



THE BUSINESS CASE FOR CREATING ORGANIZATIONAL VALUE THROUGH LEADERSHIP DEVELOPMENT

The Business Case for Creating Organizational Value Through Leadership Development

At a time when organizations must control costs and rethink the added value of each business strategy, it is tempting to reduce training expenses. Certainly there is an immediate improvement in financials when costs are reduced. This short term improvement may be *masking* the true cost of reducing your leadership development budget. Cutting preventive maintenance of capital equipment can show a short term improvement in financials, but eventually much higher costs will be accrued when equipment breaks down and needs repair or even replacement. A similar case can be made for leadership development. If your internal leadership pipeline is not maintained, you will experience a leadership breakdown leaving you unprepared to prosper when the economy inevitably heats up. Leadership development is a proven, high value strategy for organizations that is a responsible and necessary use of organizational resources.

The Hard Facts:

- **Doing more with less.** Leadership behaviors consistently practiced by managers tap the “discretionary efforts” of each employee. The Yankelovich studies found that 44% of the members of an organization merely put in the effort that is required to do their job. A full 60% said they could put more into their job if they chose to. Managers can be taught and coached in leadership practices to access this discretionary effort to increase real productivity and innovation at a time when it is truly needed
- **Winning the Talent Wars.** How does an organization retain the best talent? Often the mere hint of a job reduction effort spurs the top talent to look for more vibrant and better resourced employers. Leaders retain talent by building commitment to the “vision” of the company and by affording employees a chance to play a meaningful role in accomplishing an ennobling future state. This commitment and the accompanying passion can sustain the organization during rough times. Second, the future pool of employable leaders will shrink dramatically as the baby boomers retire. There are 77,000,000 baby boomers in the workforce getting ready to retire and only 44,000,000 available to replace them. The supply and demand gap for potential leadership talent is a key strategic concern for organizations. The Gallup Organization research gives great insight on talent retention; people join companies but *leave managers*. The best talent will not endure a command and control, closely managed environment. Replacing current talent is costly; retaining the best you have provides a significant competitive advantage.
- **Building Shareholder Value.** Recent research by investment analyst Laurie Bassi, founder of Knowledge Asset Management, shows a strong link between employee development efforts and stock market performance. A five year back tested study of companies that made a significant investment in employee development showed a very strong correlation between training investment and economic value added (a performance measure most directly linked to creation of shareholder wealth). All turned in a better than S&P 500 performance over a 12 month period.⁴ (170% compared to 55 %!)
- **Leadership is not Advanced Management.** John Kotter, Professor of Leadership at Harvard Business School, argues that leadership is a complement to management, not a natural extension of it. It requires a different skill set and behaviors. His studies led him to say, “Most U.S. corporations today are over managed and under led. They need to develop their capacity to exercise leadership. Successful corporations don’t wait for leaders to come along. They actively seek out people with leadership potential and expose them to career experiences designed to develop that potential. “He further posits that there is a great shortage of trained leaders on the

horizon and business schools are continuing to produce managers, not leaders. Corporations must grow their own, and then hold onto them!

- **Leaders Execute.** Larry Bossidy, chairman and former CEO of Honeywell International, recently released a great business book titled, *Execution. The Discipline of Getting Things Done*. He posits that the absence of execution is the single biggest obstacle to success and the cause of most of the disappointments that are mistakenly attributed to other causes. He determined the number one building block of the discipline of execution is leadership. He further states that it is essential for every execution driven company to develop the leadership pipeline. You cannot execute with strong management alone.
- **Credibility Is the Foundation for Success.** Ultimately, the economic system of the U.S. runs on faith. Shareholders invest putting their faith in the organization's ability to grow and prosper. Customers invest in brands that they have faith in. And employees must have faith in those they would willingly follow. Recent data shows that we have a crisis of credibility in the leadership of our nation's businesses. Barna Research reports only 13% of Americans have significant confidence in chief executives to consistently make job related decisions that are morally appropriate. The bosses finished at the bottom of the list of opinion leaders, behind TV producers and directors, elected government officials—and even news reporters and journalists. And that translates into business results; Frederick Reichheld and his Bain & Company associates found that “the center of gravity for business loyalty—whether it be the loyalty of customers, employees, investors, suppliers, or dealers—is the personal integrity of the senior leadership team and its ability to put its principles into practice” They found further that disloyalty can dampen performance by a stunning 25-50%!⁷ As Jim Kouzes, chairman emeritus of the Tom Peters Company! and co-author of the best-selling *The Leadership Challenge*, says, “Credibility is the foundation of leadership”.
- **Leadership Is the Number One Productivity Tool.** As organizations continue to lean up, it appears that productivity is increasing. That is, more is getting done by less people. However, while that may be true in total output, it does not accurately reflect true productivity. People are working longer hours, answering emails at home, pagers and cell phones permanently attached to their bodies, and losing work/life balance. They are getting more done by working longer. It appears that some are beginning to fight back. A current bestseller is titled “White-Collar Sweatshop: The Deterioration of Work and its Rewards in Corporate America”⁹. And in the April 10th, 2001 issue of *Inside the AFL-CIO*, it was reported that the future of the union depends on the organizing white collar workers, a job they think easily achievable because, “All professionals want a voice in the workplace and opportunities to use their special skills without heavy handed interference from bureaucrats. Increasingly, they are deciding that unions can give them some measure of protection against workplace insecurity.”¹⁰ Leadership cultures encourage other's voices and engage everyone in work that matters. Hard work, yes, but work that matters increases passion that drives superior performance.
- **Now is the Time to Develop.** Laurie Bassi, the previously mentioned CEO of KAM, observes, “Most companies tend to cut development programs when times get tight. We're actually seeing some firms increasing their spending. The true cost of developing people decreases during a downturn. It's not just the cost of the training, but how your employees are spending their time. Now people have more time. And it's the time to develop them. During a boom, the intensity in which you invest in your people is one of the most cost-effective ways to retain your best people. It's also important to do so during slower times. Once people leave the school system, their work is the primary source of their education. But it's got to make sense for the employer. It's got to make money. “

Conclusions:

- Current economic conditions mandate fiscal constraint and responsible asset management. Consider, however, what it would mean to performance if you could tap just 10% of the discretionary effort of all employees.
- Investing in developing leaders is a visible and clear communication that people are really your greatest asset. When senior leadership puts this value in action there is a corresponding increase in credibility that can help counter the negative impact of necessary reductions in force. It communicates that people are a valued asset to invest in, not merely a cost to control.
- Learning = earnings.
- Most would agree that changes in the total business environment (technological, sociological, economic, etc) means that corporations must continually reinvent themselves. Leaders encourage innovation and create change.
- Developing an organization's leadership capacity creates a true competitive advantage.

Excerpted from work by Tom Peters