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## Measuring the Success of Leadership Development

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As with other strategic initiatives, organizations should have a process in place to evaluate their leadership development efforts. Companies need information to assess, improve and plan their investments for maximum effectiveness.

This research bulletin outlines a few of the primary success indicators of leadership development initiatives. Based on a recent study<sup>1</sup>, the data reveals that leadership development efforts are not entirely effective within most companies. This is primarily due to the lack of maturity of companies' leadership development strategies. Our research demonstrates that companies with mature leadership development initiatives are reaping the rewards in terms of superior leadership capabilities and better business performance.

### Leadership Performance Ratings

One key metric for evaluating leadership development is the strength of leaders within the organization. Using information on the skills and capabilities of leaders, companies can assess their leadership bench strength<sup>2</sup> and identify gaps requiring further development. If leadership

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<sup>1</sup> For more information, *Leadership Development Factbook® 2009: Benchmarks and Analysis of Leadership Development Spending, Staffing and Programs*, Bersin & Associates / Kim Lamoureux and Karen O'Leonard, October 2009. Available to research members at [www.bersin.com/library](http://www.bersin.com/library) or for purchase at [www.bersin.com/ldfactbook](http://www.bersin.com/ldfactbook).

<sup>2</sup> "Bench strength" refers to the capabilities and readiness of potential successors to move into key professional and leadership positions.





**KEY POINT**

Few leaders at any level received “excellent” ratings on their current skills and capabilities.

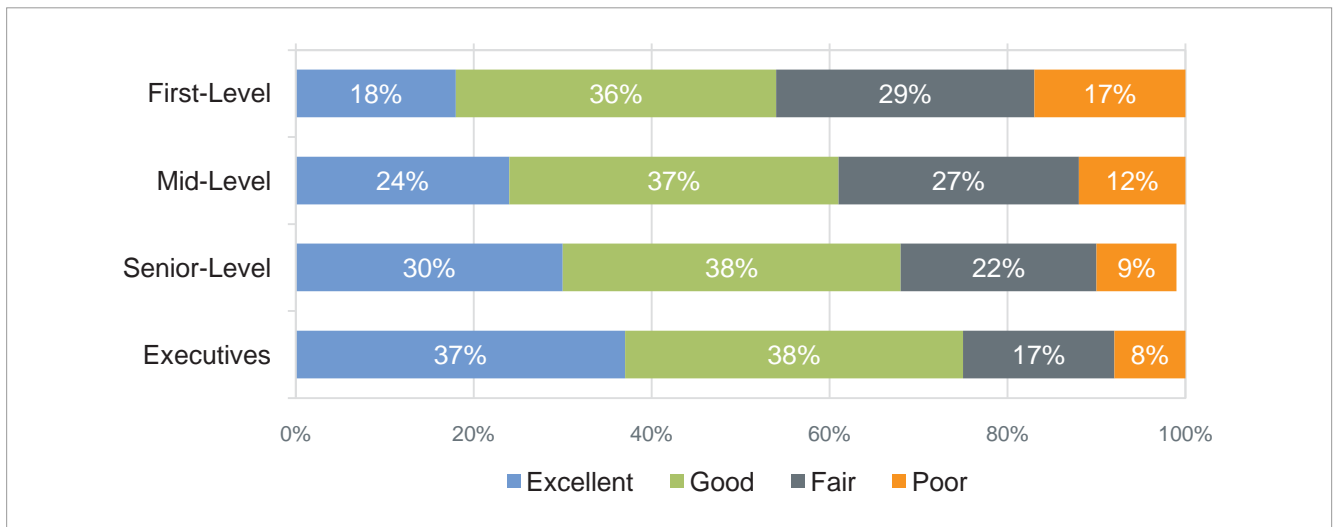
development programs are working, organizations should see an improvement in their leaders’ capabilities over time.

So how do companies rate their leaders’ performance? Our study asked companies to rate the skills and capabilities of each level of leader – from first-level managers to executives – based on the expectations for that role. The results demonstrate that most leaders are falling short in their skills development.

Compared to other leadership levels, executives received the highest scores. Even so, just 37 percent were rated as “excellent,” and another 38 percent were rated as “good” in terms of their skills and capabilities. Fully one-quarter of executives received “fair” or “poor” ratings. (See Figure 1.) These are very low ratings, considering the magnitude of the responsibility at this level.

Senior leaders had the next highest scores, with just 30 percent of these leaders receiving “excellent” ratings. Mid-level managers received still lower ratings, with just one-quarter receiving “excellent” ratings. Finally, ratings for first-level managers were lower still – fewer than one in five received “excellent” ratings, and nearly one-half received “fair” or “poor” ratings.

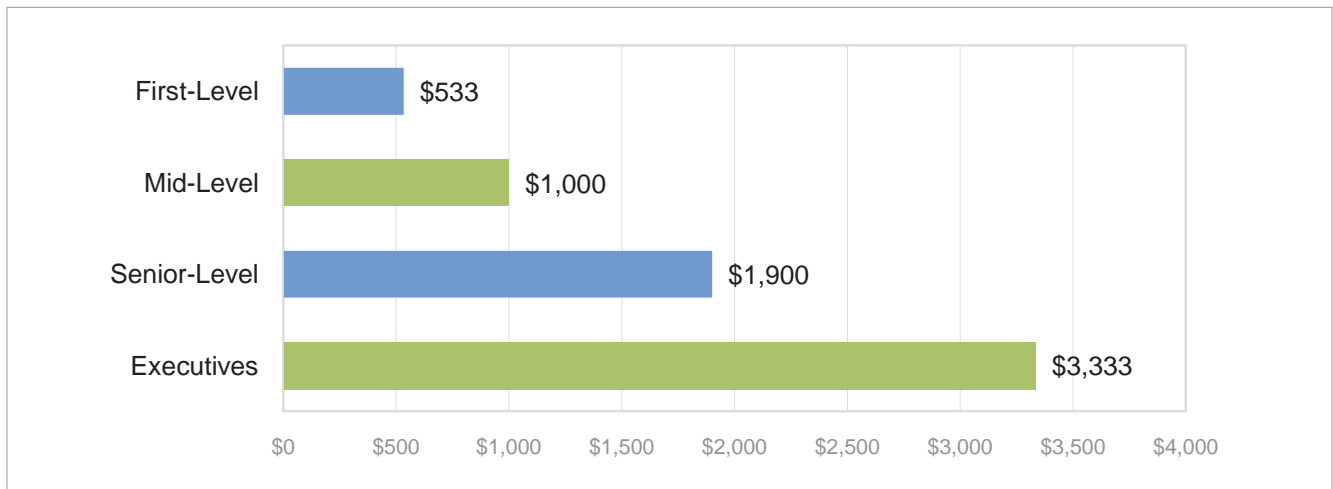
**Figure 1: Percent of Leaders with Excellent / Good / Fair / Poor Capabilities**



Source: Bersin & Associates, 2009.



**Figure 2: Median Annual Leadership Development Budget per Level: U.S. Total**



Source: Bersin & Associates, 2009.



#### KEY POINT

Companies are spending three times as much per executive compared to mid-level managers and six times as much compared to first-level managers.

As shown in these figures, the performance ratings increase with each successive leadership level, with executives receiving the highest scores and first-level managers receiving the lowest scores. We believe the poor performance ratings for these lower-level leaders are driven by a couple of factors. One is the lack of investment in mid- and first-level managers. Companies are spending three times as much per executive as compared with mid-level managers and six times as much as compared with first-level managers. (See Figure 2.)

Another factor is the type of development opportunities being offered at different job levels. Senior leaders and executives are most often presented with coaching, mentoring and experiential types of learning activities, which are highly individualized and extremely effective. Lower-level leaders tend to be provided with more traditional instructor-led training (ILT) and online learning, which can be delivered *en masse*. Companies should look at increasing the use of coaching and experiential opportunities at these lower levels, which can help to improve the skills sets of these leaders.

#### Internal Promotions

Another key metric is how many leaders are promoted from within the ranks of the organization, rather than hired externally. If development efforts are working as planned, leaders will be promoted up through

## ★ BEST PRACTICE

To better understand the effectiveness of leadership development, we recommend that companies compare promotions of leaders participating in leadership development versus those who are not.

the ranks; the company will look externally less often for the right skills and capabilities. Of course, other factors come into play with promotions – such as effective succession management practices within the company.<sup>3</sup> However, promotion rates are one measure that can be helpful in assessing effectiveness.

Our research found that 52 percent of executives and 57 percent of senior leaders were promoted from within their companies. Promotion rates are slightly higher among mid-level and first-level managers, at 62 percent and 64 percent, respectively. This seems somewhat ironic, since our previous data showed that these lower-level leaders received lower ratings on their skills and capabilities, as compared with senior-level leaders and executives. If their skills are substandard, why would they be promoted?

We believe a few factors are driving higher promotion rates among these lower leadership tiers. One issue affecting first-level managers is that many of these individuals were promoted from individual contributors because of their outstanding functional or technical capabilities, not because of their leadership potential. These new first-level managers thus find themselves lacking the management skills necessary for the job. Today, there are some powerful assessments in the market that offer companies solid data for evaluating job fit<sup>4</sup> and potential. We highly encourage companies to invest in these types of tools prior to promoting an individual contributor. These tools will also provide companies with skills gaps that can be managed appropriately.

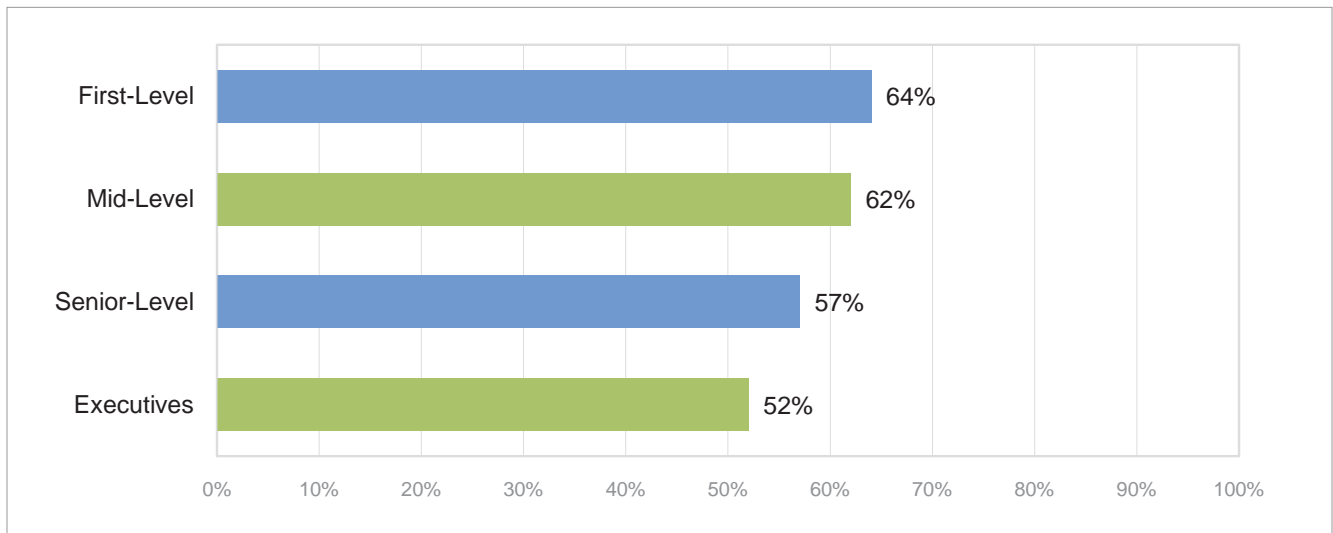
For mid-level managers, companies often underestimate the complexity of making the transition from a first- to mid-level manager. According to the book, *The Leadership Pipeline*<sup>5</sup>,

<sup>3</sup> For more information, *High-Impact Succession Management: Best Practices, Models and Case Studies in Organizational Talent Mobility*, Bersin & Associates / Kim Lamoureux, April 2009. Available to research members at [www.bersin.com/library](http://www.bersin.com/library) or for purchase at [www.bersin.com/hism](http://www.bersin.com/hism).

<sup>4</sup> “Job fit” refers to the assessment of current knowledge, skills, competencies and other key qualifications of an individual against the requirements of a specific role, current or future.

<sup>5</sup> Source: *The Leadership Pipeline: How to Build the Leadership-Powered Company*, Ram Charan, Stephen Drotter and James Noel, Jossey-Bass, 2000.

Figure 3: Percent of Leaders Promoted from within the Company: U.S. Total



Source: Bersin & Associates, 2009.



#### KEY POINT

Senior leaders and executive positions have lower promotion rates because the standards at these levels are much higher.

*“This leadership passage is frequently ignored ... Few companies address this passage directly in their training, even though this is the level where a company’s management foundation is constructed ... the biggest difference from the previous passage [from individual contributor to first-level manager], is that here, managers must be pure management.”*

A final and perhaps most important factor is that the standards are much higher at the senior leadership levels. Companies are much more selective of who goes into these roles simply because mistakes at these senior levels are more costly. Thus, they open up the talent pool to external candidates for these positions.

### Voluntary Turnover

A third key metric is voluntary turnover among leaders. Companies that invest in leaders will have greater engagement among leaders and (hopefully) lower turnover. Again, other factors come into play, including the company’s performance management and compensation practices. But this metric can be useful in assessing and planning for leadership development activities.





## KEY POINT

Voluntary turnover in 2008 ranged from 3.0 percent among executives to 10.2 percent among first-level managers.

Our study shows that executives have the lowest rate of turnover, with just 3.0 percent of executives leaving their positions voluntarily in 2008. Turnover rates rise with lower-level leadership positions – at 4.8 percent among mid-level managers, 7.8 percent among senior leaders, and a high of 10.2 percent among first-level managers.

There are a handful of reasons for the higher turnover among first-level managers. Two factors are lack of readiness and lack of investment. As stated previously, many first-line managers are promoted into their roles because of their technical expertise, not their management capability. They are ill-equipped for a management role and, since companies are investing the least amount of money on these managers, many do not receive the development they need to succeed. Therefore, their job satisfaction declines and they eventually leave the company.

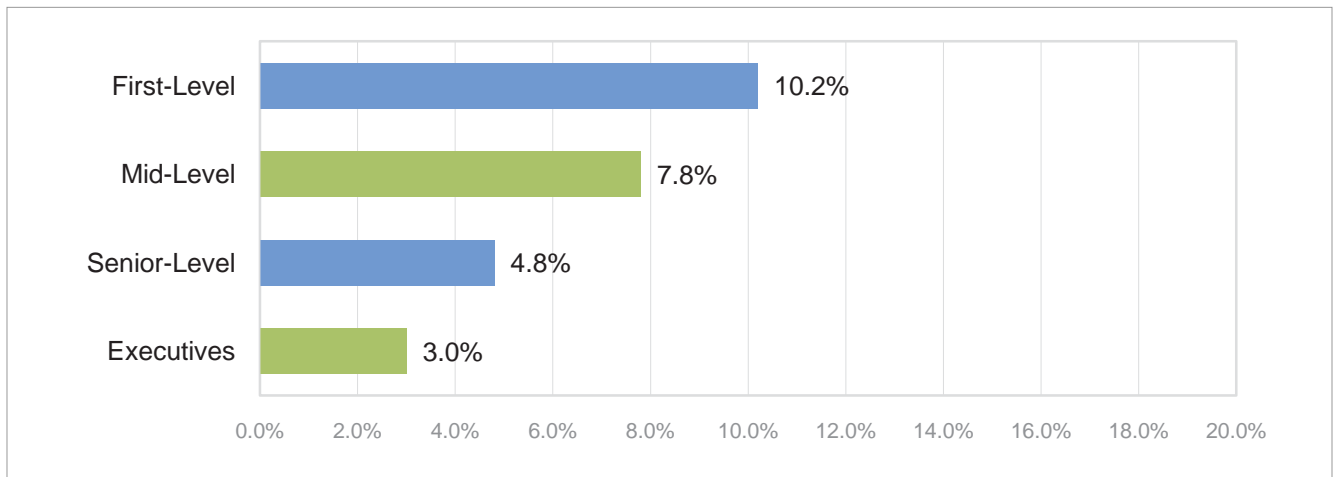
Another factor is the higher job mobility for people in these roles. Many individuals in first-level manager roles are at the beginning stages of their careers. This is a time when many people are exploring different options and they have a great deal of job mobility. It is also the point in many young professionals' careers when they are building breadth of knowledge. Thus, first-level managers will often "job hop" to gain more experience and to move more quickly up the job ladder.

Conversely, turnover rates decrease at the senior leader and executive levels. This is not too surprising since managers tend to remain in their roles longer as they progress. Based on our conversations with companies, the average tenure of a high-potential<sup>6</sup> first-line manager is about three to five years, as compared with eight years for executives. Additionally, career paths shrink as people move into more senior roles. There are less opportunities overall in the labor force at senior and executive management levels.

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<sup>6</sup> A "high-potential employee" is an employee who has been identified as having the potential, ability and aspiration for successive leadership positions within the company. Often, these employees are provided with focused development as part of a succession plan and are referred to as "HiPos."

**Figure 4: Voluntary Turnover among Leaders in 2008: U.S. Total**



Source: Bersin & Associates, 2009.



#### KEY POINT

Companies with strategic leadership development initiatives have more capable, higher-performing leaders.

### The Impact of Mature Leadership Development

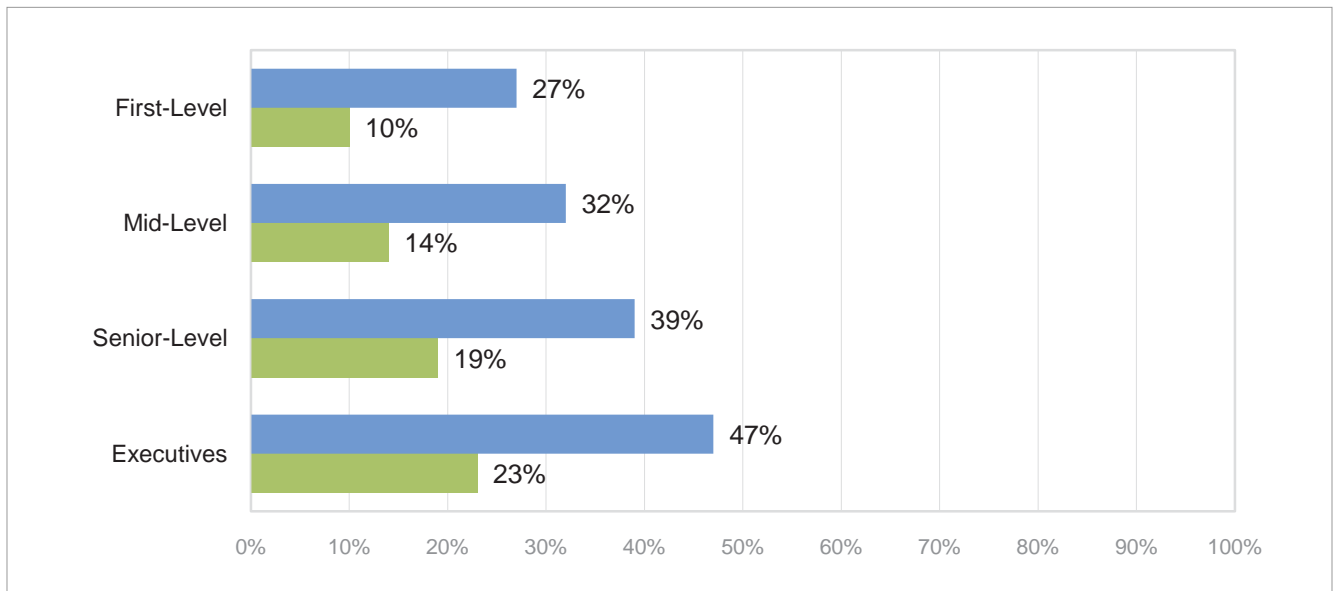
Although it may take many years to implement and optimize, leadership development has a significant impact on the organization. In this section, we will look at the differences between organizations that have reached the highest or “strategic” stage of leadership development versus those in less mature stages.<sup>7</sup> As the data below demonstrates, the impact of strategic leadership development is profound!

First, let us look at the impact on leaders’ skills. The data in Figure 5 compares leadership performance ratings among companies in the “strategic” stage of leadership development with those of companies in the lowest maturity level or “inconsistent” stage.

The data demonstrates that strategic leadership development greatly improves leadership capabilities. Companies in this stage have evolved to a strategic, organizationwide process for leadership development, which is integrated with the company’s overall talent management process and aligned with strategic business priorities. Leadership development targets many levels of leaders, from high-potential individual contributors to executives.

<sup>7</sup> For more information, *Leadership Development Factbook® 2009: Benchmarks and Analysis of Leadership Development Spending, Staffing and Programs*, Bersin & Associates / Kim Lamoureux and Karen O’Leonard, October 2009.

**Figure 5: Percent of Leaders Rated as “Excellent” by Maturity Level<sup>8</sup>**



Source: Bersin & Associates, 2009.



#### KEY POINT

Companies with strategic leadership development initiatives have higher promotion rates at every leadership level.

Twice the number of these organizations gave their executives, senior-level and mid-level managers “excellent” performance ratings, as compared with organizations in the inconsistent stage, in which there is no formal leadership curricula or only ad-hoc program offerings.<sup>8</sup>

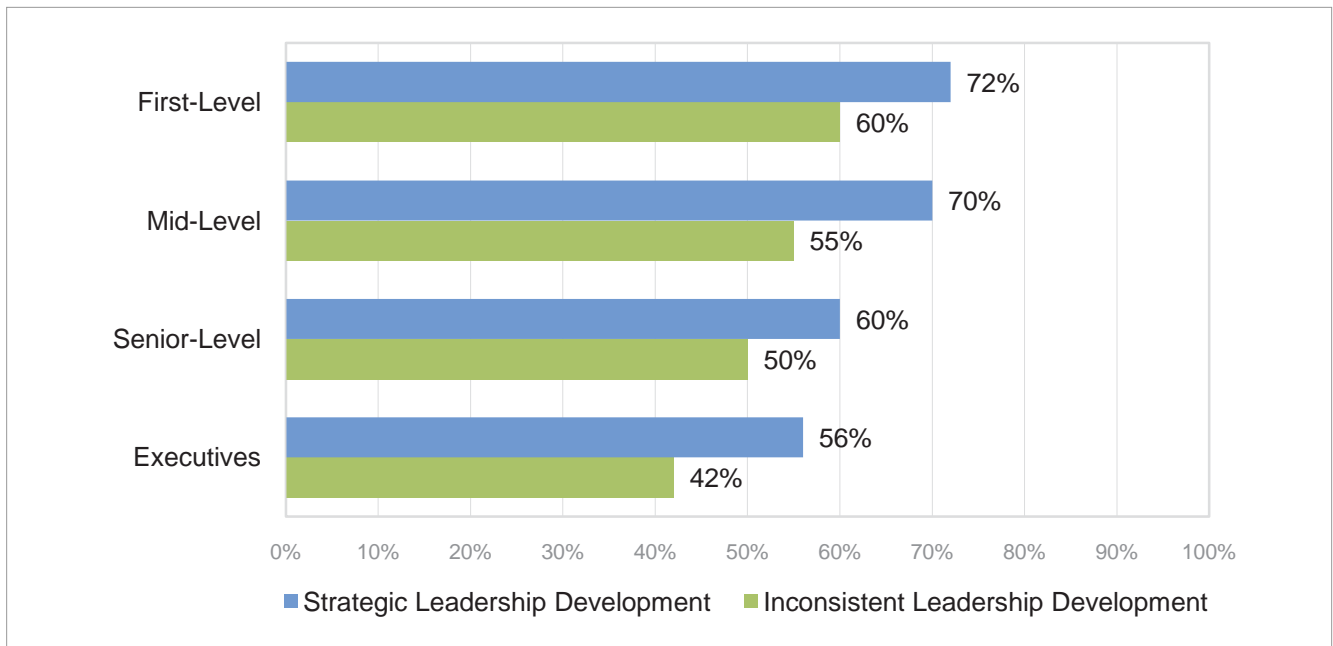
Similarly, nearly three times the number of organizations with strategic leadership development gave their first-level managers “excellent” ratings. So strategic leadership development does, in fact, improve the skills and capabilities of leaders at every level in the organization.

Next, let us look at one of our other measures of effectiveness – the promotion rate of leaders within the organization. Companies with strategic leadership development have a higher promotion rate at all leadership levels. As shown in Figure 6, 56 percent of executives were promoted from within the company, versus 42 percent among companies with inconsistent leadership approaches. The other leadership levels show similar results.

<sup>8</sup> By our definition, small companies have 100 to 999 employees worldwide, midsize companies have 1,000 to 9,999 employees, and large companies have 10,000 or more employees.



**Figure 6: Percent of Leaders Promoted from within by Maturity Level**

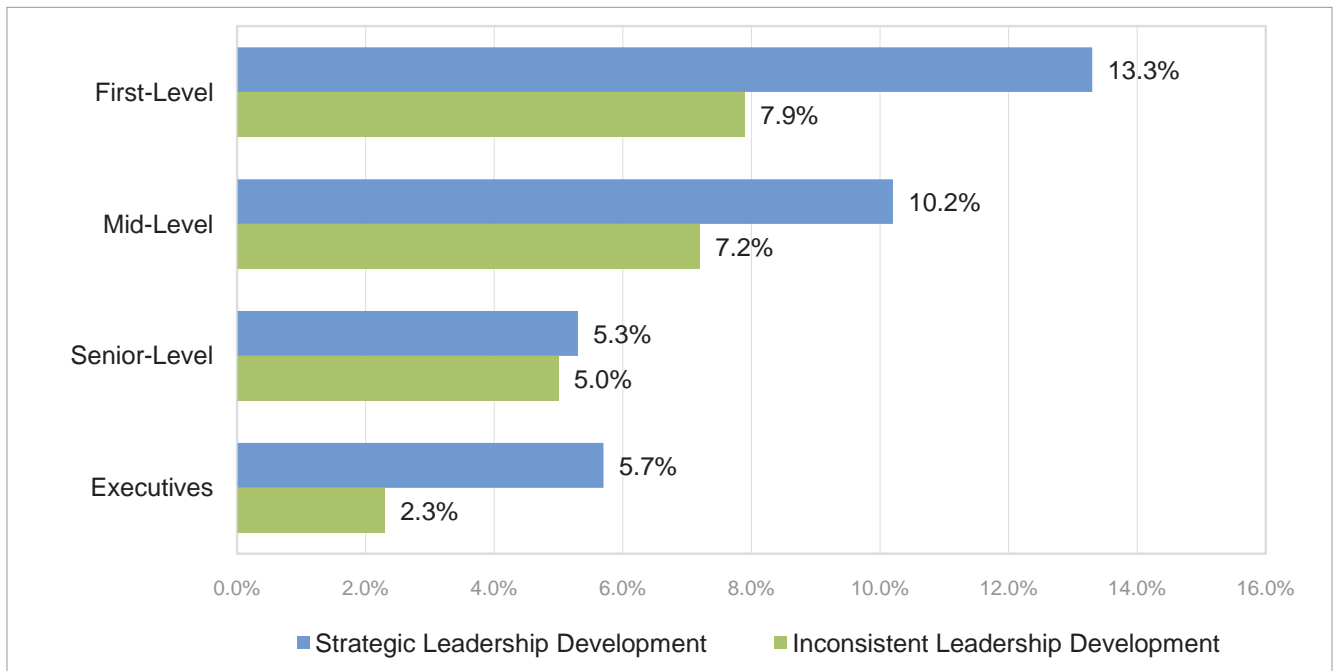


Source: Bersin & Associates, 2009.

Another metric we examined is voluntary turnover. Here we find that companies with strategic leadership development actually have *higher* voluntary turnover rates than those of companies with inconsistent leadership approaches. The reason – highly skilled leaders are valued in the marketplace and have more job opportunities than those with lesser skills.

The challenge for companies is that, as they develop great leaders, they need to find ways to keep them! Once a leader becomes highly skilled and marketable, he / she is much harder to retain. Companies must continuously look at their compensation, performance management and succession management practices to find ways to keep these highly valued leaders.

Figure 7: Voluntary Turnover in 2008 by Maturity Level



Source: Bersin & Associates, 2009.

### The Bottom Line: Impact on the Business

The crucial test of leadership development is the impact on the overall business. Here, our research shows measurable benefits of strategic leadership development.<sup>9</sup> As shown in Figure 8, companies that have reached the strategic stage perform better in the following areas:

- Overall turnover among employees is 18 percent lower;
- Turnover among high-performing employees<sup>10</sup> is 62 percent lower;
- Turnover among newly hired employees is 63 percent lower;

<sup>9</sup> For more information, *2009 Talent Management Factbook: Best Practices and Benchmarks in Talent Management*, Bersin & Associates / Karen O'Leonard, July 2009. Available to research members at [www.bersin.com/library](http://www.bersin.com/library) or [www.bersin.com/tmfactbook](http://www.bersin.com/tmfactbook).

<sup>10</sup> A "high performer" is an employee who is a key contributor, demonstrates high performance, is capable of a lateral move, may be qualified for a broader role within the same profession; and, has reached the potential to move "upward" in a management capacity.



## KEY POINT

There is a direct relationship between a company's leadership development initiatives, and employee turnover and productivity. Great leaders attract, motivate and retain high performers.

- One-half the rate of downsizing through the current recession; and,
- Higher scores on productivity and financial performance, strength of leadership pipeline<sup>11</sup>, and planning for future talent needs.

It is important to understand that leadership development is not just about developing leaders, it is about creating a high-performing, sustainable organization. The turnover data demonstrates a direct relationship between good management and employee commitment. Great leaders attract, hire and inspire great people. A mediocre manager will never attract or retain a high-performing employee.

In addition, good leadership will pull a company through hard times. One-half the number of companies in the strategic stage of leadership development experienced significant downsizing in 2008, as compared with those with inconsistent approaches. In addition, their scores reflect higher productivity and financial performance, and a greater ability to respond to economic conditions.

Finally, companies with strategic leadership development initiatives are set up to succeed in the future. Their scores are five to six times higher in the areas of planning for future talent needs and the strength of their leadership pipelines. These companies will not only be the first to come through the recession – they will be the *enduring* organizations. This is the bottom-line impact of leadership development.

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<sup>11</sup> "Leadership pipeline" refers to an organization's ongoing need to have a pool of talent that is readily available to fill positions at all levels of management (as well as other key positions) as the company grows. At each level, different competencies, knowledge and experiences are required, and (to keep the pipeline filled) the organization must have programs designed to develop appropriate skills sets. (Also known as the "leadership bench.")



**Figure 8: Impact of Leadership Development on Organizational Effectiveness**

	Strategic Leadership Development	Inconsistent Leadership Development
Median 2008 Voluntary Turnover	9.0%	11.0%
Median 2008 Turnover among High Performers	1.9%	5.0%
Median 12-Month Turnover among New Hires	3.0%	8.0%
Percent of Companies That Downsized Workforce by 10% or More between 2008 to 2009	17%	30%
Median Revenue per Employee	\$178,300	\$174,000
<b>Self-Ratings (percent top two box ratings)</b>		
Improving Productivity and Financial Performance	49%	25%
Responding to Current Economic Conditions	51%	33%
Developing and Utilizing a Leadership Pipeline	34%	6%
Planning for Our Future Talent Needs	31%	5%

Source: Bersin & Associates, 2009.



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