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How do Organizations Measure the ROI or Impact of Leadership Training and Development Programs?

Abstract

[Excerpt] In a Harvard Business Review poll, 51 percent of those surveyed said they had diminished confidence in business leaders at non-U.S. companies and 76 percent had less confidence in U.S. business leaders. Another survey by IBM shared that more than 75 percent of their survey respondents identified building leadership talent as their current and most significant capabilities challenge. Thus, the organizations need to focus on building talent and developing leaders internally. Also it is advantageous because they achieve productivity almost 50 percent faster than external candidates'. Leadership development programs can be explained as teaching leadership qualities required for a leadership position.

Keywords

Human Resources, HR, ROI, return on investment, leadership training, development programs, metrics, leadership development, competency model, company strategy, leadership potential, performance reviews, competencies, pre-assessments, post-assessments, 360 feedback, measurement, succession, retention, qualitative analysis, surveys

Comments

Julia Zhu & Mahima Sharma   *November-2017*

> **How do organizations measure the ROI or impact of leadership training and development programs? How could an organization implement measuring the value of leadership development programs? And should we be putting metrics around leadership development? Can such metrics drive any undesirable outcomes or behaviors?**

Introduction

In a Harvard Business Review poll, 51 percent of those surveyed said they had diminished confidence in business leaders at non-U.S. companies and 76 percent had less confidence in U.S. business leaders. Another survey by IBM shared that more than 75 percent of their survey respondents identified building leadership talent as their current and most significant capabilities challenge. Thus, the organizations need to focus on building talent and developing leaders internally. Also it is advantageous because they achieve productivity almost 50 percent faster than external candidates'. [a] Leadership development programs can be explained as teaching leadership qualities required for a leadership position.

ROI for Leadership Development Programs

McKinsey Quarterly survey1 stated that building capabilities was a top-ten priority for their organizations. Only a quarter, though, said that their programs are effective at improving performance measurably, and only 8 percent track the programs' return on investment.[2]

1. **Align with company strategy and get buy-in from leaders and employees:** For any initiative to be successful the first step is to make sure that the initiative is clearly aligned with the definition of company success. It should be clearly understood and accepted by the leaders and all the employees who will be participating in these programs. For success you need to facilitate the removal of all noises that can affect the training program. An example can be compensation for sales leaders in a leadership training program, you don't want compensation to be a distraction for the success of sales leadership programs. [c]
2. **Know the Value:** Even before an organization invests in a leadership program, they should be able to anticipate the value of the new learned skills. Once they have this value they will be able to benchmark it against the returns they earn after implementation of the program. [d]
3. **Develop a Competency model to define baseline:** A good start for any program would be to set expectations with the participants, as this will help measure the change before and after the program. [c]. The competence model will establish skills required to identify leadership potential during performance reviews and career counseling sessions. Companies can define Must-Have or Good-to-Have competencies for the leaders participating in the program.
4. **Conduct Pre-and Post-Assessment:** Ask participants to take a pre-learning test to establish their skill levels before the program. A similar test can be conducted after the training program and the change in skill level can be tied to the value (as determined in 'know the value above').
5. **Gather 360-Degree Feedback:** This takes the pre-& post assessment a step further. 360-degree feedback helps to gather information from supervisors and peers. It will determine what behaviors have changed and how new behaviors are being applied to key areas that impact the company's bottom-line. [e] (Appendix A.)
6. **Evaluate Leadership Execution:** Measure the impact of the changes in behavior facilitated by the leadership program. Identifying performance measures that would be impacted by the changed leader behavior is imperative for measurement of ROI. This will not only help in measuring the success but also for benchmarking the desired behavior. An example for this can be communication or decision-making skills, especially because these skills can have a direct impact on leaders' performance.
7. **Monitor Succession:** A simple measure of the success of a leadership program can be tracking the succession plan of all the participants and determining how many of these participants were promoted to a leadership position

during the period of succession. Another parameter can be to assess your current leadership talent pool and to see how many promising internal candidates exist per key position.

8. **Track Retention:** The Employment Policy Foundation estimates the cost of recruiting and training a new employee is about one fourth of the current employee's total salary and benefits. The costs rise substantially depending on the level of the employee. For executives, the cost can be as high as 2,000 percent. [e] On average, it costs four times as much to recruit and hire a new leader than it does to retain one. After the completion of the leadership program, consider how many participants have remained with the company after a set period of time. Assess the total dollar value of those personnel costs, including benefits, and multiply those costs depending on the level of the employee. This will show you the total cost of recruiting, onboarding, and training a replacement for that employee.

Prevailing Practices

One of the core benefits of ROI is the opportunity to make adjustments to the training program along the way. It should be viewed as a real-time process. By calculating ROI continuously, program Benefits are always known. In order to set up the best process of assessing the impact of Leadership Development Programs, a corresponding measuring framework need to set up based on following steps:

1. **Isolate the effects of the training itself.** Screen out the impact of external factors (for instance, unemployment in regional places, etc.) in order to get the actual impact. [g]
2. **Measure learning effectiveness**. Learning effectiveness provides proof that learning did, in fact, occur. This can be done on a Likert Scale and presented along with quality measures.
3. **Measure job impacts.** This can be best measured in a post-event survey 30-90 day after the training program. This critical measure directly calculates the percent performance improvement resulting from the training. [f]
4. **Measure business results**: Data and numbers are the best proof to claim that the organization was positively affected. (See sample example in Appendix B) [e]
5. **Determine a cost basis**. Understand training-related costs and estimate the number as close as possible, but they only need to be approximate averages.
6. **Calculate the number and boost it**. Don't be discouraged by low ROI results. This is an accurate reflection of the impact of the training program. It's necessary to involve the result in the planning for the next training program.

BGCA, one of the largest nonprofits in US, built their training program after they found themselves facing an incipient shortage of leadership capabilities. They compared performance gains and ROI results with the data of control groups, later set clear and quantifiable goals for their next training program. They have seen a constant 2 to 3 percent increase in annual incremental revenue. [b]

Conclusion and Recommendation

ROI is more than a calculation. It's easy to focus on the quality of training rather than the impact of the learning, which should be the point that organizations focused on. Here are our three major recommendations:

1. Calculate ROI results of the training program using a learning effectiveness measure, a job impact measure and a business results measure. Boost the number by being proactive and taking a comprehensive view of job support. [f]
2. Compare the post-training results (including ROI) against those of a control set of organizations, which had similar characteristics (such as budget size) but whose leaders had not yet gone through the training.
3. Combine with qualitative approaches. Besides the quantitative analysis, organizations also need to use qualitative approaches, such as surveying program members, and assessing the leaders' changes in behavior related to leadership.

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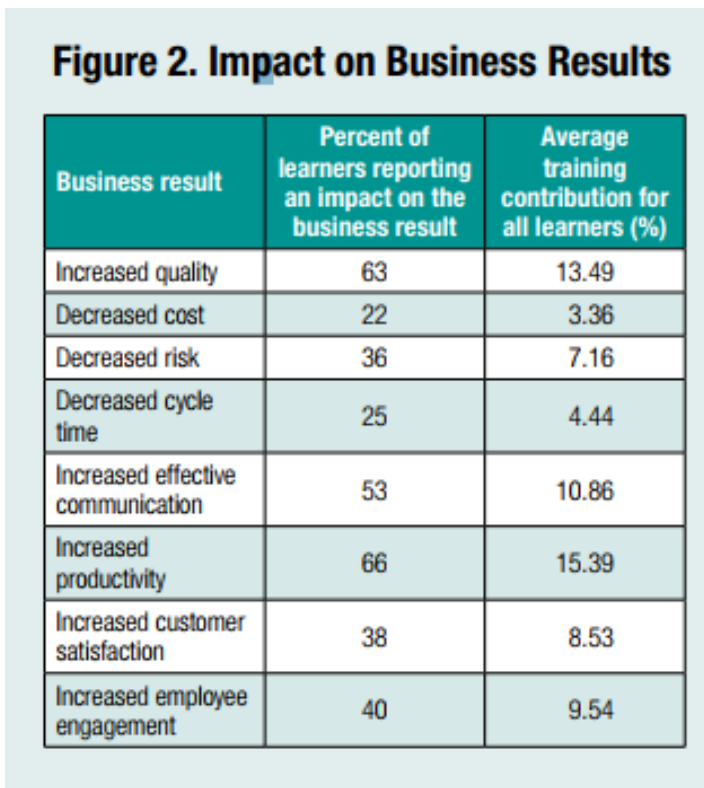   https://www.shrm.org/hr-today/news/hr-magazine/0916/pages/the-problem-with-measuring-the-roi-of-benefits.aspx

Appendix A:

TABLE 2. LEADERSHIP DEVELOPMENT CHECKLIST

STEPS	CHECKLIST FOR LEADERSHIP DEVELOPMENT
1	Determine the best leadership style for your organization
2	Identify current and potential leaders within the company
3	Identify leadership gaps
4	Develop succession plans for critical roles
5	Develop career planning goals for potential leaders
6	Develop a skills roadmap for future leaders
7	Develop retention programs for current and future leaders

http://www.oracle.com/us/media1/steps-effective-leadership-dev-1657106.pdf

Appendix B

Figure 2. Impact on Business Results

Business result	Percent of learners reporting an impact on the business result	Average training contribution for all learners (%)
Increased quality	63	13.49
Decreased cost	22	3.36
Decreased risk	36	7.16
Decreased cycle time	25	4.44
Increased effective communication	53	10.86
Increased productivity	66	15.39
Increased customer satisfaction	38	8.53
Increased employee engagement	40	9.54