## Take Measure—A Financial Case for Building Leadership Capacity

In the competitive world of business, companies often decide to forgo leadership training and development in order to cut costs. However, a high-quality Leadership Development process can save six figures off a company's bottom line each year. Not only does a company need to vie for its share of today's market to keep itself profitable and successful, but it must also compete to keep and motivate its biggest investment, its employees. The most cost efficient and direct method to accomplish this goal is to find and develop exceptionally good leaders.

The collective effect of the discretionary extra effort of a company's workforce significantly impacts the bottom line of the company, either negatively or positively. Whether the discretionary extra effort is negative or positive depends to a large degree on an employee's relationship with his/her leader.

According to a 2005 survey by the Corporate Leadership Council which included 50,000+ employees in 59+ organizations worldwide, "Increased employee commitment can lead to a 57% improvement in "discretionary effort" – basically employees' willingness to exceed the expectations of their job. That greater effort produces, on average, a 20% individual performance improvement, an 87% reduction in the desire to leave the organization and a 40% reduction in annualized turnover."

According to research on engagement conducted by Towers Perrin, the number one driver of employee engagement is employees' belief that senior management is interested in their well being. Yet only 42% of respondents agreed that this was true in their organization.

For Dr. Bradford Smart's 2006 study, fifty-four clients supplied data on their costs of poor performance due to mis-hired and/or disengaged employees. This study was based on the belief that hiring and developing people is an investment, so why not calculate ROIs? This survey instrument instructed the respondents to generate direct and indirect cost estimates on typical mis-hires and poor performers, not the most costly, not the least. More than half of the 54 respondents were division presidents or above. Some of the companies participating in this study were Motorola, General Electric, General Cable, General Signal, AlliedSignal, and Con Agra.

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| Second-level Manager Base Compensation | $ 62,000 |
| Number of Years in Job | 2.5 years |
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| 1. *Cost in Hiring* | $ 13,000 |
| 2. *Compensation (All Years)* | $188,000 |
| 3. *Cost of Maintaining Person in Job* | $ 44,000 |
| 4. *Severance* | $ 17,000 |
| **5. *Mistakes, Failures; Wasted and Business Opportunities*** | **$536,00** |
| 6. *Cost of Disruption* | $ 47,000 |
| 7. *Sum of Costs (#1-#6)* | $840,000 |

Based on this study, if a company employs even a small percentage of disengaged managers , the cost to that company can be staggering after only a few years. Poor performance from disengagement is a massive drain on the bottom line of any business.

In his 2004 study "Getting Engaged – Half of your workforce might be just going through the motions. Here's an opportunity to energize employees to realize untapped potential," Steve Bates reported:

The employee profile of a typical U.S. firm:

- 25% totally turned off by their jobs
- 50% do just enough to get by
- 25% are enthusiastic

A Towers Perrin study showed that "Just 15% of 15,000 respondents are highly engaged, willingly giving extra effort. The study, Reconnecting With Employees: Attracting, Retaining and Engaging Your Workforce, also found that 'engaged employees' outperform those less engaged, leading to measurable differences in employee performance."

After internal research revealed that managers at Google had a greater impact on employees' performance than anything else, the tech giant embarked on a mission to determine what made for good supervisors and how they could get all managers to that level, according to a New York Times article. In Project Oxygen, company number crunchers collected 10,000 observations about managers across 100 variables, did follow-up interviews, and then used the findings in management retraining programs. In 2010, the first year the training was offered, 75 percent of the company's worst-performing managers showed a statistically significant improvement in manager quality, a Google exec told the Times.

Will Ruch wrote in his article, "The New Workforce Reality: Gen Y – Are You Connecting?", "In recent months, a new staffing model has emerged, due in part to an elastic economy and the workforce shortages predicted to last over the long term. Cutting-edge companies are using a large, flexible workforce led by a core group of key talent to meet customer demands. Relationships, not hierarchies, are critical to getting work accomplished. In this new model, recruiting and retaining key talent becomes more important than ever before, and the companies that survive are those that become more than just a place to work."

In a recent Bureau of Labor Statistics Report, the United States Department of Labor stated that the median tenure of employees ages 25 to 34 was 2.9 years. They also reported that management and professional occupations, with the highest median tenure among major occupational groups, was only 5.0 years. Consider then, the cost of employee turnover, voluntary or involuntary.

If you examine just the direct cost of replacing an employee (turnover costs), a company should calculate the replacement at 150% of the employee's annual total compensation figure, and 250% if the employee is in a managerial or sales position. This figure includes recruitment, training, temporary replacements, either through hiring temporary staff or overtime incurred by other employees, and the actual cost of an employee leaving. Simply put, if your company's average employee compensation package is $50,000 then the average annual cost for the loss of an employee is approximately $75,000. Consider also that if your company maintains a workforce of 1,000 people and a yearly turnover rate of 7%, then your annual turnover expenditure will be approximately $525,000 a year. Over a period of 5 years, this turnover figure can easily top two and half million. Wouldn't companies be better off using this money in developing leadership and innovative ideas to stay ahead of the competition? The answer will be a resounding yes. So how does a company keep and motivate its high performing employees?

**To improve employee retention, to keep your employees engaged and committed to providing that all-important positive discretionary extra effort, you must develop your top leaders.**

What do top leaders look like? Exceptional leaders show interest in employees, trust them to do their work, challenge and reward them, communicate with them, coach them, and offer them opportunities for improvement. In essence, the key to an employee feeling engaged and performing in an exceptional manner is having a direct supervisor who cares about them and their well-being, who forms a good relationship with them, who does the very things mentioned above.

What motivates employees? To find the answer to this question, ask employees what they feel is important in their job. A recent survey by the international consulting group, Plexus, asked employees to give their opinions about what their supervisors were doing right; and in what areas could their supervisors improve. Twelve companies and agencies participated in these survey evaluations, representing the fields of finance, education, government, manufacturing, and sales. The data showed that employees want to be engaged, challenged, trusted, and responsible for their contributions. They also want to share in the emotional benefits of being linked with a greater purpose and growing a successful business. Good leadership is the key to fulfilling these employee needs.

Build leadership capacity by putting in place a team of leaders who have the skills to inspire a commitment from their employees to accept responsibility for and have a vested interest in their company and co-workers. Unfortunately, too many managers have knowledge about good leadership skills and still do not understand how to put this knowledge to work in the most effective manner. Training and development professionals can help these managers develop their knowledge into successful skills. An experienced leadership assessment and development effort can also help companies develop an effective Leadership Development process specific to a company's needs. The result will add dollars to the bottom line by keeping valuable employees, sharply reducing turnover costs, increasing productivity, and creating an environment conducive to innovation and discretionary extra effort that will keep the business ahead of its competition.