Measuring the Success of Leadership Development

A Step-by-Step Guide for Measuring Impact and Calculating ROI

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# Table of Contents

Preface ........................................... vii

Part I: The ROI Methodology: A Credible Approach to Evaluating Your Leadership Development Programs

Chapter 1 Leadership Development Is as Important as Leadership Itself .................................................. 3
The Top Executive View ....................................... 3
Status of Leadership Development .......................... 6
Measuring the Results ........................................ 11
Final Thoughts ........................................... 11

Chapter 2 System for Accountability ......................... 13
High-Performing Culture and Measurement ................. 13
How and Why Leadership Development Fits With ROI ... 14
Types of Data for the ROI Methodology ................... 17
Selecting Programs for ROI Analysis ...................... 21
ROI Process Model ......................................... 24
Final Thoughts ........................................... 24

Chapter 3 Alignment of Programs and Evaluation Planning .... 27
Achieving the Proper Alignment ............................. 27
Evaluation Planning ......................................... 36
Case Study .................................................. 36
Final Thoughts ........................................... 42

Chapter 4 Data Collection at Five Levels ...................... 43
Quantitative and Qualitative Inquiry ......................... 43
Questionnaires and Surveys ................................... 44
Testing ..................................................... 47
Interviews ................................................... 47
Focus Groups ............................................... 48
Observations ............................................... 48
Action Plans and Performance Agreements ................ 49
Monitoring Performance ...................................... 54
Improving the Response Rate for Data Collection .......... 55
Sources of Data ........................................... 56
<table>
<thead>
<tr>
<th>Chapter 5</th>
<th>Data Analysis That Is Practical and Credible</th>
<th>61</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Isolating the Effects</td>
<td>61</td>
</tr>
<tr>
<td></td>
<td>Converting Data to Monetary Units</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>Costs of the Program</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Calculating the Return</td>
<td>72</td>
</tr>
<tr>
<td></td>
<td>Intangibles</td>
<td>74</td>
</tr>
<tr>
<td></td>
<td>Final Thoughts</td>
<td>77</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 6</th>
<th>Reporting Results to Appropriate Audiences</th>
<th>79</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Guidelines for Communicating Results</td>
<td>79</td>
</tr>
<tr>
<td></td>
<td>The Cautions of Communicating Results</td>
<td>82</td>
</tr>
<tr>
<td></td>
<td>The Complete Report</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td>Using Meetings</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>The Joan Kravitz Story: Presenting the Results of an ROI Study to Senior Management</td>
<td>86</td>
</tr>
<tr>
<td></td>
<td>Routine Communication Tools</td>
<td>92</td>
</tr>
<tr>
<td></td>
<td>Routine Feedback on Progress</td>
<td>93</td>
</tr>
<tr>
<td></td>
<td>The Communication Plan</td>
<td>94</td>
</tr>
<tr>
<td></td>
<td>Final Thoughts</td>
<td>95</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 7</th>
<th>Implementing and Sustaining ROI</th>
<th>97</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Importance of Sustaining the Use of ROI</td>
<td>97</td>
</tr>
<tr>
<td></td>
<td>Implementing the Process: Overcoming Resistance</td>
<td>98</td>
</tr>
<tr>
<td></td>
<td>Assessing the Climate</td>
<td>99</td>
</tr>
<tr>
<td></td>
<td>Developing Roles and Responsibilities</td>
<td>99</td>
</tr>
<tr>
<td></td>
<td>Establishing Goals and Plans</td>
<td>101</td>
</tr>
<tr>
<td></td>
<td>Revising or Developing Guidelines and Procedures</td>
<td>102</td>
</tr>
<tr>
<td></td>
<td>Preparing the Team</td>
<td>104</td>
</tr>
<tr>
<td></td>
<td>Initiating ROI Studies</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>Preparing the Clients and Executives</td>
<td>106</td>
</tr>
<tr>
<td></td>
<td>Removing Obstacles</td>
<td>107</td>
</tr>
<tr>
<td></td>
<td>Monitoring Progress</td>
<td>109</td>
</tr>
<tr>
<td></td>
<td>Final Thoughts</td>
<td>109</td>
</tr>
</tbody>
</table>
Part II:  Evaluation in Action: Case Studies Describing the Evaluation of Leadership Development Programs

Chapter 8  Measuring ROI in Leadership for Performance for Store Managers. ............................... 113

Chapter 9  Measuring ROI in a Supervisory Leadership Development Program. ............................. 137

Chapter 10 Measuring ROI in Fundamentals of Business Leadership. .............................. 155

Chapter 11 Measuring ROI in a Selection and Onboarding Program for New Leaders ...................... 179

Chapter 12 Measuring ROI in Safety Leadership for Construction Project Leaders ......................... 201

Chapter 13 Measuring ROI in an Operations Manager Development Program. .............................. 225

About the ROI Institute ........................................... 241
About the Authors .................................................. 243
Index ............................................................... 247
Preface

A large gold-mining company based in North America with mines in three continents was facing a typical challenge. Survey data taken from its employees indicated that the first level of management needed leadership help—the engagement survey results were much lower than expected and pointed to a need for formal leadership development. The chief operating officer (COO) agreed, and approved a project that involved 14 days of leadership development coupled with 360-degree feedback processes, and a team of individuals to make it successful. In all, nearly 1,000 managers would be trained at a cost of more than $6 million. The COO was willing to make this investment if the human resource function could show the financial return on investment (ROI)—“How can I spend this amount of money and not show my shareholders the return on this investment?” This request presented a challenge to the HR executives, who had never pursued an ROI study for any of their previous projects.

This case study highlights three developing trends:

Globally, a record amount of money is being invested in leadership development, as confirmed by several benchmarking reports.

A record number of requests are being made for accountability for leadership development, including showing impact and ROI for major programs.

Human resource professionals, particularly those involved in the soft skill area, must be prepared to step up to this challenge, not only when impact and ROI are requested, but ideally, before the request is made. HR professionals around the world are doing just that by developing the skills to become certified ROI professionals (CRP).

The outcome of this case study is detailed in chapter 9 of this book.

SNEAK PREVIEW

Measuring the Success of Leadership Development will address the issues outlined in the case study above. It will demonstrate how leadership development can be evaluated, including measuring impact and ROI. This method represents a significant change in leadership development because this process begins with the end in mind—such as the business impact, if it is going to be evaluated at that level. This shift in thinking about leadership development, which often begins with seeking new behaviors, moves the discussion to business improvement. These new behaviors are sought and needed for a reason, which often involves driving the performance of a group of people.

This book will take you through the necessary steps to make this development and points to other resources for more detail if necessary. The information in the first half
is complemented by the case studies in the second part, which amplify, with real-life examples, how this challenge is being met. *Measuring the Success of Leadership Development* is an essential resource for the leadership development team, chief learning officer, and chief human resources officer.

**THE FLOW OF THE BOOK**

This book begins with a chapter about the status of leadership development and the challenge of showing its worth to the organization. The following six chapters present the ROI Methodology, which is the most documented and used evaluation system in the world, and fits perfectly with leadership development. Many practitioners are using this approach to clearly show the value of leadership using data that top executives appreciate and understand. Part II presents six case studies that offer a variety of settings, programs, and content.

*Measuring the Success of Leadership Development* complements an earlier book of ours, *Measuring Leadership Development: Quantify Your Program’s Impact and ROI on Organizational Performance*, which was released by McGraw-Hill in 2012. That book provides much more detail on the methodology of showing leadership development value. This new book contains a condensed explanation of the methodology and case studies. We envision the two books as companions that can easily be used together—one for a quick reference with case studies and the other a more detailed how-to.

**TARGET AUDIENCE**

The principal audience for this book will be individuals involved in leading the human resource or the learning and development function. Whether their title is chief learning officer or the chief human resources officer, these individuals need to understand that major leadership programs are not only necessary, but can provide impressive business results. When this value is shown, it improves support, respect, and critical funding for future leadership development programs.

A second audience will be leadership development directors, organizers, coordinators, and consultants charged with implementing leadership development in organizations. These practitioners need to know how to set up leadership development programs to deliver value from the beginning; how to keep the focus on the business impact throughout the process; how to follow up to see if the business impact has been delivered; and when needed or requested, how to show the financial ROI directly from the leadership development program. This book shows how to achieve this with excellent examples.

A third audience will be individuals who are involved in or support leadership in some way. This group includes the participants of the program, managers who have some of their own team involved, advisors to the leadership development team,
leadership development facilitators, external consultants and designers and developers of leadership development programs. For individuals in any of these roles, this book provides further evidence that leadership development is making a difference and satisfying the appetites of the executive group.

CASE STUDIES
The case studies presented here represent a cross-section of leadership development programs with different levels of participants and in different types of organizational settings. We appreciate the organizations that allowed their projects to be included. The authors of the case studies are experienced, professional, knowledgeable, and on the leading edge of leadership development. Collectively, they represent practitioners, consultants, researchers, and professors.

ACKNOWLEDGMENTS

Rebecca Ray
I remain deeply appreciative of the opportunity to continue the important discussion about the role and impact of leadership development, this time through the detailed examination of real challenges and solutions articulated in this book. A special thanks to the executives who shared their stories with us and who see leadership development—lifting people to their highest potential and ensuring the continued success of an organization—as a noble calling. Over the years, the leaders I’ve worked with, the teams I’ve been part of, and the challenges I’ve had the good fortune to tackle have taught me many things, some of them about the subject matter, but many more of them about myself as a leader. One of my greatest professional pleasures is to partner with Jack and Patti—their insights make me smarter, their ability to inspire thousands to tackle and master a sometimes daunting challenge is humbling, and their generosity of spirit is boundless. I am very fortunate. How often does one get an opportunity to learn from legends? Finally, I wish to thank my muse.

Patti and Jack
We want to thank all the leaders we have worked with during the last 20 years in our work at the ROI Institute. Most of our projects take us to the middle and top leadership teams of organizations. We have had the pleasure of working with thousands of organizations and have witnessed what great leadership can do. The successful implementation of ROI in an organization is a direct result of great leadership for that function. We have seen firsthand that leaders can make a positive difference, and that they add value. We thank them for their efforts and applaud their accomplishments.
We also would like to acknowledge the great work of Rebecca Ray, executive vice president, knowledge organization and human capital lead at The Conference Board. Rebecca is an outstanding leader, who has led teams for learning and development and human resources in very high-profile organizations. She is also an outstanding teacher, speaker, writer, and researcher. She brings those skill sets quite effectively to The Conference Board. We are delighted to be working with her on another publication.

Finally, we want to thank the efforts of Hope Nicholas, director of publications for ROI Institute. Hope manages a very hectic schedule as we produce eight to 10 books each year with major publishers. Her great work shines through this manuscript; we are fortunate to have her with us and delighted to work with her again on another project.

Comments and Suggestions
As always, we welcome your comments, suggestions, and recommendations. This is the fifth book in the series and we have many more planned. Please send your thoughts directly to the authors or to ROI Institute at info@roiinstitute.net.

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Part I

The ROI Methodology

A Credible Approach to Evaluating Your Leadership Development Programs
Leadership Development Is as Important as Leadership Itself

The famous British banker Nathan Rothschild once noted that great fortunes are made when cannonballs fall in the harbor, not when violins play in the ballroom. Rothschild understood that the more unpredictable the environment, the greater the opportunity—if you have the leadership skills to capitalize on this (Schoemaker, Krupp, and Howland 2013). This opening chapter outlines some of the current issues surrounding leadership development, the status of leadership development, and some of the challenges involved. It also sets the stage for the rest of the book by emphasizing the importance of leadership and leadership development.

THE TOP EXECUTIVE VIEW

Ask CEOs and C-suite leaders around the world about the top challenges they face and they will readily tell you that customer relationships, operational excellence, and innovation top their list of never-ending challenges. Human capital not only remains at the top, but is also seen as the lever, when managed effectively, with which to address other top challenges. Ask executive leadership how critical effective leaders are and they will tell you that without them, they cannot expand the business into new markets, drive innovation, achieve operational efficiency, retain customers, increase market share, or retain key talent. The Conference Board’s 2014 CEO Challenge (Mitchell, Ray, and van Ark 2014) surveyed executive leaders and found that they planned to focus on the following human capital strategies during the next year:

1. Provide employee training and development.
2. Raise employee engagement.
3. Improve performance management processes and accountability.
4. Increase efforts to retain critical talent.
5. Improve leadership development programs.
6. Focus on internally developed talent to fill key roles.
7. Enhance the effectiveness of the senior management team.
8. Improve effectiveness of frontline supervisors and managers.
9. Improve corporate brand and employee value propositions to attract talent.
10. Improve succession planning for current and future needs.
Four of those strategies are focused on leaders or their development: Improve leadership development programs, enhance effectiveness of senior management teams, improve effectiveness of frontline supervisors and managers, and improve succession planning for current and future needs. Effective leaders, in turn, execute against the other strategies chosen by CEOs. Few would question the wisdom of having strong leaders and an adequate pipeline of future leaders; few would doubt that an agile and capable workforce is necessary to compete and win in an increasingly volatile, uncertain, complex, and ambiguous (VUCA) world. Indeed, there is a lot riding on the CEO’s bet that leaders can create a high-performance organization that remains competitive. Are the leaders prepared and ready?

The Conference Board and Development Dimensions International (DDI) teamed up to determine the answer to that question. Together, they conducted the world’s largest leadership development study, the Global Leadership Forecast 2014/2015, which surveyed more than 13,000 business leaders and more than 1,500 HR executives from more than 2,000 companies (Sinar, Wellins, Ray, Abel, and Neal 2014). Business leaders were asked to assess their own readiness to step up to the challenges identified by their CEOs. The results were dismal; no self-assessment broke the halfway mark—only 45 percent felt ready to address customer relationships, 33 percent felt ready to address operational excellence issues, 26 percent felt ready to take on the challenge of innovation, and only 27 percent felt they were able to address the human capital challenge. This is particularly bleak given the amount of time and resources that most organizations devote to developing leaders at the top of the organization, as well as helping managers be successful in their efforts to hire, develop, engage, and retain employees. Not only do these leaders have little confidence in their abilities, but organizations are spending a great deal of money with little to show for it. According to the Association for Talent Development’s 2013 State of the Industry report, investment in leadership and management development programs and initiatives in the United States alone is estimated to be more than 10 percent of the $164 billion spent on all employees, with another 4 percent focused on executive development (ASTD 2013).

In the 2014 CEO Challenge survey, CEOs were asked to select the leadership characteristics they felt were critical to future success (Mitchell, Ray, and van Ark 2014). On a global basis (and with a great deal of regional alignment), the attributes and behaviors they selected were integrity, leading change, managing complexity, entrepreneurial mindset, and retaining and developing talent. While one can argue that integrity cannot be trained, the other qualities must be mastered during a leader’s rise to increasing levels of responsibility and reach.

The stakes continue to rise in this high-risk VUCA world. In 2015, CEOs again listed human capital as the top challenge on a global basis; they again selected four leadership development–related strategies among the top 10. In fact, two of the
Leadership Development Is as Important as Leadership Itself

challenges—enhance effectiveness of the senior management team and improve succession planning for current and future needs—rose in importance as ranked by the Conference Board’s 2015 CEO Challenge (Mitchell, Ray, and van Ark 2015). If we were to ask leaders to rate their own effectiveness in addressing the challenges that matter most to CEOs, it is not likely that their level of faith would be radically different. Therein lies the dilemma—CEOs may set a strategy in motion without the requisite leadership cadre to effectively execute it. And, all too often, that realization comes after the organization has already set the strategy in motion.

Recently, Accenture surveyed 1,500 C-suite and senior-suite executives in 13 industries in 16 countries. The goal was to understand what leaders are doing to face the critical and important changes facing their industries. Agile leaders are needed to address these many issues. Figure 1-1 is a summary of their research, which emphasizes what leaders must do and are doing to adjust to these changing environments (Smith, Silverstone, Brecher, and Upadhyaya 2015). This research underscores that the top-performing organizations are fully prepared for these changes, whereas the low performing organizations are falling woefully short.

**Figure 1-1. Leadership Imperatives for an Agile Business**

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<thead>
<tr>
<th>Vision and strategy</th>
<th>Relationship between leaders and followers</th>
<th>Driving results</th>
</tr>
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<tbody>
<tr>
<td>Develop a long-term strategy built for change.</td>
<td>Use an ensemble approach to building management teams.</td>
<td>Speed up decision making and the execution of those decisions.</td>
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<td>Leaders of top-performing companies are more likely to see uncertainty as an opportunity, not only a threat. They are able to balance short-term needs with long-term perspectives.</td>
<td>Leaders build effective teams by deploying executives and managers in a network that can flexibly shift and re-form to address challenges and opportunities as they arise.</td>
<td>Leaders establish a culture of making critical decisions at speed and then implement decisions with the scale, buy-in, and accountability needed to make it all stick.</td>
</tr>
<tr>
<td>Involve unconventional thinkers.</td>
<td></td>
<td>Establish accountability.</td>
</tr>
<tr>
<td>Leaders regularly bring thinkers from outside the mainstream into management meetings as a way to encourage new ideas.</td>
<td></td>
<td>Leaders clarify expectations, roles, and responsibilities. They take action immediately when issues arise. They reward results, not just activity.</td>
</tr>
</tbody>
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*Source: Smith, Silverstone, Brecher, and Upadhyaya (2015).*
STATUS OF LEADERSHIP DEVELOPMENT

We know that leadership matters. Leadership development matters, too. Some companies have built leadership development ecosystems that enable them to consistently develop the right leaders at the right time to execute the right strategy. Some of these successful organizations have earned a reputation as an “academy” company for leaders. What do they do that is different? What in their DNA sets them apart? Those were the central questions that shaped the report *DNA of Leaders: Leadership Development Secrets* (Ray and Learmond 2013).

There was no silver bullet for many of the world’s best companies for leaders profiled in the study, including Shell, Wipro, Siemens, Unilever, Accenture, the Coca-Cola Company, American Express, Intel, BASF, Hewlett-Packard, Procter & Gamble, General Mills, Caterpillar, L’Oreal, McDonald’s, Cardinal Health, and IBM. It was a combination of dedication to leadership development programs in good times and bad, active involvement of senior leaders beginning with the CEO, an integrated talent management strategy, and the relentless pursuit of quality outcomes and improvement. From that study, four overarching commonalities emerged. One in particular is especially germane to this conversation: “The success of leadership development programs and processes is increasingly measured by business linkage and impact” (Ray and Learmond 2013).

Since its initial offerings as a typical classroom session on the principles of leadership, the subject of leadership has evolved to become a critical part of organizational growth and development. How leaders are selected for programs and the specific ways in which programs are offered and structured are significant issues that define the current status.

How Leaders Are Selected for Development

Because leadership development can be one of the most expensive types of development and has so much potential for impact, selection must be a thoughtful process. At higher levels of the organization, participants in leadership development programs are often selected by the following methods:

- nomination by a manager
- cumulative data from performance management systems or past talent review discussions
- individual assessments and custom developmental plans based on their outcomes
- participation in an assessment center exercise
- behavioral or structured interviews.

At lower levels, participants are often selected versus screened out, and enter into a leadership development program by virtue of a promotion or a change in job title. For example, all new managers may be automatically enrolled in a particular program.
How Leaders Are Developed

In *Alice’s Adventures in Wonderland*, Lewis Carroll wrote, “If you don’t know where you are going, any road will get you there.” This is also true with leadership development. Unless there is a clear road map, it may be a lovely journey, but one without a destination or committed travelers. The methods for development are varied and many are combined into programs and initiatives of infinite variety, including:

- formal training usually in a classroom (virtual or face-to-face)
- informal learning including self-guided or structured content
- action learning with a focus on strategic planning or innovation
- job shadowing
- coaching (either internal or external)
- mentoring
- experiential learning
- stretch assignments
- simulations
- community involvement
- community of practice or network involvement
- short-term rotational assignments
- long-term international assignments.

Years ago researchers created assignmentology, which is a way of mapping standard leadership competencies to specific opportunities for development, such as serving on a taskforce, chairing a major initiative, or assuming a role with a greatly expanded scope. The science of knowing what developmental experiences will result in specific competency improvements (and, by extension, what will not) is an extraordinary tool.

How Leadership Development Programs and Initiatives Are Structured

There will always be a need for a structured process of developing leaders. Simply dropping talented employees into the manager’s chair robs them of the opportunity to continue being successful in completely new situations, and runs the risk of doing not only professional harm to the individual, but also organizational harm to those she works with. Deploying new leaders to different environments or challenging situations without careful planning and support is not a recipe for success either. Finally, simply hiring a new leader from the outside without considering the cultural assimilation challenges, internal communications, and talent implications is terribly short sighted.

This critical juncture should be carefully managed, and all stakeholders must be involved for mutual success. Most programs have one or more of these goals in mind for their leadership development programs and initiatives:
- Assess the bench strength of the current leadership and develop targeted plans to address deficiencies or placement issues for individuals, as well as organizational talent gaps that could impact strategy execution.
- Identify possible successors for critical roles.
- Enhance the effectiveness of current leaders by building specific competencies.
- Reduce the potential for derailers.
- Accelerate the development of high-potential and emerging leaders.
- Develop a strong leadership bench.
- Set standards of behavior and cultural norms.
- Leverage leaders’ ability to develop and engage their employees, leading to increased levels of productivity, engagement, and retention.

**Failure of Leadership Development Programs**

The structure and effectiveness of leadership development (LD) programs is highly variable and, on the whole, disappointingly ineffective. In 2014 McKinsey surveyed 500 executives to explore the issues around the success of leadership development (Gurdjian, Halbeisen, and Lane 2014). This study uncovered some of the shortcomings of leadership development and identified four major reasons why leadership development fails:

1. **Overlooking context.** The context is a critical component because this reflects the job, the individual, and the current status of that individual. An executive may function extremely well in one environment, but have difficulties in another.

2. **Decoupling reflection from real work.** Leadership development programs often use skill-building activities, simulations, and skill practices, as well as provide ample opportunities to reflect on the current status and the changes needed in the future. However, while they look good and feel good in the classroom or virtual format, they may be disconnected from the real work environment.

3. **Underestimating mindsets.** Leaders come to leadership development programs with established mindsets. While they usually understand that the changes are needed, many programs fail to change their mindsets in a meaningful way.

4. **Failing to measure results.** Leadership development is often measured at Level 1 (reaction), Level 2 (learning), and sometimes at Level 3 in terms of skill application or competencies used on the job. However, leadership development needs to be connected to key business measures in the beginning and throughout the process. Measurements can reflect mismatches with the current context, the relevance of the program materials, and the current mindsets of the individuals.
Leadership Development Is as Important as Leadership Itself

The Myth of 70-20-10

The time devoted to learning about leadership is a critical issue. For decades, there has been an assumption that 70 percent of the time should be spent on the job with actual experiences; 20 percent learning from others, usually through coaching, mentoring, shadowing, and role modeling; and 10 percent in formal leadership development programs, the classroom, e-learning, or blended learning. This ratio comes from leaders who were asked to reflect on how they became effective leaders. Since leadership development has always included a small amount of time in the classroom, their input naturally reflected a small amount of formal learning. The rest was their best guess. The 70-20-10 theory was never meant to be a prescription for what should be done. A better approach is to ask leaders how they want to learn.

A recent study by The Conference Board and DDI, involving more than 13,000 leaders, 1,500 global human resource executives, and 2,000 participating companies, asked leaders about their optimal learning ratio (Sinar, Wellins, Ray, Abel, and Neal 2014; Figure 1-2). While 70-20-10 is the perception, this study found that, in reality, the ratio is 55-25-20. When the data were sorted for individuals with the highest quality leadership, the ratio became 52-27-21. This same group was asked to indicate how much additional time they would like to spend on leadership development per month. The leaders currently spend 5.4 hours per month on average, but they would prefer to spend 8.1 hours (nearly three hours more). When asked how they would prefer to spend their time, 76 percent said on formal learning, 71 percent said learning from others, and only 26 percent said on the job. These data clearly show that it is much better to plan the proper mix around the needs of the organizations and the needs of the leaders than to adhere to prescribed norms.

Figure 1-2. How and Where Leaders Are Developed

<table>
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<th>Classic Perception</th>
<th>Actual Time</th>
<th>Highest-Quality Leadership Development</th>
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<tbody>
<tr>
<td>1 = On-the-Job Learning</td>
<td>55%</td>
<td>52%</td>
</tr>
<tr>
<td>2 = Learning From Others</td>
<td>25%</td>
<td>27%</td>
</tr>
<tr>
<td>3 = Formal Learning</td>
<td>20%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Adapted from Sinar et al. (2014).
Managing Versus Leading

An important challenge for organizations is to increase the amount of time leaders spend leading instead of simply managing. Leaders spend much of their time on classic management skills, such as planning, organization, and control activities. Leading, on the other hand, involves skill sets that include interaction with employees. The following is a list of the critical skills from The Conference Board/DDI study:

- communicating and interacting with others
- building consensus and commitment
- coaching and developing others
- managing and successfully introducing change
- developing strong networks or partnerships
- identifying and developing future talent
- inspiring others toward a challenging future vision
- fostering employee creativity and innovation
- leading across generations
- integrating oneself into foreign environments
- intercultural communication
- leading across countries and cultures (Sinar et al. 2014).

These powerful skill sets can make a huge difference in an organization and many are critical to the organization’s success.

This is a classic organizational issue, where the perception is that an organization typically values spending more time on managing and less time on leading. Among the surveyed executives, 41 percent of their time was spent on managing and only 25 percent on leading. However, they would have preferred the reverse (22 percent managing and 40 percent leading). The challenge for organizations is to encourage and build environments that support spending more time on leading, which is where most of the payoff would be.

Global Versus Local Leadership Programs

For global organizations, an important challenge is determining who controls the leadership and talent development programs. In some organizations, programs are dictated by corporate to ensure consistency with the organization’s mission, vision, and values. The opposite extreme is when locally owned programs are developed in the countries where their leaders reside, addressing the needs and cultural issues in that area. Neither situation is ideal. The better approach is to have a good balance of corporate and local control. Corporate is more involved in mid-level to high-level leadership development; frontline leadership development is typically a balance between local and corporate control. Succession planning, on the other hand, is a local issue that involves candidates in those areas. This balancing process is an important consideration for human capital strategy.
MEASURING THE RESULTS
That brings us to the heart of this book, which examines the ways in which great programs for leadership development can be measured, articulated, and leveraged to advance the work being done to ensure the company’s future. Measuring the Success of Leadership Development will provide step-by-step guidance for ROI and show the impact of leadership development programs and initiatives.

It is important to begin with an understanding of the big picture. Figure 1-3 presents the success factors for leadership development as identified by a survey of 232 leadership development directors (Phillips, Phillips, and Ray 2012). The factors, listed in the order they normally occur in the leadership development process, were developed from hundreds of studies on leadership development and through other research. They represent a solid design for increased accountability, particularly when impact and ROI measurements are desired.

**Figure 1-3. Success Factors for Leadership Development**

1. Align the program to business measures in the beginning.
2. Identify specific behavior changes needed for the target audience.
3. Identify learning needs for the target audience.
4. Establish application and impact objectives for LD programs.
5. Involve the right kind of people at the right time.
6. Design leadership development for successful learning and application.
7. Create expectations to achieve results and provide data.
8. Address the learning transfer issue early and often.
9. Establish supportive partnerships with key managers.
10. Select the proper data sets for the desired evaluation level.
11. Build data collection into the process and position it as an application tool.
12. Isolate the effects of the program on impact data.
13. Be proactive and develop impact and ROI analyses for major programs.
14. Use data collected at different levels for adjustments and improvements.

**FINAL THOUGHTS**
This opening chapter sets the stage for how to measure the success of leadership development. It reviewed the status of leadership development, how it is progressing, and the challenges along the way. It also provided examples of how leadership development is provided and some of the issues surrounding various types of programs. The clear concept throughout the process is that leadership development must be
measured all the way to impact and sometimes even to ROI. The next chapter focuses on building accountability in leadership development.

REFERENCES


