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Measuring the Impact of Leadership Development

The division president wanted to leave a legacy. Not just any legacy – but one that he was passionate about, committed to and had invested in: developing the best leaders in the organization.

He did all the right things. He had his high potential people assessed and sent them to executive education programs at the best business schools. But two years later when the CFO asked him to justify expenses of more than $20,000 per executive, he didn't have any data to show the return on this substantial investment. He could point to many positive experiences for his people but wasn't able to identify any measurable results. When his leadership development program was halted, he was confused and upset. What did he do wrong? What was he supposed to have done differently? How could he have measured the added value to the business of something as vague as leadership effectiveness?

The division president is not alone in his neglect to evaluate the return on his investment in coaching and executive education. While organizations routinely track the impact of other investments, leadership and talent development efforts are different. Unfortunately, many executives and HR professionals decide they are either too difficult or not important enough to measure. With thoughtful and proactive planning, however, a return on the investment of time and resources *can* be determined.

Designing a Meaningful Measurement Process

Define what success means.
Leadership development efforts take many forms and have varying objectives. Always start by clearly defining the goals for a coaching assignment or workshop in specific, measurable terms. You can evaluate a developmental program on five different levels:

1. Satisfaction — were participants happy with the coach or workshop?
2. Learning — were there any increases in knowledge as a result of the effort?
3. Application — did the participant's on-the-job behavior change?
4. Business impact — were there any changes in business outcomes?
5. Return on investment (ROI) — what were the financial benefits compared to program costs?

Only positive results at Levels 3, 4 or 5 indicate any added value for the company's investment. Having participants who liked their coach or who know their weaknesses are good things, but neither indicate any changes that enhance an individual's or a company's performance. Therefore, *from the beginning,* it is important to design coaching or executive education engagements with Level 3, 4 and 5 goals in mind.

Level 3: Define the behavioral goals.
Ask yourself what you would have to *observe* to know the goal has been met. For example, if you want an individual or a group of executives to be more customer-focused, what would you have to see to be convinced that they were?

Level 4: Determine the business impact of the changed behavior.
A developmental program is only worth undertaking if you can identify a positive business outcome that results from the effort *and* that outcome can be linked to a strategic goal or initiative(s).

What improvements in business metrics might occur if the person or group behaved in a more customer-focused way? Customer satisfaction ratings might go up, sales might increase or product development efforts might yield more successes. These are examples of three very different outcomes that would likely require unique behavioral changes from people in different functional roles. Before designing the development effort, work closely with its senior sponsors to agree on and quantify the desired business outcomes and the indicative behaviors.

Level 5: Convert the business impact to a financial payoff.
Make the process simple, yet credible. You don't need a lot of complicated formulas to calculate an ROI. As a rule of thumb, if it takes more than three minutes to explain how you intend to measure it, the process is too complicated for practical use.

Measuring ROI or business impact is not an exact science, even for tangible undertakings. The credibility of findings for more intangible efforts increases if: 1) multiple data sources are used — it is best to do some combination of observation, surveys and interviews; 2) those data sources are not totally dependent upon self-reporting; and 3) a diverse group of stakeholders reviews the findings together and agrees on the impact.

It is also critical to isolate, as much as possible, the effects of the developmental activity as there are many other factors aside from coaching or education that can explain a change in someone's behavior or business results.

Recent leadership development efforts at a *Fortune* 100 high technology company generated anecdotal evidence that the program was a success; but the company's financial managers wanted quantitative measures in order to evaluate the ROI. To generate the relevant measures, participants were asked a number of questions including: Can you provide a specific example of something you did as a result of the program? Can you list quantifiable benefits to the company, such as cost savings or increased revenue, and estimate the financial impact?

While this approach was limited in what it could capture, it still gave an idea of the program's financial return. Even after being quite conservative in their analysis, the median value per participant for the cases reported was an ROI of 150%. Although this was an estimate based on consensus, it did satisfy senior officers and financial managers that the effort was definitely worth the investment.

Make sure the outcome goals will motivate your participants (and the provider). Outcomes need to be relevant and achievable if they are to motivate participants to change. Likewise, the provider of these services, whether it's your own HR department or an outside consulting firm, has to be excited and challenged by the possibilities.

Implications

Evaluations must be in your business context.
Whatever evaluation process you use, it must be designed to clarify and capture the competencies and behaviors necessary to deliver the desired business impact. While generic surveys may contain important competencies, they are broad and not necessarily those needed to reach your business goals. Why assess and develop people on competencies that are not the key drivers of the results you want? Instead, discuss the behavioral and business results you expect and *then* determine the competencies that will drive these changes.

If selecting an outside provider, choose one with in-depth knowledge and skills in how to affect and sustain behavioral change, and in how specific behaviors relate to business outcomes. Rather than targeting your biggest development gaps, look at those that will most impact the ability of your leaders to deliver improved business results. You can do this only if the entire assessment process is created from your unique business context.

You must go beyond simple awareness.
If your goal is measurable behavioral change and/or business impact, then coaching programs cannot be limited to raising people's awareness of their strengths and weaknesses. Similarly, executive education cannot be limited to exposing people to a new tool or concept. While awareness is a prerequisite for change, awareness doesn't mean that anything *has* changed. Unfortunately, many coaching relationships and executive education programs never support or require true behavioral change. As a result, "awareness only" programs rarely, if ever, show measurable business results. Your provider, then, should be an expert at changing behavior, not just giving feedback.

Getting beyond awareness requires a significant investment in creating and monitoring individuals' development plans. Such plans clarify expectations and measures of success and serve as tools for guiding and monitoring implementation of new behaviors and skills over time. Development plans are central to a program if your goal is measurable outcomes.

For executive education programs, getting beyond awareness also means limiting the number of participants to 25 to 30 people. Behavioral change begins with active engagement in a workshop setting. Lectures and case studies can lead to awareness, but changing one's behavior requires active participation that best comes with a significant amount of small group work. Action learning projects are a powerful way to give people an opportunity to practice and to get immediate, measurable business results from a program.

You must be strategic in deciding who participates.
If measurable change is your goal, there are times when some executives should not receive coaching or attend a workshop. Clearly it would be unrealistic to coach someone with no direct reports on how to delegate and expect to see results. In addition, many executives receive coaching or workshop experience because of their title or level and not because of a business imperative. A major factor in determining who is and isn't included should be who is in a position to apply the new skills to a real business issue.

Why Measure Outcomes?

In addition to identifying the ROI, other benefits flow from measuring outcomes. Even if it's not feasible to directly link a developmental effort to hard financial numbers, it *is* possible to measure changes in leadership behaviors that correlate to positive business outcomes.

For example, Angela's CEO received frequent complaints that Angela pushed forward initiatives that impacted her peers' business units without seeking their input. As a result, her peers often refused to implement her initiatives even though they were approved by the CEO. The CEO and Angela agreed that she should work with an executive coach to help her become more effective in getting her ideas accepted by others.

While many companies appear to be satisfied with just knowing that Angela received some coaching, it would be more meaningful to know if Angela's peers noticed any change in her approach as a result. In fact, it might be possible to measure the financial impact of the coaching if more of Angela's initiatives were implemented and the economic impact could be quantified.

Sharpen thinking.
Too often leadership development projects have vague (and therefore, not measurable) goals such as improving an individual's strategic thinking or enhancing a team's effectiveness. When asked to think about behavioral outcomes, business outcomes or return on investment, people are forced to be more specific about what the goal actually means. For example, to explain how you would know if Angela were behaving in a more collaborative manner, you must articulate specific behaviors that show what you mean by "collaborative."

In this case, it might mean bringing plans to her peers for input in the formative stage and getting their formal sign-off on final plans before Angela moves into implementation. For someone else, it might mean simply ensuring that a diverse set of viewpoints and experiences contributes to the thinking. With specificity around the goals, your leadership development program will be more likely to produce observable, measurable behaviors that can be linked to a business result.

Encourage accountability for on-the-job application and results.
In business, you don't get an "A" for effort. Measuring outcomes instead of activities produces accountability for results. If the participant, coach and boss agree upfront that the participant's behavior will change in specific ways and these changes will have a specific impact on the business, then everyone can be held accountable for whether or not the intended changes happen. By stating developmental goals in terms of outcomes, the only way the program can be deemed a success is if the participants apply what they have learned. That is, success isn't checking off that the executive got some coaching, but verifying that the behavior changed.

If more of Angela's initiatives are successfully implemented with the cooperation of her peers, then the development process can be considered a success. Angela, her CEO, her coach and her HR professional all have a stake in making sure she changes her behavior.

Understand what is and isn't working.
When the number of activities completed is the only metric used, all that is measured is whether or not the executive was exposed to the contracted amount of "development," i.e., educational materials, speakers, etc. Chances of success can be improved by gathering data throughout the process - when adjustments can still be made - to see if the needle is moving toward desired outcomes.

Leadership development efforts should be measured - just like any other investment. While the monetary value can't always be calculated, just the process of discussing what can and can't be measured and determining outcome targets will sharpen people's thinking. If set up properly, the impact of leadership development efforts *can* be measured. With so much at stake in developing your executive talent, it would seem that measuring your efforts is a worthwhile investment.

RHR International pioneered the field of corporate psychology. For half a century, we have provided advice and counsel to executives to increase both individual and organizational effectiveness.

RHR consultants specialize in assessment-based development of individuals, groups and organizations. They are psychologists who are experienced at helping companies implement business strategy and achieve business objectives through people.

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