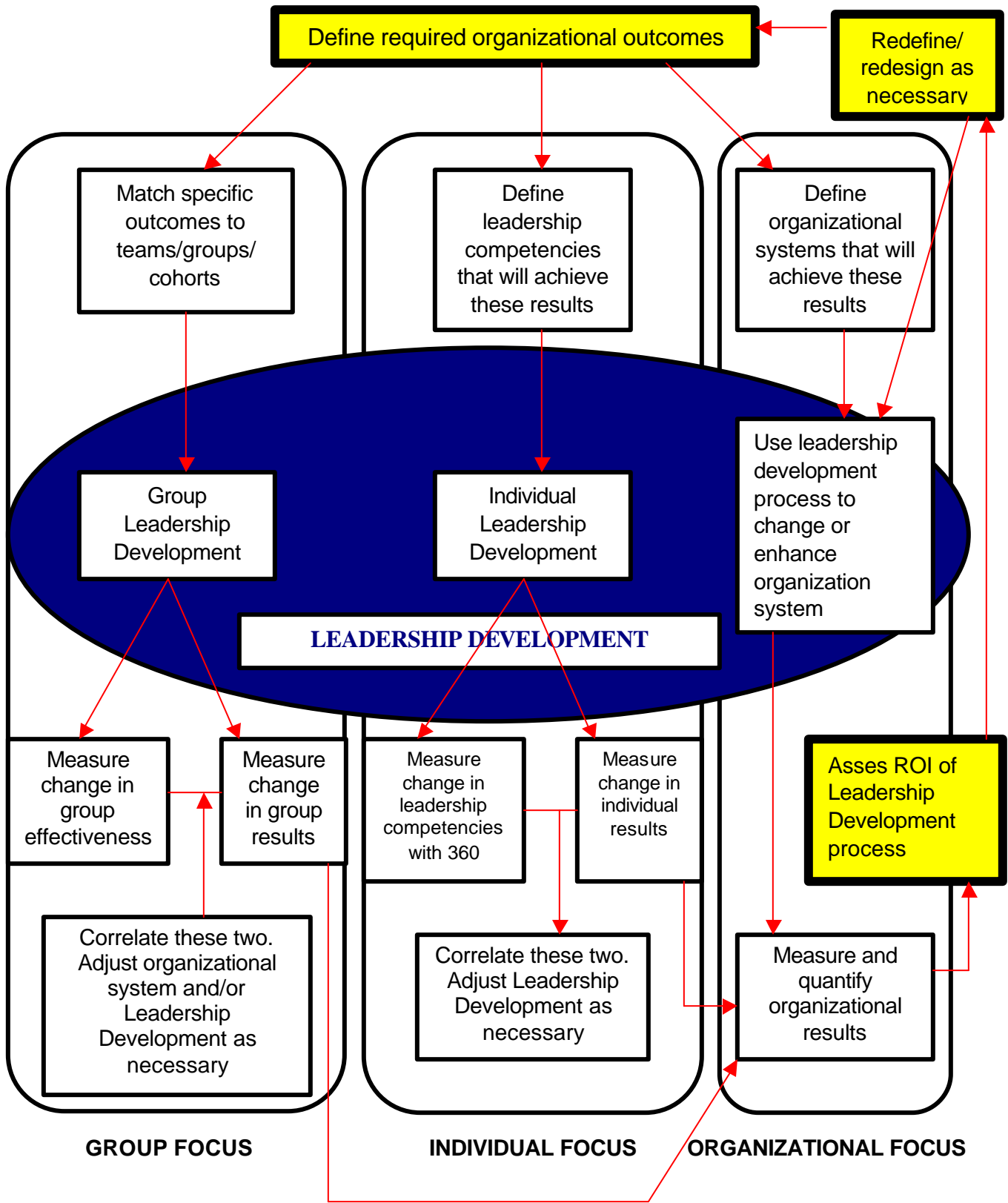
This form of leadership-development design and measurement is really putting the cart before the horse. By starting with the individual and designing a process to develop the skills with no organizational context, we run the risk of failing to achieve defined organizational outcomes. The parallel would be in a computer-skills training course, helping managers to be confident and competent in PowerPoint without any understanding or appreciation as to how they might use the program in their careers.

To avoid this problem, the starting point must therefore be to identify exactly what the organization wishes to achieve. We must start with the outcomes and work backwards. The gap between the desired future goals and the present reality must be defined. The leadership-development initiative should then be designed within the context of these outcomes. Leadership competencies can be defined and developed all within this organizational context. The initiative soon becomes relevant, important and measurable in its success.

Starting from the results and working backwards can put a discipline into leadership development that is not seen when we start with the individual and work forwards, naively expecting that somehow investment will pay off in terms of organizational effectiveness. It also allows a clear integration of all elements of the leadership process, including individual targets, group goals and organizational system development.

The attached diagram illustrates the process in more detail. This process requires the following steps:

1. Defining the desired organizational outcomes.
2. Breaking the organizational outcomes down into the desired results for individuals, groups and the organization.
3. Ensuring the leadership-development process is designed with these outcomes in mind.
4. Measuring behaviour role changes and results – both individually and collectively.
5. Correlating these two forms of measurement. This answers the question “is this individual more effective as a leader and how does this impact their individual results?” It also addresses the question of how effectively this group works together and what the impact is on their collective results.
6. Finally, integrating the results into the organizational results. These are then compared with the previously defined organizational outcomes and either the outcomes and/or the leadership development process is redefined or redesigned.



ROI STRATEGIES AND LEADERSHIP DEVELOPMENT – AN ESSENTIAL PARTNERSHIP

As we've seen, the starting point for any leadership-development initiative has to be the desired organizational outcomes. These are derived from the vision for the organization, which defines the mandate and organizational context for leadership development. However, just as leadership development takes place within the context of the organizational strategies, so the strategies can only be implemented if supported by leadership development. Strategies will, after all, only be implemented if they are supported and acted on by leaders. Thus, the notion of separating leadership development and strategic implementation is foolhardy. Indeed, as our understanding of leadership development itself grows, it is becoming increasingly clear that developing leaders is not a luxury but a strategic necessity.

The key is to first clearly identify the benefits of implementing the proposed strategy. How will it impact the business? Why is it a sound business strategy? What are its benefits? Once these questions have been answered, it's then possible to develop metrics to assess the extent to which the strategy has been implemented. This can then be tracked against the results of the leadership-development program whether these are individual, organizational, or group outcomes. Correlation also permits the linkages between behaviour and output to be determined.

To ensure that the value of the leadership-development initiative is clearly understood, it is important to assign a value to the desired and actual organizational outcomes. For example, the organization may be looking to increase sales in a particular sector, or to increase productivity in business units. With strategies such as these, it is relatively straightforward to assign a dollar value to the expected results and use this to track the financial return of the investment in leadership development.

However, other strategies do not so clearly lend themselves to defining outcomes in financial terms. Initiatives such as greater diversity, the development of more innovation, or increased employee morale require careful thought in order to develop financial measures that are a good representation of success. While this is more complex, it can sometimes be done. It is possible to quantify the cost of, for example, employee morale by tracking such things as absenteeism, sick days, disability claims, etc. Costs can also be quantified on things such as losing a valuable employee and having to hire and train a replacement.

And then there are those outcomes that simply cannot be defined in financial terms. Moral or ethical objectives clearly fall into this category. In these cases, the outcomes can only be defined in terms of behaviours and actions. The question then becomes, how willing is the organization to finance the development of these behaviours? In such a situation, the ROI of leadership development can be measured in terms of the extent to which the desired outcomes become reality.

Whichever method of assessing outcomes is chosen, it is important that there be more than one type of measurement. Leadership development impacts many aspects of organizational life. Consequently, any effective measurement of the ROI of leadership development must incorporate evaluations from several sources. A single-source assessment will inherently be flawed in its accuracy.

It is important to recognize that rarely can a specific financial return be attributed solely to leadership development. Organizations do not operate in a closed system. Many internal and external events impact bottom-line results. When sales and productivity increase, it is very likely that leadership development had an impact, but how much? Was it 90%, or 50%, or less? Thus a key part of assessing the ROI of leadership development will be to determine what other factors influence the successful implementation of a strategy and what is the extent of this influence as compared to the impact of

leadership development. While it is impossible to measure this with total accuracy, there is value in at least attempting to estimate the relative impact of the program.

To determine the expected outcomes of leadership development, these are some of the questions that should be asked:

- What is the vision of this organization?
- What are some of the key strategies we need to implement in order to achieve this vision?
- What do we need to accomplish in the next six months?
- What outcomes – balanced among the interests of employees, customers, the organization, and investors – should be produced?
- What does each leader need to accomplish in the next six months as seen by those above, alongside and below?
- What is the best makeup of the groups to achieve the individual and group objectives?
- What is the best leadership-development process to help the individuals and groups produce these outcomes?

WHAT CAN I DO?

Leadership development is an organizational-change initiative. The degree of the required change defines the breadth and the depth of the leadership-development process. By focusing on the outcomes both organizationally and individually, it is possible to develop the leadership capacity and capability in the organization that will ensure business success. A clear focus on outcomes has two benefits. Firstly, it ensures that the leadership-development process is effective and relevant, and in so doing allows for the successful implementation of strategies. Secondly, it permits leadership development to be assessed in a manner similar to any other business initiative, which allows for the ongoing adjustment of leadership development to meet business needs in an even more effective manner. It also elevates leadership development to the position of key strategic initiative in an organization, as employees and managers come to realize, through the measurement process, the impact that an effective leadership-development process can have on organizational results. Leadership development is soon viewed not as a cost, but as a critical initiative necessary to achieve business success.

We urge organizations to reflect on how they are currently focusing business results and the extent to which they are using the power of leadership development to achieve these results. In particular, we suggest you consider the following:

- What strategies do you have in place to achieve your business results? To what extent have you linked business results with leadership development? How could you better align leadership development with the organizational strategic imperatives?
- When considering leadership development, ask yourself some tough questions. For example: “Why am I doing this? In what ways will this organization benefit? How can I measure and assess this
- Spend time clearly defining the desired outcomes of a leadership-development initiative. Ensure these are clearly linked to organizational strategies.
- Make sure that the competencies you are developing in your leaders are clearly linked to the required results.
- Do not ignore the impact of building relationships between individuals and using the leadership-development process to improve organizational systems.
- Work only with consultants who have a rigour and depth to their work.

- Commit to research and measurement of the impact of your leadership-development initiative – knowing that this is both sound business practice and that it will in itself enhance the leadership skills of your managers.

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