



5 Ways To Demonstrate ROI On Leadership And Development Training

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Introduction

In 2003, a pair of researchers writing in the *Consulting Psychology Journal: Practice And Research* stated that “perhaps the strongest pressure facing leadership practitioners in the future may be to demonstrate ROI.” Dr. Kincaid and Dr. Godrick were at that time merely speculating, based on existing trends at the turn of the century. However, if the future is now, then never have truer words been spoken.

Modern day organisations are working under extremely lean budgets. Blame the economy, blame the pressure for quarterly results from shareholders, or blame internal cost cutting forces. Either way, every cent must be accounted for positively in today’s firms, lest there be accusations of funds mismanagement or wastefulness.

This budget pressure can place leadership and development expenditures directly under the axe. Unlike expenditures for product development or advertising, leadership and development activities are considered rather soft. In the eagle eyes of a finance planning team, monies spent here are hard to link back to the bottom line, making them suspect. As a result, budget requests are often denied outright or cut back severely.

This is not something that your leadership and development team has to merely accept as the way things are in the business. There are a number of ways to quantify the results of leadership and development training within your firm. These numbers can be used to justify expenditures, show sceptics the hard facts about training, and fight back against the veto pens of finance leaders.

Rather than focus on every way to demonstrate the ROI for training investments, this guide will show you five of the top methods. These include:

- Shifts in per employee revenues
- Lower turnover levels in key populations
- Reductions in compliance costs or ethics fines
- Changes in 360 scores / peer feedback
- Improvements in internal candidate quality

From these, you can create other metrics specific to your own organisation, or you can use this list of five to build a framework for expressing development returns at your company. Either way, you will be armed with the data to adequately respond to the pressures for ROI on your leadership and development training programmes.

1

Shifts In Revenues Per Employee

One of the first ways to demonstrate the tangible ROI for your leadership and development training expenditures is to show how revenues per employee have shifted. This can be expressed in a number of different formats, but the core aim is the same. You want to be able to justify to the budget crunchers what they can reasonably expect to earn for each cent invested in development activities.

USING OVERALL REVENUES / COST SAVINGS

One of the primary ways to make the case for leadership and development training is to show how the programs shift the bottom line. The key to making this work as an ROI metric for your department is to be sure you can show a clear link between training and leadership development programming delivered and changes in revenues or costs.

For example, if you deliver a programme to the entire company about becoming leaders in greening up the firm, then you should be able to attribute all environmental consciousness savings in the next years to programme delivered. In this way, you will be able to demonstrate that for every \$100 spent on environmental leadership development, your firm will realize \$110 in year over year savings.

On the other hand, if you can't build a link between any programming delivered and subsequent employee actions, then it will be difficult to use this metric. This is one of the reasons why it is critical that leadership and talent development activities be tied to core business objectives as a part of the firm's regular strategic planning initiatives.

USING GROUP SPECIFIC METRICS

Another variation on this ROI data point targets individual groups or sub-groups within the firm. For example, you might use sales managers in their

last year and contrast that with numbers achieved in the year after they have attended a development programme.

Many firms also have built in control groups that can demonstrate the impacts of development training. For each programme, there will always be some individual or departmental group who can not attend due to a scheduling conflict or unforeseen issue. These employees, who might otherwise have been included in the development group, provide a perfect control point.

Revenues, productions, or cost savings from these individuals can be gathered in the same way that you gather data to track your programming participants. In relatively short order, you should have a compelling case to take to management for or against the effectiveness of the training and development programme.

Even for longer term development programs, such as mentoring or sequential training sessions, the participants vs. non-participants metrics should be tracked for financial differences on the firm's bottom line. The insight will be invaluable to forecasters and strategists both on the leadership development design team and throughout the firm.

CASE STUDY: Development Dimensions International

Of course, in not every instance is it necessary for you to crunch your own ROI numbers when it comes to revenues as a result of programming. Some development training firms are more than happy to perform this research for themselves and share their findings as a part of their promotional materials.

One such firm is Development Dimensions International (DDI). The company provides individual and group leadership development training to a number of Fortune 100 and Fortune 500 firms. They have also published the results of an internal client survey designed to measure the impact of their programs on firms who had been using their tools for five or more years on average.

The net results were significant and tangible. Among respondents claiming direct positive returns from DDI programming, 40% firms reported positive returns ranging from \$50,000 - \$200,000 US, while an additional 20% reported positive returns of \$500,000 - \$1,000,000 or more.

While clearly DDI is willing to share these results openly due to their strength, they are hardly alone in conducting such client studies. As you prepare numbers for your firm, keep the DDI-type studies in mind as a way to cut down on your own legwork for comparative data points while still providing a solid set of numbers to your financiers.

2

Lower Turnover Levels In Key Populations

In addition to employee revenue numbers, another area to consider as a way to show the ROI on leadership and development training is turnover. Effective operational leadership is consistently linked with high employee morale and job satisfaction, which correlates strongly with turnover levels. Improve the quality of management and leadership at your firm through development programmes, and you can lower turnover rates.

The philosophy at the root of this ROI metric is the repeated adage that “Employees join companies, but they leave managers.” No matter how much your core line talent enjoys their job, having a poor manager will cause them to consider other opportunities.

Dealing day in and day out with managers who just don’t get it or who can’t effectively manage team challenges quickly motivates those with other employment options toward the door. Even bribes like pensions or generous salary hikes can’t do more than temporarily stem the outflow. As a result, your talent pool gets shallow, work quality declines, and you are left with the high costs of replacing key talent.

To lower turnover levels in key populations, it is therefore important to deliver targeted leadership and employee development training. To prove the merit of this path, you will need to do some before and after tracking of data, generally on an annualised basis.

Prior to launching any leadership development or management training programme, establish the baseline turnover rate for the group. You can support your case that it is a problematic level with industry data for average turnover rates in firms or groups of a similar nature. This benchmark data can be further bolstered with commentary from exit interviews or files of resignation notices.

Once the programme begins its effective period (generally after the first session or graduation), start collecting turnover data. When the appropriate time period has elapsed, you will have a definite number to present as evidence of improvement.

At times, you will be working with a tight timeline. In this case, develop improvement milestones for quarterly rates of turnover so that you may give updated reports to management. For executive level populations, turnover rates will necessarily be lower due to smaller population pools, so be sure to factor this into your calculations.

When figuring net turnover rates, it is also important to factor out employees who were let go for cause. You will, however, want to factor in employees who opt for lateral transfers out of the group and employees who opt for early retirement. While some of these cases might be individually attributed to personal circumstances, on the whole they demonstrate a telling pattern of departure at the first opportunity from the group.

To prove the impact of the programming, it will be important to show that you have taken all of these elements into account when figuring your turnover numbers. It will also be important to draw a clear link between behaviour shifts and the development program at each step in the process.

3

Reductions In Compliance Costs and/or Ethics Fines

In addition to revenues, internal cost savings, and turnover costs, another way to demonstrate ROI on leadership and development training is by showing that the training has effectively lowered externally levied compliance fees or ethics fines.

The current economic environment has promoted much stiffer regulatory measures than in the past. Though past regulatory activities with regards to your firm may not have been anything resembling lax, there is no doubt that public scandals in a variety of industries around the world are putting pressure on regulatory groups to show their diligence.

Both government and private industry watchdogs have given into this pressure with full force. Activity levels have risen, and attitudes have certainly shifted. If your firm happens to be in a headline making industry or in an unpopular sector of the economy, so much the worse.

As a result, being able to show how leadership and development training can bring a return to the firm through avoided fees and fines is quite a desirable trait for a programme. The key for the leadership development trainer is casting the programme in the appropriate light to create the clear link between the content of the programme – which may seem soft on the surface – with the hard realities of the regulatory environment.

Strategic thinking, ethics seminars, and problem-solving courses are particularly well suited to this ROI metric. These courses can help managers and line staff to appropriately navigate the maze of regulations to which they are subject. These courses can also be easily transferred into firm-wide scorecards regarding compliance for use with regulators and internal compliance leaders.

Social interaction and executive etiquette coursework can also fall into this category. Being able to maintain professionalism throughout a difficult session with regulators, or being able to keep one's cool in front of the press, can be the difference between being suspected of hiding something, or wrongdoing and being given a clean bill of health. It's a sad but true fact of life that perception can be half the crime, and in these sensitive times firms want to avoid negative reputational effects at all costs.

Therefore, cast a calculating eye over your leadership and development training programmes. Which programmes are teaching tactics, such as managing meetings, and which are teaching thought leadership skills? It may be time to take a look at your distribution to maximize your leadership and development ROI over the next few years.

4

Changes In 360 Scores And/Or Peer Feedback

In addition to hard financial costs, it can also be important to measure other internal data points to assess ROI for leadership and development training. One exceptionally rich source of data for assessment is 360 feedback reports and/or peer evaluation feedback data.

The use of 360 scores in personnel assessment has long been popular within leadership development spaces. However, many firms do have strict limits as to how this data is to be used – ie, not for promotion consideration but solely as a way to assess opportunities for development. Restrictions like these keep many development leaders from leveraging this data in aggregate to measure the effectiveness of their development programs.

It is a mistake to leave this data lying on the table. True, it needs to be used in a way that maintains individual security if that has been promised as a part of the 360 or peer review process. However, as an internal metric, movements in scores for groups can be very telling when it comes to assessing the impact of a given leadership initiative.

This is especially true when you have programming that is delivered to populations at the same level but in different divisions or regions. For example, if you are offering team leadership courses to mid-level managers in six countries, and the next year's 360 data indicates a dramatic improvement in perceived leadership skills by that manager's team, you can build a very compelling case for the continuation of the program based on its demonstrated effectiveness.

While such cross region or cross division data points are ideal, even within groups you can leverage scores to show ROI. For example, if a group struggling to work together attends a team building course and their subsequent inter-approval ratings increase 60%, you have a hard number to use to support either use or discontinuation of the system.

The largest challenges for leadership and development training personnel attempting to use 360 and peer review metrics for ROI (barring privacy concerns) is proving cause. Where multiple programmes are targeted at a single team in a year or there are significant year over year changes to the make up of the team, it can be hard to verify true causality in the movement of feedback numbers. Thus, careful procedures to control for variation will

need to be built into any ROI metrics based on 360 reports and/or peer review data.

5

Improvements To Internal Candidate Quality

A final metric to consider for demonstrating the ROI of leadership and development training can be found within your staff. This metric is improvements to the internal candidate quality, a core problem at many firms who are forced to consistently hire from without due to a lack of qualified in house staff.

A poor slate of internal candidates raises problems on multiple levels. First, it leaves the firm ill-equipped to deal with the challenges of the marketplace and global economy. Second, it forces outside hiring, resulting in time consuming candidate searches, higher onboarding costs, and increased training expenditures.. Third, it sends a very dangerous message to lower level talent that there is no upward path for them, so if they seek advancement, they ought best to look elsewhere.

As a result of these three factors, many leadership and development teams are explicitly tasked with the duty of improving the level of internal talent available, particularly for executive track entry point positions. Though American studies from the Bureau of Labour Statistics indicate that the average worker will have some eleven different jobs over the course of their working life, employee polls from the last few years indicate that individuals would be much happier if all eleven of those jobs could be at the same firm.

In short, employees want increased internal advancement opportunities, and employers are interested in providing them. The key for showcasing ROI on leadership and development training programmes is building the link between the program and subsequent internal slate improvements.

A large part of this involves benchmarking skills gaps for internal staff and working to address those differences. Tying the programming to internal business challenges facilitates a robust ROI discussion down the road.

Useful associated metrics for this kind of ROI demonstration include course graduation rates, turnover rates, promotion rates, and percentage of positions filled by internal vs. external candidates. A particularly popular metric is the percentage of program graduates who were promoted to a new position within a fixed time frame, such as 12 to 18 months. However, it is important to be mindful of implied promises on such program metrics, lest they cause other problems at the firm.

A less contentious metric that can be used is the number of internal candidates deemed suitable for slating for an open position. If in the past the average number was unsatisfactory, creating a broader talent pool as demonstrated by qualification levels can be used as evidence of robust ROI (ie, each \$500 spent on leadership course X yields 2 additional internal candidates for position Y).

Concluding Thoughts

The future described by Drs. Kincaid and Godrick has arrived, and the pressure is definitely on leadership and development training managers and programme leaders to show results. Though it can be a challenge to isolate cause and obtain accurate measurements, this report provides five core ROI metrics for development programming. Using these five metrics as a base or as inspiration, it should be possible to rise to the challenge at your firm to deliver solid ROI reports and lead robust discussions around ongoing leadership and development initiatives.