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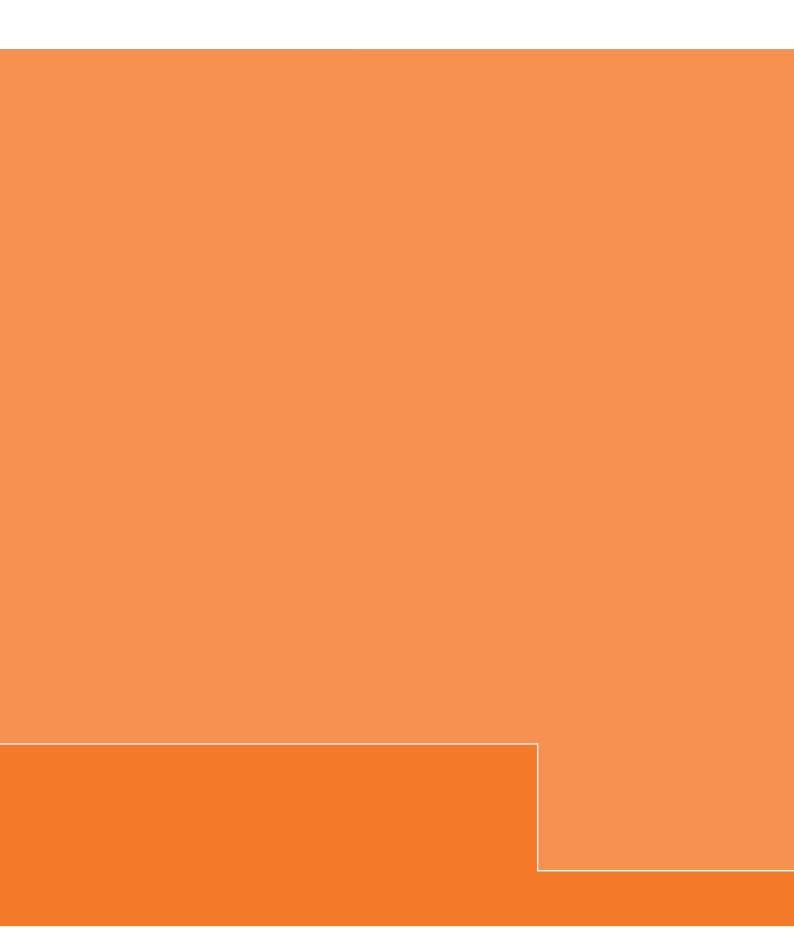


## Develop your leaders:

The rewards of leadership development



Many HR professionals are being asked to develop their business case to support leadership development activities. This paper sets out to explore whether these activities are worthwhile by considering what is happening in a variety of organisations and identifies steps that can be taken to achieve the right return >>



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### Introduction



According to research by the Corporate Leadership Council, which questioned 291 European HR departments, 70 per cent of them increased investment in leadership and talent development last year.

It is widely accepted that leadership development pays off. Is there sufficient evidence to support this?

**66** Strong, consistent leadership is essential in the NHS and it is critical that we continue to support, develop and nurture our current and future leaders >>

Sir David Nicholson

**66** The single biggest way to impact an organisation is to focus on leadership development. There is almost no limit to the potential of an organisation that recruits good people, raises them up as leaders and continually develops them >>

John C Maxwell, author

**66** Leadership development is about helping people grow, and if I can get people as individuals growing, then I've got a company that grows >>

James McNerney, former CEO 3M and Boeing

## What do we know for sure?

We all have personal experiences of good leadership – and for too many of us, bad leadership.

The Development Dimensions International's Global Leadership Forecast 2011, which surveyed over 2,000 individuals, shows a real problem with the quality of leaders (assessed by HR professionals and, interestingly, leaders themselves). We know ourselves that good leaders provide us with the direction, resources and commitment to do our best.

This is echoed by the research. A review of academic literature shows that numerous indepth studies demonstrate that organisations with good leadership perform better than those that don't. Examples include:

- A study in the Harvard Business Review (Bassi and McMurrer) provides a strong link between leadership skills and the bottom line (2007).
- The Institute for Strategic Change reports that the stock price of companies perceived to be well-led grew 900 per cent over 10 years versus 74 per cent for companies perceived to lack good leadership (2008).
- Hay Group's Best Companies for Leadership survey demonstrates that the top 20 organisations rated for leadership give over 36 times better shareholder returns than the S&P 500 in a five-year period (2010).
- The Corporate Leadership Council estimates that employees working for good leaders put in 57 per cent more effort and are 87 per cent less likely to leave than those with poor leaders.

- The Institute of Work estimates that 20 per cent of the variance in productivity and profitability in manufacturing can be attributed to better people management – a stronger driver than strategy, technology and research, and development.
- The Journal of Occupational and Environmental Medicine reports that workers with good leadership were 40 per cent more likely to be in the highest category of job wellbeing, with low rates of symptoms like anxiety, depression, and job stress. Good leadership was associated with a 27 per cent reduction in sick leave and a 46 per cent reduction in disability pensions.

Murray Dalziel, director of Liverpool Business School summarises:

"There is incontrovertible evidence from the academic literature that leadership makes a difference. Across a wide range of industries about 15 per cent of the variance in performance can be directly attributed to CEO performance. This figure has been constant for over 25 years."

The academics give us a clear fact – leadership gets results.

But does this mean that we should invest in developing leaders? Will it give us the returns we need? And can the universally accepted truth that leadership development pays off be proven?

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## Lies, damned lies and statistics

Our starting point is to treat any claims of causality or correlation with caution. Leadership development activities don't take place in a vacuum and so the holy grail of demonstrating a clear return on investment is murky, to say the least.

But intuitively we know it makes sense. Fortune's Most Admired Companies believe in leadership development. They focus more time and energy on developing leaders than average organisations do – and they have differentially superior share price returns.

These leading edge companies, with sustained high-level performance such as Coca Cola, Johnson & Johnson, Procter & Gamble (P&G), IBM and Mars, spend significant time and resources in developing their leaders.

Alan Lafley, former CEO of P&G, was clear that leadership development was a strategic advantage and estimated that a third to half of his time was spent on related activities:

"Nothing I do will have a more enduring impact on P&G's long term success than helping to develop other leaders. I think the most important thing we do is that we are a continuous selection machine."

Bill Hawkins, who recently retired as CEO of Medtronic (a leading medical technology provider) echoes this:

"Employee and leadership development is one of our key business processes. We know the future success of our company depends on our employees and our ability to develop great leaders at all levels of the organisation. The programmes we implement both develop leadership skills and emphasise the importance of our company mission in everything we do."

## What businesses are doing

We found that, whatever the context, the best companies invested heavily in leadership development. They shared a fundamental belief that this would give them increased competitive advantage, so much so that many organisations have their own 'academy' or 'university' to provide development that is regularly complemented with external development.

The Mars University was launched in 2006 and hosts the company's associate education and corporate values training programme. The content is created in conjunction with top Mars associates and learning programmes are delivered in all 65 countries where Mars operates, providing associates with opportunities to improve leadership skills and apply what they learn on-the-job. The university has created efficiencies (around \$300 million attributable to the Learn/Mars Operating System College) throughout the business.

Johnson & Johnson invests heavily in leadership development through its own university, J&J eUniversity, which runs executive development programmes aimed at new executive leaders and company leaders making transitions in their career at J&J. The company runs several other large programmes; the School of Personal and Professional Development providing elearning, classroom and blended training; Management Education and Development to support managers and leaders at all stages of their career, along with leadership development programmes for selected functions such as finance, information management, operations and human resources.

Caterpillar, the construction equipment manufacturer, has always had a tradition of strong leadership development. Back in 2001 it restructured its learning community into Caterpillar University.



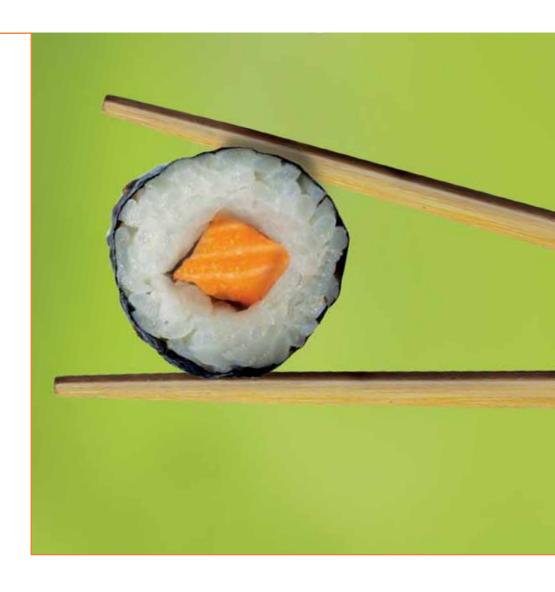
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The College of Leadership, part of this, delivers extended programmes that build on the competencies associated with excellent leadership at Caterpillar.

Joretha Augostine, HR manager at Caterpillar UK discusses in an interview with Peter Crush, Human Resources Magazine: "We introduced leadership training and a capability development programme for creating workplace growth in 2008," says Joretha Augostine. A bespoke training course is introduced based around the needs of each potential leader after an assessment of their personal styles and competencies. Changes in engagement levels are the main measure of impact for the course, "because we know this impacts business performance" says Caterpillar. The measurements show scores increasing from 49 per cent in 2008 to 72 per cent in 2009, and overall engagement scores are up from less than 60 per cent to 80-89 per cent across the divisions.

Unipart started Britain's first corporate university, the Unipart U that has now been devolved to all major sites as the Faculty on the Floor dedicated to learning, development and sharing of best practice. It has a defined set of competencies, the Unipart Way, for its leaders and considers this as the essential method of managing the development of organisational capability and the way to achieve the company's vision.

Perhaps the most emphatic example comes from General Electric. GE has always had a rich history of people development and invests around \$1 billion in training for its people each year. In 1956 it established the Crotonville Campus, the first corporate learning campus in the world, which remains at the forefront of real-world application for cutting-edge thinking in organisational development, leadership, innovation and change. Executive development is a key part of their overall management process and is seen as key to driving strategy forwards.



An organisation's ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage

Jack Welch, author and former CEO of GE

## A leap of faith

Businesses in the private sector are prepared to take the leap of faith that links leadership development with effective leadership, and thus results.

So much so that some of the respondents in a Xancam report – *Return on Talent Investment* – don't even try to measure their ROI, saying there is 'nothing to prove' and it should be seen as a 'no brainer':

"Because the business has changed so much, it has not been possible for us to complete

our work on return on investment yet. However, I just know this is good practice. If it costs £200k, then this sounds like a good investment."

HR director, Telecoms operator (from Xancam report by Dr Maria Yapp, *Return on Talent Investment*).



## What's happening in the public sector?

Things are a little different in the public sector. There is a strong call to ensure that decision making is evidencebased alongside the need to demonstrate value for the spending of public money.

This drives a cautious approach towards what is done – by its very definition, return on investment will come later – and strong leadership is needed in the first place to drive through the business plan that is open to scrutiny and public debate.

Measuring results is not just a way of 'covering your back'; it can also act to enhance the development that is carried out. Voller, writing in Ashridge on Evaluation (2010), emphasises the importance of organisations being able to assess the value they are getting: "Evaluation is best included as a key component of programme design, with consideration given to how data will be captured for individual components and for the programme as a whole" but notes that, despite the number of models of evaluation, few are used in practice. It's vital that evaluation is considered at the start of any intervention to ensure that the methodology selected is fit for purpose.

Peter Neyroud (2011) in his review of police leadership and training agrees: "No robust evaluations were found of leadership development interventions in the police sector, however it became clear that leadership development interventions in the public

sector in general can have beneficial impacts on organisational performance outcomes, behaviour change and career progression and can be highly effective in improving participants' knowledge".

The Cabinet Office document Strengthening leadership in the public sector back in 2000 stated that the public sector was not attracting or keeping the best leaders and makes the case for more intense development of leaders and potential leaders. Michael West (speaking in 2011) provides a connection between patient safety and staff engagement in the NHS by describing the flow from leadership through organisational climate to staff and patient satisfaction. Professor Ross Baker's international study of leadership in highperforming health care systems (2011) concludes that high-performing healthcare organisations set long term strategies and invest in leadership and staff to achieve these goals.

And yet the public sector remains shy about shouting out the investment that is made in leadership development despite the evidence available that this pays off – in retention, in engagement, in growing your own leaders and in driving forward efficiencies.

There are, however, some excellent examples.

The National College of School Leadership opened in 2000 and around 150,000 leaders in schools and children's services have taken part in its programmes. Some examples of the ROI it quotes are:

- Schools that are engaged with its leadership development programmes achieve faster rates of improvement in their exam results.
- Primary schools who were supported by National Leaders of Education between 2008-10 noted a rise of seven per cent in Key Stage 2 results whilst others remained stable.
- Similarly, secondary schools supported by National Leaders of Education over the same period improved GCSE results by nearly twice of those not receiving this support.
- Schools that are led by National College qualified school business managers have created over £300 million of value for schools between 2003 and 2009 by improving buying efficiency, generating income and saving headteachers time.

Sheffield City Council recognised a need to address the next stage of leadership development for the city's National Professional Qualification for Headship (NPQH) graduates in order to address succession-planning challenges. Investment in a bespoke leadership development programme showed an immediate impact in increased applications and within two years seven of the 22 participants had already secured a headship with one taking on the role of executive headteacher.

The story is not confined to education.

In October 2007 a damning report from the Healthcare Commission criticised Maidstone and Tunbridge Wells NHS Trust (MTW) for failing to deal adequately with outbreaks of *clostridium difficile* infection. The report censured the trust's governance and management overall. The trust was failing to meet national targets and comply with core standards.

The way forward was to engage leaders with the strategy and change their behaviour. Emphasising leadership impact over managerial skills and teams over individuals, an integrated leadership development programme helped transform the hospitals' culture right down to ward level.

The Dr. Foster Health Guide quotes it as having a significantly low Hospital Standardised Mortality Ratio (HSMR) in 2008/09 and in band 4 of 5 for patient safety.

"You wake up in the morning and it feels like a different organisation. Senior leaders are now clear about their roles and responsibilities. They have the tools to do the job, a can do attitude and a way of thinking that is open to new ideas."

Glenn Douglas, chief executive Maidstone and Tunbridge Wells NHS Trust.

NHS South West also invested in leadership and commissioned a leadership development programme for 120 of their top leaders across the region. The participants are using the opportunity to get together in late 2011 upon completion of the programme, to look at next steps in the south west and how they will build on their learning further. The independent evaluation described it as a highly successful programme that has benefited participants and their organisations.

The British Library won the HR Excellence 2008 award for the best learning and development strategy. Part of this strategy involved training middle managers and so their Excellence in Leadership Programme was developed with support from the CEO, the executive team and the board. Results showed clear improvements in leadership, with all indicators increasing by 10 to 50 per cent. Staff turnover fell from 12 per cent in 2004 to six per cent by the end of 2007.

The Hospital for Sick Children is renowned as one of Canada's best hospitals and believes strongly in the value of developing its leaders. Its leadership development programme focuses on accelerating and sustaining behavioural change for senior and mid-level leaders. It also has an emphasis on talent management and succession planning, drawing on the core leadership competencies needed at the hospital.

Perhaps the Royal College of Nursing – not itself a public sector organisation but one with its roots very much within – offers a great example of development having just won the Gold Award from HR Magazine's 2011 Excellence Awards. Amongst other initiatives the RCN invested in developing leadership and management skills, driving fit-for-purpose learning and development throughout the association. Among the approaches were coaching and the introduction of core competencies and competency-based person specifications. Eighty four per cent of employees would recommend the RCN as a good place to work (up 11 per cent) and long term sickness levels have been reduced by 25 per cent.

And the work on leadership development continues as Hay Group's survey of leaders

across the public sector – *Mind the Talent Gap* – illustrates. One London local authority, despite financial challenges, is investing significantly in their middle leaders' development. The top team and councillors recognised the importance of this

population in helping them to get their transformation programme to 'stick' and embed new ways of working. Five police forces across the south east are piloting a region wide leadership and talent management programme to ensure that their superintendents have the skills needed to cope with new demands.

Dr. Lawrence Casalino, in his paper *GP* commissioning in the NHS in England:
Ten suggestions from the United States, urges a focus on leadership development to support new commissioning structures:

"To succeed, GP consortia will have to invest heavily in leadership, management and infrastructure.

"Of more than 1,500 US IPAs [US Independent Practice Associations] that have been created, many have disappeared, and perhaps 150, at most, have been successful at risk contracting. Most that remain are simply shell organisations that no longer engage in risk contracting or any meaningful activity. Successful IPAs have skilled leaders and invest in leadership, management and infrastructure (Thorlby and others, 2011). Unsuccessful IPAs did not."



## Making leadership development count

# Not everything that can be counted counts and not everything that counts can be counted

Einstein

As Voller (2010) has described, most organisations understand the value of leadership development but few can put a number on that value.

And so the obvious starting point is to focus on the outcomes that need to be achieved. But with care – a straight-forward focus on the bottom line is not enough. Of course performance matters – but a focus on performance alone can even be counterproductive. In 2008 the financial reports of most banks were at a record high...

The very best organisations recognise that leadership is about defining and shaping the **culture** that enables others to perform. Our assertion is that there is no such thing as a 'good' culture or a 'bad' culture – the key driver for leaders should be about creating a culture that is aligned with the strategy of the business.

And it is not sufficient to just assume that organisational culture is automatically aligned

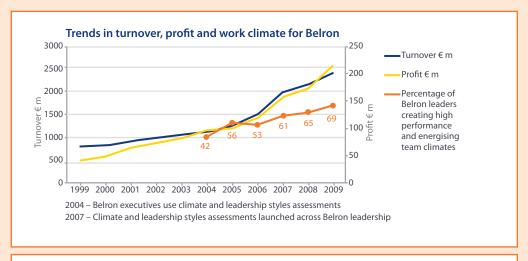
with core purpose, however worthy this might be. There are many examples of where culture has not been aligned to what the organisation wants to achieve, such as in Mid Staffordshire NHS Foundation Trust.

Hay Group research into ward management looked at a number of performance indicators, including patient satisfaction, staff absenteeism, staff turnover and drug errors. High performing ward managers achieved 36 per cent lower turnover, a 57 per cent reduction in absenteeism and 40 per cent lower drug errors — if the 10 lowest performing ward managers were developed to perform as well as the best, this could save the average trust over £650,000 each year.

These successful ward managers used a range of leadership styles to create the conditions which not only promoted the **culture** needed, but also those conditions which released **additional discretionary effort** from their staff.

#### Belron

Belron takes the case further. The world's largest dedicated vehicle glass repair and replacement service, demonstrates that their investment in business leaders has resulted in them creating energising work climates for their teams which are 4.2 times more likely to deliver above average profits.





44 Hay Group suggests that leveraging leadership development can lead to 30 per cent more discretionary effort. Even if they are wrong by half,
 15 per cent is too large a figure to ignore in this competitive environment

Gary Lubner, CEO, Belron

And even the High Street, a troubled place facing a bleak economic outlook, is investing in their leaders.

When Dorothy Perkins analysed how work climate related to financial performance at its stores, it found the best leaders delivered:

- 17 per cent lower staff turnover
- 40 per cent lower absence rates
- 12 per cent higher growth in sales
- Operating savings up by 10 per cent
- 35 per cent lower stock loss.

For a store with an average monthly turnover of £2.3million this could equate to an annual financial gain of £445,000.

The findings have persuaded Dorothy Perkins to sharpen their approach to leadership at all levels and types of stores.

Lessons learned about successful leadership development initiatives can be summarised as follows:

- Know what your leadership expectations are: 3M has identified six key leadership attributes. All employees are expected to chart the course, raise the bar, energise others, resourcefully innovate, live 3M values and deliver results.
- Ensure that leaders are focused on the business not on leadership itself: "They are strongly entrepreneurial in character, and they know that their success depends on anticipating customers' needs and delivering meaningful, high-quality solutions" (Johnson & Johnson).

- Leadership defines culture, culture defines results: Mars University has created efficiencies while preserving the unique Mars culture.
- New business challenges need new skills: Caterpillar has always had a tradition of strong leadership development. The company's current growth goals demand the cultivation of leaders with new skills and broad business knowledge.
- Leaders should want to learn: 3M prides itself that its leaders have always been known for sharing best practices especially technological breakthroughs, but emphasises that today's leaders at 3M have a passion for learning and sharing ideas. There is increased focus on action learning and 'leaders teaching leaders' including teaching, coaching and mentoring by leaders at the highest levels of the organisation.
- Leadership development requires vision and commitment: Novartis aims to be an organisation where people are engaged, developed, challenged and well rewarded for performance. It aims to attract and retain top talent. It recognises the importance of leadership at all levels of the organisation in order to succeed in a challenging business environment, and is committed to providing practical processes and programmes to identify, develop and inspire all its current and future leaders.

## Steps to getting the right returns

As the case studies show, it is possible to demonstrate your return on investment – whether that is profitability, improved quality, reduced absenteeism, improved efficiencies, customer satisfaction or something else. But this means putting careful thought into six critical conditions whilst avoiding four common pitfalls.

#### Six critical conditions

#### 1 Clearly define the outcomes you need

Too many leadership development programmes do great things to develop the individual but this makes little or no impact in the workplace. We'd suggest that this is particularly true when accreditation is the key driver – do you want to make a difference to your bottom line or do you want to help an individual smarten up their C.V.?

Be explicit about the link to business results and never lose sight of the key objective.

Tesco's strategy is focused on growth. In October 2009 it announced an additional £3 million investment into a programme to develop future leaders. Peta Hay, director of the Tesco Academy, said: "Our investment in leadership development represents the largest investment of its kind in the retail sector.

"The Tesco Academy aims to develop leaders who have a vision that they can align the business behind and who live our values. This will ensure that, as the business continues to expand, our leaders have the capability to deliver the stretching targets set."

Personnel Today, 19th October, 2009

#### 2 Identify the measures you will use to evaluate progress

How will you measure these outcomes? Set a baseline of the key metrics and measure them again after the intervention. There are few things that will motivate leaders more to change than knowing that their progress is being monitored.

Alliance and Leicester (in Gold et al, 2010) set out to deliver 'first touch' resolution to customer enquiries wherever possible. Their Leading Change programme supported senior managers and team leaders in developing their leadership skills and giving a clear context about the required changes. The business achieved a 30 per cent cost reduction and an improved customer experience.

#### 3 Get genuine and committed involvement at senior levels

Sponsorship is not enough. We have found countless examples of programmes that start with a key-note address from the top levels – "We consider this an important investment ..." – then end with the same speech. This 'sandwich' is just bread and butter with nothing in the middle! If you mean this intervention should really pay off, ensure that senior leaders are fully and genuinely committed to the outcomes that need to be achieved.

Neville Isdell took over Coca Cola in 2004 when the business was struggling. Isdell launched Coke's Manifesto for Growth to address shortfalls which focused on the 'soft' targets as well as the bottom line. By 2007, Coke had 13 billion-dollar brands, 30 per cent more than Pepsi and employees views of leadership had improved by 10 percentage points.

Isdell said: "The magic of the manifesto is that it was written in detail by the top 150 managers and had input from the top 400. Therefore it was their programme for implementation."

## 4 You can't put a changed person back into an unchanged environment and expect sustainable results

Either develop several layers of the hierarchy at once or think about a top down approach. If people get back to work and find their line manager is still acting in the 'as it was' world, it is near impossible for them to retain what they have learned. There needs to be a common language of leadership and for line managers to create the space to allow leadership to grow.

"It was frustrating when I got back to work. I had thought hard about what I needed to do differently to get results but my manager was quick to put me back in my box."

#### 5 Keep a single approach for everyone

Leadership looks different at different levels but a single framework and language will help to ensure that there is a common approach across an organisation.

And be clear that this is an honest representation of what you are setting out to achieve. There are too many development programmes that have a framework that is not suited to the business – if you say you value innovation, is it true? Do you reward it?

"We have sought to provide an integrated framework, where our stakeholders can see the key formal interventions and transitions in the journey of a leader within HML. In even a medium-sized organisation, a progressive approach to leadership development will lead to a high number of interventions, both formal and informal, over time and it is important that development looks and feels consistent and familiar to leaders progressing in their career."

Tim Spackman, head of OD at HML, in Gold et al, 2010

#### 6 Align your development programme with other things that are going on

All development programmes need to be aligned with other people processes and internal communications – people need to hear the same messages from all directions and have these continually reinforced. And recognise that a change in one HR process needs to be reflected in the development activities undergone.

#### Hay Group's approach to executing strategy:



#### And there are some lessons in what NOT to do

#### Four common pitfalls

We have found that leadership programmes fail to deliver ROI when they:

- 1 change approach too often: we recommend three full, consistent years of using the same tools, models and methods
- 2 don't correctly and clearly identify the right target audience (take a sheep dip approach to development)
- 3 lack line ownership and are seen as an HR process
- 4 are inconsistent with parallel initiatives, for example corporate re-branding projects.

## In conclusion

There are many claims that leadership development does have a straight-forward correlation with bottom line performance. We agree – we'd go so far as to say this is indeed a universally accepted truth and we challenge anyone to deny it.

But demonstrating ROI is much less easy. It requires a rigorous, robust and individual approach to define what is needed. And, frankly, even with a strong business case, it is easy to find holes in the methodology selected.

Maybe the question should be turned around – instead of asking about the cost and return of investment in leadership development activities, we should be asking what is the cost of NOT developing our leaders?

This thought piece was brought together by Hay Group.

Special thanks to Murray Dalziel of Liverpool Business School, Toni Fazaeli of the Institute for Learning, Shireen Voller of Ashridge Business School and Lester Coupland of Cranfield School of Management for their support.

For details of any of the references made, please contact Sharon Crabtree or Kate Wilkinson on 020 7856 7000.



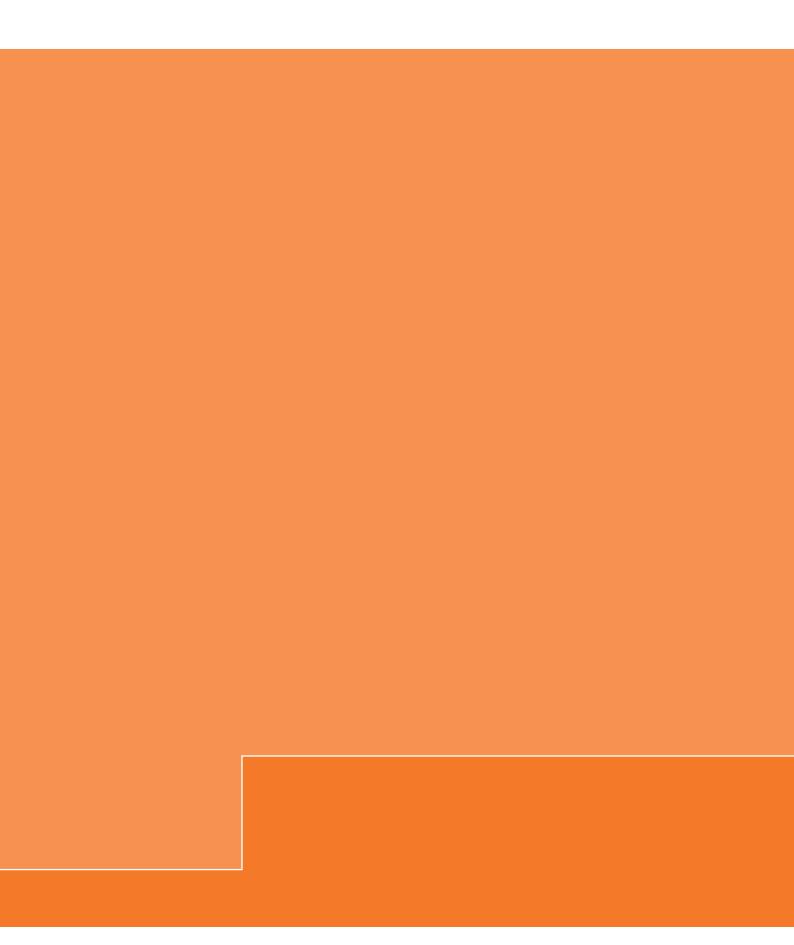


**66** Leadership is never constant. Reflecting, reviewing and refreshing our leadership skills and knowledge are vital, not optional. Leadership development can come in many forms, and in unexpected places. Looking across to another world can reveal principles of leadership that can be obfuscated in one's own field.

For example, in a recent discussion with leaders of an airline and of the horse racing industry I learned from their approaches to assessment of risks and areas for investment, the kind of conditions where growth is a good ambition and the hallmarks of excellent customer service. This learning involved seizing an opportunity to benchmark, needed some time to converse and time for reflection. Just as teacher expectation of learner success is vital to making it happen, so leaders need to expect a return on any investment in learning at any level.

To invest in leadership programmes, we need to have founded optimism that we will have the chance to see our own leadership practice from new perspectives, and to learn new skills and insights from others. Return on investment is only possible if we invest first. **33** 

Toni Fazaeli, chief executive of the Institute for Learning



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