Making the Business Case for Leadership Development: The 7% Differential

One of the biggest challenges training professionals face when they propose new leadership development initiatives is convincing CEOs of the financial impact of the proposed initiative. Without a clear sense of the positive financial impact, it is easy to dismiss a new proposal as being too disruptive, too expensive, or too time consuming.

A free online calculator created by The Ken Blanchard Companies® might be just the tool that HR, OD, and training professionals have been looking for to help them make the business case for leadership development. An analysis of 200+ companies using The Ken Blanchard Companies' new **Cost-of-Doing-Nothing Calculator** shows that every year of delay is costing the typical organization an amount equal to 7% of their total annual sales.

Three Key Areas Affected

Less-than-optimal leadership practices cost companies millions of dollars each year by negatively impacting employee retention, customer satisfaction, and overall employee productivity. By looking at the effect that leadership has in each of these three areas, training professionals can begin to identify and quantify the impact of average versus best-practice leadership in their organizations.

Employee Retention

Retaining skilled, motivated, and experienced employees is a continual challenge for most organizations. While economic cycles can temporarily increase or decrease the number of available applicants in the job market, it is always in a company's best interests to keep skilled and experienced employees. There are several different costs associated with replacing an experienced employee, including:

- The cost of covering the position while vacant
- The cost of finding a replacement
- The cost of getting a new person up to speed

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Key Points

- Less-than-optimal leadership practices cost the typical organization an amount equal to 7% of their total annual sales.
- At least 9% and possibly as much as 32% of an organization's voluntary turnover can be avoided through better leadership skills.
- Better leadership can generate a 3 to 4% improvement in customer satisfaction scores and a corresponding 1.5% increase in revenue growth.
- Most organizations are operating with a 5% to 10% productivity drag that better leadership practices could eliminate.
- HR, OD, and training professionals can estimate the impact of better leadership in their own organizations at **www.costofdoingnothing.com**

The Blanchard® **Cost-of-Doing-Nothing Calculator** uses data originally published by the Saratoga Institute, a leading authority on turnover and retention, to identify that at least 9% and possibly as much as 32% of an organization's voluntary turnover can be avoided through better leadership skills.[1]

Depending on an organization's current turnover rate and the specific positions being lost, the cost of replacing skilled workers can run into the hundreds of thousands of dollars. While there are many models for calculating the cost of turnover in an organization, the Blanchard model utilizes a 50% replacement cost to balance a conservative estimate of 30% of annual salary to replace a lower-skilled, entry-level employee, to as much as 250% of annual salary to replace a highly specialized or difficult-to-replace position.

Customer Satisfaction

In looking at the specific, quantifiable impact that good management practices can have on improving customer satisfaction scores, Blanchard believes that better leadership can generate a 3 to 4% improvement in customer satisfaction scores and a corresponding 1.5% increase in revenue growth. This is based on an impact study evaluating the results of a leadership initiative Blanchard conducted with more than 700 managers at a major retailer. The managers were trained and later evaluated by follow-up associate opinion surveys conducted with more than 10,000 direct reports.

Anthony Rucci, Steven Kirn, and Richard Quinn first quantified this connection in the late 1990's when they identified that every 1.3% increase (or decrease) in customer satisfaction scores corresponded with a subsequent 0.5% increase or decrease in revenue growth.[2] In an article originally published in the *Harvard Business Review* titled "The Employee-Customer-Profit Chain at Sears," the authors concluded that leadership practices that lead to higher *employee* satisfaction scores translate into higher *customer* satisfaction scores, and subsequently into bottom-line impact.

In the Blanchard initiative, as predicted, direct reports perceived leadership skill improvements in all areas including their manager's ability to delegate, provide feedback, provide support, and provide directive behavior. Most importantly, the customer satisfaction survey showed the expected 3.8% improvement in overall customer satisfaction.[3]

Employee Productivity

Productivity is the third and most impactful way that leadership helps or hinders the bottom line. Providing employees with the tools, resources, direction, and support they need to perform at their best are the keys to creating a high-performance work environment. In addition, leaders need to consider systemic organizational obstacles that might be present in the work environment. When any of these factors are missing, the result is less than optimal productivity.

As Tor Dahl, former president of the World Confederation of Productivity Science and a member of the Board of Directors for the American Productivity and Quality Center, explains, "Although most people are working very hard these days, we have found that each individual in an organization can still increase productivity by at least 30%. How can that be? The answer lies in the fact that most workers, often of no fault of their own, are not working on the right things in the right way. The culprits are a variety of organizational 'ills,' including lack of clear directions and goals, sub-optimized processes, excessive paperwork and reporting requirements, unproductive meetings, inappropriate systems and tools, etc." [4]

As surprising as this may sound, Dahl's conclusion is consistent with the results of a survey of 1,300 private-sector companies conducted by Proudfoot Consulting in 2002. In that survey, conducted with companies from seven of the world's leading economies, Proudfoot found that, on average, only 59% of work time is productive. [5]

This same sentiment is evident in the Blanchard Cost-of-Doing-Nothing research where the 227 leaders assessing their companies estimated that employees were currently operating at only 70% of their potential instead of the 86% hoped for. [6]

While it is unrealistic to expect workers to be 100% productive through every working day, Blanchard believes that most organizations are operating with a 5% to 10% productivity drag that better leadership practices could eliminate. Using data from another Blanchard leadership initiative involving 300 managers and 1,200 direct reports at a large financial services firm, the follow-up study showed that the organization achieved a 5% to12% increase in productivity among direct reports of managers who attended the leadership development training and began using the new skills they had learned. [7]

Leadership Impacts the Bottom Line

In any economic cycle, the basics still apply—you have to have a good business plan, you have to take care of your customers, and you have to take care of your people. Leaders are an important part of that process. After all, it is leaders who help employees set goals, make sure that those goals are in alignment with overall corporate strategy, and are responsible for providing the direction and support that employees need to succeed at work on a daily basis.

Even though change—like a leadership development initiative—can be disruptive, difficult, and financially challenging, taking no action is often the most expensive option of all. HR, OD, and training professionals can quantify the cost of doing nothing by looking at the impact that less-than-optimal leadership practices have on their organization. If they are like the leaders at other organizations who have used the Blanchard **Cost-of-Doing-Nothing Calculator**, they will be surprised to find that they too are leaving an amount equivalent to 7% of their total annual sales on the table each year through less than optimal leadership practices[8].

Organizations need to make sure that they are getting the best out of their people by providing strong, consistent, and inspiring leadership. By evaluating and improving leadership practices throughout their organization, HR, OD, and training professionals can remove a persistent drain on financial performance that allows their organizations to grow and thrive.

About the Authors

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End Notes

1 Branham, L., *The Seven Hidden Reasons Why Employees Leave* (New York, NY: American Management Association, 2005).

2 Rucci, A., Kirn, S., and Quinn, R., *"The Employee-Customer-Profit Chain at Sears,"* The Harvard Business Review, 1998.

3 The Ken Blanchard Companies, Impact Study: The LensCrafters Vision (Escondido, CA: The Ken Blanchard Companies, 2002).

4 Dahl, T. Principles of Productivity. Available online at http://www.tordahl.com/principles.html

5 Proudfoot Consulting, Untapped Potential—The Barriers to Optimal Corporate Productivity (2002). Available online at www.proudfootconsulting.com

6 The Ken Blanchard Companies, *Initial Cost-of-Doing-Nothing-Calculator Results* (April 2011). Email david.witt@kenblanchard.com for more information

7 Leone, P., "Take your ROI to Level 6," *Training Industry Quarterly*, 2008.

8 The Ken Blanchard Companies, Cost-of-Doing-Nothing-Calculator. Available online at www.costofdoingnothing.com

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