

# Leadership development: is it worth the money?

Yes, say **Jennifer Martineau, Emily Hoole** and **Tracy Patterson** of the Center for Creative Leadership. They explain how to evaluate the worth of leadership development

**H**istorically, when budgets have tightened during an economic recession, training and development have been among the first corporate activities to see funding reduced.

But today we know more about the implications of failing to develop the people who are responsible for setting an organisation's strategy, growing and retaining its talent, and carrying it through difficult times into the future.

Indeed, research shows that organisations that invest in human capital development (including leadership development) see a significant return in the form of stock prices.

To effectively manage and lead in times of crisis and complexity, these leaders need multiple types of development, including financial management, strategy, communication and indeed leadership development.

Why leadership development in addition to the more business-oriented capabilities? One could argue that many of the failures in the financial and real estate sectors in recent years are at least in part attributable to ineffective leadership: poor decision making, lack of accountability to customers and the public, and lapses in ethics. What would be different today if leadership development had been a priority for organisations in these fields?

Although there are many challenges to evaluating the impact of leadership development, the Center for Creative Leadership's (CCL) research and experience with clients increasingly shows that development leads to multiple outcomes in terms of organisational success. Here we highlight four: financial performance, talent attraction and retention, development of a performance culture, and increased organisational agility.

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### Improved financial performance

Formal leadership development programmes can increase leadership effectiveness, prevent derailment (that is, problems that stall a career) and increase the productivity, engagement and commitment of direct reports, leading to a stronger more profitable organisation.

A 2007 study in *Harvard Business Review* by Laurie Bassi and Daniel McMurrer showed a strong link between leadership skills and the bottom line. The study examined the stock prices of 11 publicly traded financial services firms. Companies with high scores for their investments in human capital delivered stock market returns that were five times higher than those of companies with less emphasis on human capital.

A recent study, “High Impact Succession Management” by CCL and Bersin and Associates, a learning and talent management research and

advisory group, found that development planning was a key differentiator between organisations with mature and effective succession management programmes and those without. And 65% of companies with mature succession management programmes were effective at driving improved business results through leadership skills versus 6% of companies with no succession process.

### Attract and retain the best talent

Other research by Bersin & Associates shows that providing leadership development for internal staff is more effective than hiring externally. Why? Because internal candidates already know the organisation and how to navigate it. It is also often difficult and expensive to recruit outside leaders to fill key positions.

Financial group AXA Equitable saw strong leadership – the kind that



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wins the hearts and minds of employees – as the key to breakthrough performance. With CCL as its partner, it launched an ambitious initiative to help several hundred company executives lead through change. Several years later, AXA executives had raised their performance against productivity goals, improved communication with employees and strengthened their leadership pipeline, positioning AXA for sustained success in a rapidly changing industry.

Law firms have long operated on the belief that being a good lawyer simply involves subject matter expertise and giving good advice. Leadership is often a neglected part of the equation – and firms can lose direction and, even more significantly, their top talent as a result. Recent upheaval in the London “Magic Circle” of top law firms, covered extensively in the UK business media, could be evidence of this lack of attention to leadership and not just a consequence of the recession.

On the other hand, Baker & McKenzie, the world’s largest law firm, wanted to break that pattern. It partnered with CCL to build a strong leadership culture and to bolster efforts to recruit and retain associates.

### Drive a performance culture

According to Bersin & Associates, “leadership development is not just about developing leaders – it is about creating a culture of performance. There is a relationship between good management and employee commitment. Great leaders attract, hire and inspire great people. A mediocre manager will never attract or retain high-performing employees. Leadership development creates a magnet for high-performers and fosters a high-performance organisation. This is why the organisations that are ‘built to last’ have strong histories of leadership development.”

KONE is a company with nearly 100 years of history in the elevator and escalator industry and its culture has evolved through many different acquisitions around the world.

“The industry has several major global companies that aggressively compete and KONE is working hard to become the industry leader,” says Vance Tang, KONE’s Executive Vice President, Americas. “Several years ago we began the challenging work with CCL to evolve from a very traditional command and control type of leadership culture to one of interdependent collaboration.

“Our executive leadership team in the Americas worked together to redesign the organisation structure ... and model a new way of working together. We also actively selected leaders for the new organisation that we felt had the important balance of technical capabilities for the role and the leadership traits that we wanted for our evolving culture.

“Although we know we have more work ahead, our early successes are very exciting. For example, while implementing a major organisational change, we improved our employee safety performance by over 50%, tripled our customer satisfaction levels and raised our employee engagement to world-class levels in just over two years. We also delivered strong profitable growth during one of the worst recessions in modern history.

“There is no question in my mind that these outstanding results are driven by the hard work and investments we have made in both developing our individual leaders and actively working to establish a strong, clear and differentiating leadership culture.”

### Increase organisational agility

When facing changes in the business environment, 86% of companies with strategic leadership development programmes are able to respond rapidly compared with just 52% of companies with less mature leadership programmes, according to Bersin & Associates.

A strong emphasis on leadership development played a key role in Textron’s transformation from a sprawling, decentralised corporation into a highly focused enterprise. The *Fortune* 500 company, whose

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brands include Cessna Aircraft and E-Z-GO golf carts, credits CCL for its enhanced ability to tackle change. Five years ago, the company promoted only 6% of its top 175 executives from within its businesses. Today, that rate runs at 74%. When Bell Helicopter, one of the company's nine businesses, won a big contract and needed more support, Textron moved executives among its own businesses with ease – creating a more nimble and productive company.

#### The role of evaluation

In order to measure the impact of their investment in leadership development the most critical thing that organisations can do is to consider the intended outcomes and impact before beginning to develop leaders. By considering evaluation at the front end, those responsible for the programmes can ask questions that help programme designers and stakeholders to frame interventions in terms of goals, outcomes and objectives and reflect on how the programme anticipates outcomes.

“Evaluative thinking”, as CCL calls it, helps designers and stakeholders to consider their vision for a successful intervention. What does success look like? When will the desired outcomes be observable? What type(s) of data will be most convincing and appropriate for a programme's stakeholders? What types of contextual factors exist that may support the programme in creating the desired change or prevent change from occurring as intended?

CCL's evaluation practice, reflected in the practical guide *Evaluating the Impact of Leadership Development* and other publications, provides both a process and tools/methods to be used to successfully demonstrate the impact of leadership development in organisations.

It is most critical that organisations identify the outcomes they expect from leadership development and design both the programme and the evaluation to address these outcomes. As indicated above, outcomes will vary depending on the reasons organisations are using leadership

development as a strategic change tool. If an organisation wants to create a more performance-oriented culture, for example, the evaluation should measure various outcomes that indicate changes to the culture and the resulting performance outcomes.

There has probably never been a time in the world's history when leadership development has been more critical to organisations. The pressures we have been experiencing related to technology, innovation, globalisation and talent wars have been exacerbated by the state of the economic environment. Organisations with effective leadership will be the ones to survive and thrive in the coming decade.

Knowing that leadership development is producing effective leadership and positively impacts the organisation requires strong evaluation practices that measure relevant results. Evaluation must move beyond the theoretical and be used strategically to enable organisations to accomplish their significant goals. Only then will the real contribution of leadership development be known. **gf**

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#### ABOUT THE AUTHORS

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