



Making the Case for Leadership Development – Where is the Financial Return ?

Occasionally, I'm asked about the financial return on leadership development.

I say occasionally, as most CEO's, HR Managers, Talent Managers and those involved in progressive staff development, know that companies with strong, effective leadership will outperform those where there is less emphasis on the value of leadership.

For years, organizations hired for and trained for technical expertise. There was almost an implied belief that the greater the depth of technical expertise, the more the organization would outperform the competition. Coupled with that was the inherent belief that the best performing 'technical experts' would and should become the next generation of 'leaders' in the organization.

As an example, for many years often the top performing sales person in a sales-focused company was promoted to Sales Manager. The engineer who provided the best solutions was promoted to manager or leader of a team of engineers.

This approach was seriously flawed, for a number of reasons. Most importantly, the skills of a highly successful sales person, are not the same required to be an effective sales manager.

Fortunately, in the last 20 years or so, there has been a move away from this approach of succession planning which was based on inappropriate skills requirements and successful organizations are addressing the depth and range of skills required for the next level – and to provide the organization with people with skills and behaviors to provide leadership.

Of course, there is a cost to develop leadership. For some companies, leadership is regarded as a 'luxury', somewhat like taking the team for an all expenses paid holiday in a high-end resort.

For some companies, the choice of the holiday at the resort is the easier choice.

For others, the choice is not only clear but they now it is a necessary choice, one that will pay dividends not only in the short term but significantly in the longer term.

This sounds all very 'feel-good', showing how we care for our people by investing in staff development. And that, to a degree, is true. It is well known that staff respond very positively when they know that the company cares about them, is prepared to 'invest in them'. Studies also show that many future employees in an organization place 'learning opportunities' very high in how they are attracted to work for that company.

So what's the evidence of financial return on investing in leadership development, specifically? Is it worth the cost – or should we opt for the staff retreat in an exotic location?

Is a return of 10% a worthwhile investment ? Maybe 12.5% would be more attractive.

Let me share some results with you. A study conducted by Sonoma Leadership Systems¹ over 10 years to determine ongoing, long-term results provides some important data.

Beginning in 1996 and concluding in 2005, the study looked at 271 companies in the US and looked at transformational leadership, comparing those where the respondents identified whether their company engaged in strong practices of transformational leadership to those companies where the practices of transformational leadership was poor.

Where the leadership was described as 'strong transformational practices' there was a net income growth over the period of 841%.²

Compare that to the leadership which was described as 'poor transformational leadership' and the result was -49%. Yes, that's a *negative* growth of 49%.

When comparing the stock prices of the companies surveyed the result was a 204% increase compared to a 76% increase in those others with 'poor transformational leadership'.

The results emphatically make the case for leadership development and the investment required.

So should companies invest in leadership development ? Only if they want to outperform others who don't develop leaders.

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¹Extract from Sonoma Leadership Systems' 2005 study on Leadership Practices, Adaptive Corporate Culture, and Company Financial Performance

² Researcher/Author Richard ROI, Ed.D. Former Partner, Crawford International.