Do you have a winner?

By: Staff Journalist, Singapore
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Learn how good leadership evaluation programmes can produce the right leaders at the right time without hurting the company's pockets in the process.

There is little doubt today that the world is on the brink of, if not already immersed in, a leadership supply crisis. Demographic trends alone are responsible for an ever increasing ageing population that is already forecasting major gaps in not only ample quantity but also qualified personnel to fill the voids left by retiring managers and executives.

One current response to this impending crisis is a movement toward serious leadership development efforts, heretofore typically underinvested initiatives in most organisations. Given the importance of development and level of investment required to address this challenge, it is surprising that the vast majority of organisations are not equally serious about evaluating the effectiveness of their leadership development efforts.

Indeed, while a 2004 American Society for Training and Development (ASTD) study indicated 74% of respondents had conducted Level 1 (Reaction/Satisfaction) evaluations, less than 10% said they conduct Level 4 (or Business Results/Impact) evaluations. (Level 2 evaluations measure Learning/Knowledge acquisition while Level 3 measure Application/Behaviour Change. Kirkpatrick, 1959, 1960.)

That is, most organisations have very little knowledge about the impact of their training programme interventions, let alone their leadership development initiatives. The reasons for this include simply not knowing how to measure results, fear of obtaining less than desirable results, and the time and expense of conducting relatively rigorous evaluations.

Unfortunately, none of these reasons are justifiable excuses given the amount of time, resources and money invested developing leaders every year, perhaps as much as US$2.5 billion according to recent research (Simba Information, 2007; ASTD Annual Industry Survey, 2007). What's particularly disturbing is this is not by any means a new issue as nothing much has changed over 30+ years. Today, more than ever, organisations must be more precise with their leadership development efforts insuring a return on their investment given limited resources and depleted bench strength.

The good news, even though it does take more time, money and resources to evaluate, is more and more CEOs are demanding proof that these resources are being well spent. There has never been a better time for senior HR personnel to make the business case for investing additional time, resources and money in both leadership development and evaluating its success. True, it is a little more difficult to quantify the ROI of a development process which can be influenced by a myriad of external and often uncontrollable events, than hard capital assets. But avoiding evaluation because of this doesn't make it excusable. Furthermore, we are seeing more and more quality research conducted demonstrating it can be done.

Calculating assets versus expenses

There are basically two ways to think about human resource accounting approaches (Sheppeck and Cohen, 1985). The first is the "asset" model wherein the costs associated with human resources are calculated based either on historical or replacement cost methods. One example is calculating the costs to replace an employee who leaves or is terminated. It should be based on salary history, relocation expense for replacements, lost revenue due to poor performance, legal costs and training for new replacements. These costs tend to range from one to three times the incumbent's salary.

The second approach is called the "expense" model which attempts to measure the economic consequences to an organisation of an employee's change in behaviour, or skill acquisition, as a result of a development experience. The primary assumption is a leadership development programme's utility lies in its ability to improve a participant's effectiveness beyond the pre-development level. This model is based on three other basic assumptions:

1) There are performance differences among employees on most jobs.

2) Training programmes result in improved employee performance.

3) Increases in employee performance yield increases in company profitability.

Hence, employee "value" can be calculated and the overall utility of a development effort can be assessed, resulting in a subsequent cost-benefit analysis, i.e. ROI.

Barriers to leadership ROI

A study by Corporate Leadership Council (2005) revealed organisations with top tier leaders have a 9.6% higher total shareholder return over three years than the average organisation and significantly higher market capitalisation relative to their peers. Yet it is not easy to create an evaluation process that produces meaningful results. Among the major barriers are:

1) The lack of defensible procedures for measuring and reporting the link between leadership development programmes and business outcomes.

2) How an organisation performs may have less to do with the precise behaviour change of its leaders than some fortunate or unfortunate economic circumstances or a merger or acquisition. This is despite the fact strong leaders ought to be able to perform well under all conditions.

3) Aligning leadership behaviours with business outcomes may be subjective in that one person's development and is unlikely to immediately impact the business, at least not in the short term.

So, ROI evaluations demand HR to think a little differently about relating independent variables such as a development programme with dependent variables like increased revenue and profit, greater customer loyalty, and higher employee retention.

Conclusion

Organisations need to become more serious about evaluating the return on investment of their leadership development programmes and it rests on the shoulders of HR professionals to facilitate this agenda. Given the impending shortage of leaders, organisations cannot afford to neglect the development of their emerging talent to fill those roles. True, the approach to evaluation must become more rigorous but the payoff for knowing just how valuable one's leadership development initiatives are is well worth the effort. The net-net of a greater ROI of leadership development initiatives? The right leaders at the right time at the right price.

Dr. Stephen L. Cohen

Senior Vice President

Global Product Management

Right Management's Leadership Development Centre of Excellence

Dr. Richard Roi

Senior Vice President

Develop Practice

Right Management Asia Pacific

www.right.com

Case Study

Measuring the business impact of a global leadership development programme

A Fortune 100 firm, also named by Fortune magazine as one of the best 100 companies to work for, has been running an international leadership development programme for the past five years in the US, Europe and Asia-Pacific. Targeting high potential and mid-level managers, this programme measures its impact on leader mindset shifts, business impact and ROI by applying unique monitoring processes.

A situational judgment instrument using the Success Case Impact Evaluation Method (Brinkerhoff, et.al.) was used to measure the business impact of the leadership development programme and the ROI. This study conducted an online survey with 338 international programme participants and their immediate managers, followed by a participant sample of structured interviews that provided anecdotal and supporting evidence. This approach recognises that a quality leadership training and development experience is a necessary, but not a sufficient condition, to produce business results.

This particular study, returned an aggregate ROI of 3:1. Each dollar invested in the programme returned US$3 to the company by way of operational impact. The ROI measure was computed by first identifying four consistent, leadership applications areas which participants noted had a tangible impact on their day-to-day operations. For example, if participants noted an increase in department or team productivity, that was noted as a result of consistent application of new leadership skills acquired in this programme. Next, a sample of participants and their immediate managers were asked to quantify the business value of these specific leadership impacts. Finally the total value, in dollars, reported by participants and their managers, was aggregated and averaged to report against the total investment the company made to design and deliver this leadership programme.

Identifying tangible leadership impact areas is one way the Success Case method addresses the gap in traditional ROI studies. This approach uses a more defensible process to identify and report how a leadership development program investment, along with other supporting conditions, can result in measurable business impact and ROI.

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