

ROI Considerations for Leadership Development

By Steven C. Coats

There is a pertinent question which is frequently being asked about leadership development – “how do we know if this will pay off?” Return on investment is almost always on everyone’s mind and not just for leadership development.

What are your thoughts about this? Does an investment in developing leaders pay off? I’d like to weigh in on this from a couple of different perspectives.

First, let’s consider the financial return. In our work over the years with The Leadership Challenge® development methodology, we have tracked several significant and sizable financial returns for clients who have embraced this particular model.

Examples of Financial Return

In one case, we re-surveyed several managers with the Leadership Practices Inventory (the inventory that measures behaviors of The Leadership Challenge®). Although the overall average scores climbed in each practice, we knew this was not the same thing as improved financial performance. So a small number of managers who had improved on the inventory were randomly selected for further analysis. Here is what we found. Profits generated by the individuals and the groups they were leading significantly increased from before attending the workshop to after the workshop. Four individuals contributed a 31% profit increase of \$8.8 million over the previous year. (The overall company turned in a 15% increase during the same year.) The fifth individual implemented process improvements resulting in \$385,110 to the bottom line.

In addition to the obvious financial growth contributed by these individuals and the teams they were leading, participants reported improvements in the way they acted as leaders on a daily basis. The five reported noticeable differences in the following areas: more innovation, greater initiative, the initiation and ownership of calculated risk, collaboration, self-confidence, and clarified shared values.

At least for these managers and their teams, there was a direct relationship between their Leadership Challenge experience and application, and financial performance.

In another company, a sales organization which built a culture of leadership around The Leadership Challenge® model, exposed the practices to all associates, and lived them in a variety of ways, completely outperformed other similar divisions who had not adopted this model. The organization led its company in results for seven of ten years and was in the top three the remaining years. They delivered consistent year over year growth, averaging 17% per year, when the overall business unit averaged single digit progress, and had a consistently strong promotion rate averaging 36% per year. And this winning division had no additional selling advantages over the other divisions, nor was it in one of the highest growth markets during their remarkable run.

We have other examples of organizations which adopted the practices as a foundation for leading key strategic growth and cost saving initiatives. Their bottom line returns were not just in the 15–20% range, but in the attention-grabbing, high double or even triple digit range.

Now we all wish results such as these were consistent for everyone, but of course they are not. Still, there are numerous examples of impressive financial returns, which means the answer to the financial ROI question is “yes,” The Leadership Challenge® has proven to be worth the investment.

Other Ways to Assess Return

Are there other returns that should also be considered? How about economic opportunity cost? Have organizations actually lost because they were unable to capitalize on profitable growth opportunities due to a lack of prepared leaders to rally people and exploit the opportunities? One of our long term clients, who had adopted the Leadership Challenge® methodology, did address this issue for us.

After completing a strategic acquisition of a company nearly half its size, the president of a multi-billion dollar company stated that this acquisition would have been impossible had they not been developing leaders over time. Now, no “merger” of these proportions is ever painless and seamless, but the quality of the integration

was positively recognized by associates of both companies. And the people of the acquired company were astonished by the investment in leadership development made in the past by their new owners. It was an utterly foreign concept to them. In the minds of some of the most senior people, the previous lack of any kind of leadership development was a key factor in the “for sale” sign ultimately being hung on their company’s front door. The newly combined business enterprise is now poised for growth in ways never before achievable.

Can this president provide an accurate financial return on investment attributed solely to their leadership development efforts? Not really. Does he know that it has been worth it? He will tell you so. And in spite of some very difficult times in their industry, they are surviving better than most and still fully committed to growing leaders.

It is easier to calculate the costs associated with an investment than the value of the opportunities lost by not investing.

Economic opportunity cost is a tough one to measure, which is why it does not show up on the income statement. The key question is, do you ever even think about lost opportunities in your organization, from an inadequate supply of people ready to take on new challenges and really lead? You can easily calculate the turnover cost of top performers leaving the company who are tired of being shackled to the misguided directions of poor managers. But do you ever try to calculate the total future value lost? What is the real value of the “ones that got away,” whether the ones are talented people or lucrative business opportunities?

The Emotional Factor

I would like to add one final look at the question of return. This should perhaps be labeled emotional return on investment.

For years we have asked people at all levels to describe times in their careers or lives when they were truly being led, vs. simply managed. As you might imagine, they describe a much different emotional state when being led. They tell us they felt inspired, energized, important, and capable, among other things. They also say that they performed at much higher levels, and they can usually explain how and why in vivid detail. And sadly, they would also admit becoming less committed

and engaged, when they had subsequently moved into a situation where the leadership was not as good.

It seems reasonable that when people are truly performing at higher levels, the likelihood they will contribute more financially to their organizations (through growth or efficiency measures) is much greater than when they are simply doing the job.

Have you ever truly been led? Was it different for you as well?

So, how is your work today measuring up? And now for the big question – are your people and/or team members being truly led by you right now? Think about the lost opportunity cost if they cannot answer yes!

The argument is often made that “the value of leadership is self evident.” However that value is seldom easily translated to a quantifiable line item on a quarterly report.

So what is the bottom line of all this? It is, indeed, very difficult to show an *exclusive* cause and effect relationship on most of what happens in business, and leadership development is no different. There are always a number of intervening variables whose impact simply cannot be isolated and accounted for. So often it comes down to what you believe. Do you believe that leadership makes a difference? Do you believe that inspired and committed associates will outperform those who are not, especially in trying times? Do you believe courageous leaders are needed to advance organizations (even countries) forward during times of immense uncertainty? Do you believe leadership is worth the investment even if you cannot put your finger directly on the payoff?

Never forget, developing leaders is an investment in both today and the future. It is not an occasional training program or event. It is a clearly taken, strategic decision which will define and lead you to the kind of organization you most want to create. Work at it as you do any important investment, and you will be amply rewarded over time.

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