

The Bottom Line in Leadership Development

Can Your Business Afford NOT to Develop its Leaders?

We know that our clients value return on investment (ROI). Our goal at MSBCoach is to provide insight into the challenging question of how to measure the ROI for leadership coaching and development, as well as the team-building programs we offer. A frequently asked question is, “How does one build a business case for leadership development that will resonate with the executive leadership or stakeholders?” Pressed with company expectations to increase revenues while decreasing costs, many business leaders are reluctant to invest in development programs, viewing them as a luxury rather than a necessity. This certainly isn’t a new issue but, in a down economy, the pressure to justify every expense is intensified. The view held by experts is that leadership development must be viewed as a strategic investment in the business, and that a business case can – and should – be built in support of any such program. Dean Pichee, President and CEO of the Business Training Library, says that among the world’s top 100 training organizations, 92% measure the impact that training has on business results, and nearly two-thirds measure their training ROI.¹

The Economic Times reports "coaching resulted in a ROI of almost six times the program cost as well as a 77% improvement in relationships, 67% improvement in teamwork, 61% improvement in job satisfaction and 48% improvement in quality."

Beyond ROI

So where to begin? A simple internet search will yield numerous articles on the relationship of ROI to leadership training. Some actually provide formulas for those who wish to try the purely quantitative approach. Others balance that approach with the added perspective that various factors contribute to the bottom line, and training is but one of those. In fact, current research indicates that organizations that invest in leadership training consistently outperform those that don’t. In a 2008 article, the Center for Creative Leadership cited studies supporting the argument that investing in leadership during an economic downturn not only helps the business survive, but positions it to emerge even stronger in the following economic upturn.² According to the article, studies show that investments in leadership development:

- Improve bottom-line financial performance
- Attract and retain talent
- Drive a performance culture
- Increase organizational agility

The cumulative result? Not just exceptional leaders, but an entire culture of performance that is flexible and productive in meeting business challenges.

Understanding the Impacts to the Bottom Line

Leadership impacts three key areas that drive the bottom line:

1. Employee retention
2. Productivity
3. Customer Satisfaction

In a recent article for CBS MoneyWatch, Robert Pagliarini says that done right, professional coaching can drive sales, employee engagement, creativity, workplace satisfaction, and bottom line results. According to a Manchester Consulting Group study of Fortune 100 executives, the Economic Times reports "coaching resulted in a ROI of almost six times the program cost as well as a 77% improvement in relationships, 67% improvement in teamwork, 61% improvement in job satisfaction and 48% improvement in quality."³

Employee Engagement = Lower Turnover + Higher Productivity

Employee turnover can cost your business hundreds of thousands of dollars. Even the most conservative estimates calculate the cost of replacing a lower-level employee at 25-30% of their salary, while executive level or highly specialized positions can cost as much as 250% of annual salary. Consider

In a recent survey, MSBCoach clients reported positive impact to their companies' ROI, most notably:

- 40% from *Improved Team Engagement or Morale*
- 20% from *Improved Customer Relations*
- 20% from *Enhanced Employee Productivity*

...all as a result of their companies' training programs with MSBCoach, and all driving results to the Bottom Line!

the cost of covering the employee's work while the position is vacant, add recruiting costs, plus the time and expense of training a new employee and getting them up to speed. And there's always the added risk that a new hire won't work out, starting the recruiting cycle all over again.

Some estimates indicate that 9% to as much as 32% of a business' voluntary turnover can be avoided through leadership training.⁴ Do the math for your own company: the simple step of eliminating outside recruiting fees can have a notable impact on your bottom line, especially if turnover has been an issue for your company. If you can add to that a reduction in downtime and other costs associated with a vacant position, the investment in leadership development begins to make sense in terms of real dollars saved.

A company's commitment to leadership training obviously delivers the message that the company is vested in its leaders' success. But more than that, it also assures lower-level employees that their own expectations and needs are being addressed. A leader's ability to delegate, provide direction, and give appropriate feedback and support is fundamental to employees' job satisfaction and productivity. Over a period of 30 years of interviews with more than 17 million employees, Gallup identified 12 core

elements – known as “the Q¹²” – that link employee engagement to key business outcomes. According to Gallup, a leader’s ability to create a highly-productive work environment is directly tied to his or her ability to meet these twelve essential needs.⁵ Not surprisingly, the list included what many in the human resources field consider to be fundamental:

- Clear expectations
- The materials and equipment needed to do the job
- Recognition, praise and encouragement
- Direction and support

(The list can be viewed in its entirety at [“The 12 Elements of Great Managing”](#))

A recent Bersin & Associates report stated: “It is important to remember that leadership development is not just about developing leaders – it is about creating a culture of performance...Leadership development creates a magnet for high-performers and fosters a high-performance organization.”⁶ In truth, the leaders in your organization are driving performance, not only by communicating goals and objectives, but also by demonstrating the company’s values and influencing behavior. Pause for a moment to consider how many people each leader impacts, and then how many people each of those individuals impact, and so on. Each of those individuals has an impact on the bottom line, and it begins with their leader. Leveraging that influence by investing in the development of just a single leader can exponentially impact your company’s bottom line.

“Following the training, the Team Leaders started meeting weekly and creating exercises to bring the skills they learned at the training back to their departments.”

~MSBCoach Client

Blanchard recently reported that most organizations are operating with a 5%-10% productivity “drag” that could be eliminated with better leadership practices.⁷ Lack of clear goals, administrative burdens, unproductive meetings and inadequate resources were among the contributing culprits. Skilled leaders are trained to recognize and address these obstacles to productivity. As employees receive the tools, resources, direction and support they need, they become more engaged. Turnover decreases and productivity increases.

The Customer Still Reigns

Customer satisfaction impacts repeat sales, market position, and your brand value – all vital contributors to your company’s bottom line. And so it stands to reason that any Leadership Development program could ultimately determine your firm’s long term survival and its market value. Chief Executive Magazine regularly studies and ranks top companies in terms of their leadership development and its impact on their bottom line. In its 2010 report, *The 40 Best Companies for Leaders*, long-term growth in market capitalization and shareholder return of public companies was compared with their respective ratings for leadership development. Over a ten-year period (1999-2009), the top 25 companies for leadership development outperformed the worst 25 companies by 19 points in market capitalization growth and by 44 points in shareholder return.⁸ This is a dramatic correlation of leadership development to growth potential.

The Blanchard report believes that improved leadership can generate a 3%-4% improvement in customer satisfaction with a corresponding 1.5% increase in revenue growth.⁹ It stands to reason that

“My manager, knowing I was attending events with MSBCoach, asked for summaries and lessons learned from the sessions. He remarked that I seemed more engaged and delivered higher results...”

~MSBCoach Client

customer engagement levels closely correspond with employee engagement levels. In fact, according to Linda Dunkel of Interaction Associates, this is true even where the employees have no direct contact with the customers.¹⁰ In her article, Dunkel cites an effort by Comcast Cable to boost employee engagement and customer satisfaction. Metrics were established prior to launching the initiative, measuring employee turnover, employee satisfaction survey scores, and customer satisfaction survey scores. Financial metrics were also put into place. The end result, after 18 months, was

improved operating results and a “Best Place to Work” award.

What is the secret? It’s not really a secret at all: When employees perceive improvement in their leaders’ ability to delegate, provide feedback and support, and to give direction appropriately, they become more engaged. These leadership skills are critical to creating higher employee satisfaction which, in turn, creates higher customer satisfaction. The impact to the bottom line is indisputable.

The Bottom Line – *Doing Nothing is Not an Option*

Investing in your people is the key. In fact, as employers become increasingly concerned about a shortage of skilled workers and the anticipated retirement of an entire generation of baby boomers, employee development is again in the spotlight. According to the American Society for Training and Development, U.S. employers spent 36% more on learning and development in 2010 than they did in 2009.¹¹ Current corporate wisdom indicates that allocating 3%-5% of annual revenues to training and development is a good starting point.

For those who remain unconvinced, we suggest you spend a few moments with the [Cost-of-Doing-Nothing Calculator](#)[®] from Blanchard. True to its name, this quick, online tool can help estimate your company’s potential savings in employee turnover, productivity and customer satisfaction – and, more importantly, what you may be foregoing on the bottom line.

Then call MSBCoach, and let us help customize a leadership development program that will help your business soar to new levels of success. Our mission is to coach leaders and teams to exceptional performance and valued outcomes. MSBCoach is the preferred coach of high potential professionals and trainer of leadership teams. We build leaders who build business!

End Notes

- ¹ Using ROI to Make the Business Case for Training, Business Training Library, www.bizlibrary.com, ©2005.
- ² Driving Performance: Why Leadership Development Matters in Difficult Times, Center for Creative Leadership, www.ccl.org, ©2008.
- ³ Robert Pagliarini, Top 10 Professional Life Coaching Myths, CBS MoneyWatch, www.cbsnews.com/moneywatch, December 20, 2011.
- ⁴ Making the Business Case for Leadership Development, The Ken Blanchard Companies, www.kenblanchard.com, ©2011.
- ⁵ Employee Engagement, Gallup, Inc., www.gallup.com, ©1993-1998.
- ⁶ Quoted in Driving Performance: Why Leadership Development Matters in Difficult Times, Center for Creative Leadership, www.ccl.org, ©2008.
- ⁷ Making the Business Case for Leadership Development, The Ken Blanchard Companies, www.kenblanchard.com, ©2011.
- ⁸ The 40 Best Companies for Leaders, Chief Executive Magazine, www.chiefexecutive.net, ©2011.
- ⁹ Making the Business Case for Leadership Development, The Ken Blanchard Companies, www.kenblanchard.com, ©2011.
- ¹⁰ The Soft Stuff is the Hard Stuff, by Linda Dunkel, Leadership Excellence, July 2007.
- ¹¹ Fine-Tuning the Perfect Employee, The Wall Street Journal, www.wsj.com, December 5, 2011.