The Ken Blanchard Companies

EBOOK

Measuring the Impact and ROI of Leadership Training

One of the biggest challenges leadership, learning, and talent development professionals face when they propose new training and development programs is convincing senior executives of the positive fiscal impact of the proposed initiative.

Without a way to present the anticipated financial improvement, it is easy to dismiss a new proposal as being too disruptive, too expensive, or too time consuming.

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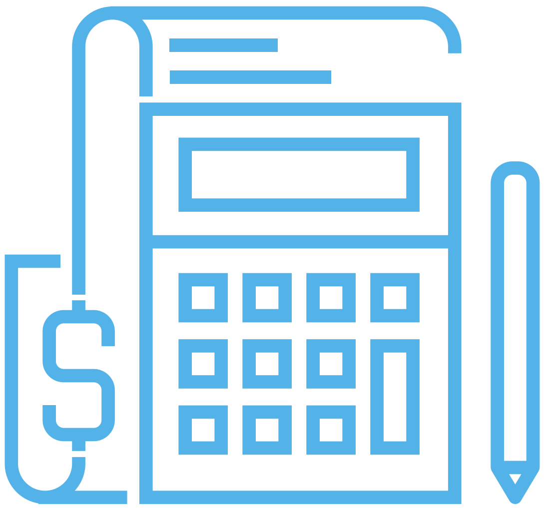


In this ebook you will learn how to calculate an estimated return on your next training initiative in three areas: employee retention, customer satisfaction, and employee productivity.

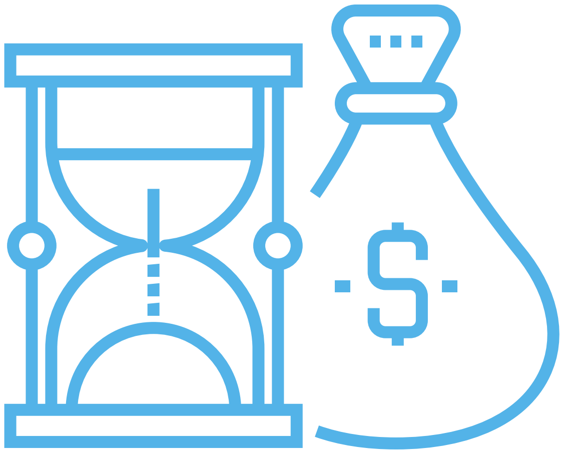
By using the Leadership Training ROI Worksheet located on page 21 of this ebook, you'll find that leadership development programs typically produce a return on investment of at least **8-to-1** once leaders adopt new skills.

An analysis of more than 200 companies using The Ken Blanchard Companies' Leadership Training ROI worksheet found that poor leadership practices cost organizations an amount equal to 7% of their total annual sales each year due to their negative impact on employee retention, customer satisfaction, and employee productivity.[1]

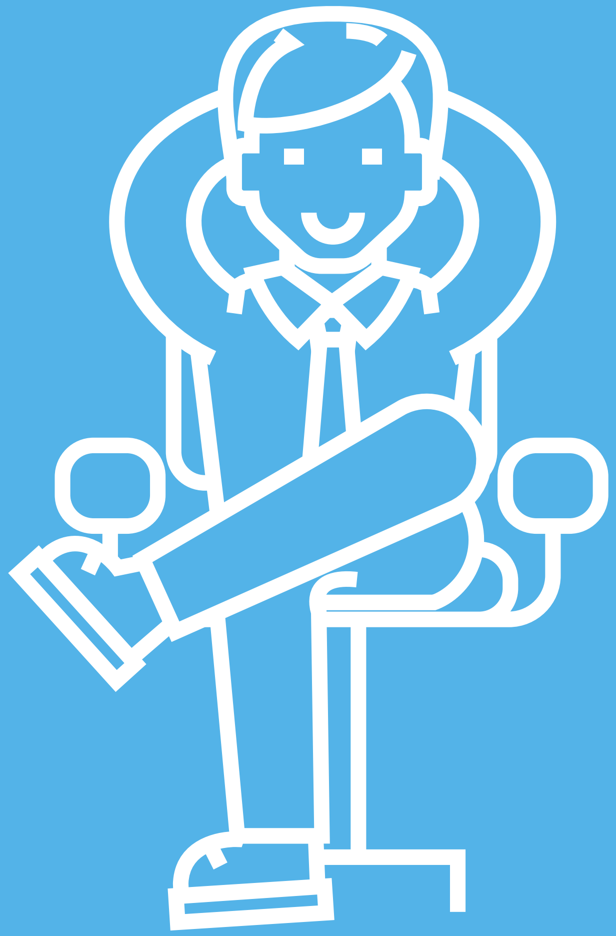
When leaders fail to provide their employees with the direction, support, and day-to-day coaching they need to succeed in their jobs, direct reports leave and those who stay serve customers less effectively and work less productively.

Research conducted by The Ken Blanchard Companies together with Training *magazine found large gaps between what employees want and what they receive from their leaders in terms of goal-setting, coaching, feedback, and performance review processes.*[2]

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



Let's take a closer look at how leadership, learning, and talent development professionals can begin to measure the impact of less-than-optimal leadership practices in these areas.



EMPLOYEE RETENTION

EMPLOYEE RETENTION

In a meta-study looking at the most relevant research papers on the costs of employee turnover, researchers Heather Boushey and Sarah Jane Glynn found that it costs businesses about one-fifth of a worker's annual salary to replace that worker.[3]

The first type of cost is direct costs. This category includes:

- Separation costs such as exit interviews, severance pay, and higher unemployment taxes
- The cost to temporarily cover an employee's duties such as overtime for other staff or temporary staffing
- Replacement costs such as advertising, search and agency fees, screening applicants, physicals or drug testing, interviewing and selecting candidates, background verification, employment testing, hiring bonuses, and interviewee travel and relocation costs
- Costs such as orientation, classroom training, certifications, on-the-job training, uniforms, and informational literature

The second category of turnover costs to businesses is indirect costs; these include:

- Lost productivity for the departing employee whose morale might be low or who may spend their last days on the job writing exit memos
- Lost productivity due to the need to hire and teach temporary employees
- Coping with a vacancy or giving additional work to other employees
- Costs incurred as the new employee is learning his or her job, including reduced quality, errors, and waste
- Reduced morale in the business unit
- Lost clients and lost institutional knowledge

Research originally conducted by Leigh Branham, a leading authority on turnover and retention and author of *The Seven Hidden Reasons Employees Leave*, identified that at least 9 percent and possibly as much as 32 percent of an organization's voluntary turnover can be avoided through better leadership skills.[4]

While most people tell human resources they are leaving for more money or a better opportunity, 88% change jobs because of negative factors in their current workplace, ranging from sub-par people management to toxic culture.

Branham, who partnered with PricewaterhouseCoopers in conducting the study, identifies that when employees are not getting their needs met in these key areas, they begin to look elsewhere.

The top five reasons people leave companies

1. Limited career/promotion opportunities
2. Supervisor lacked respect/support
3. Compensation
4. Job duties boring/no challenges
5. Supervisor lacked leadership skills

TOP
5

CUSTOMER SATISFACTION

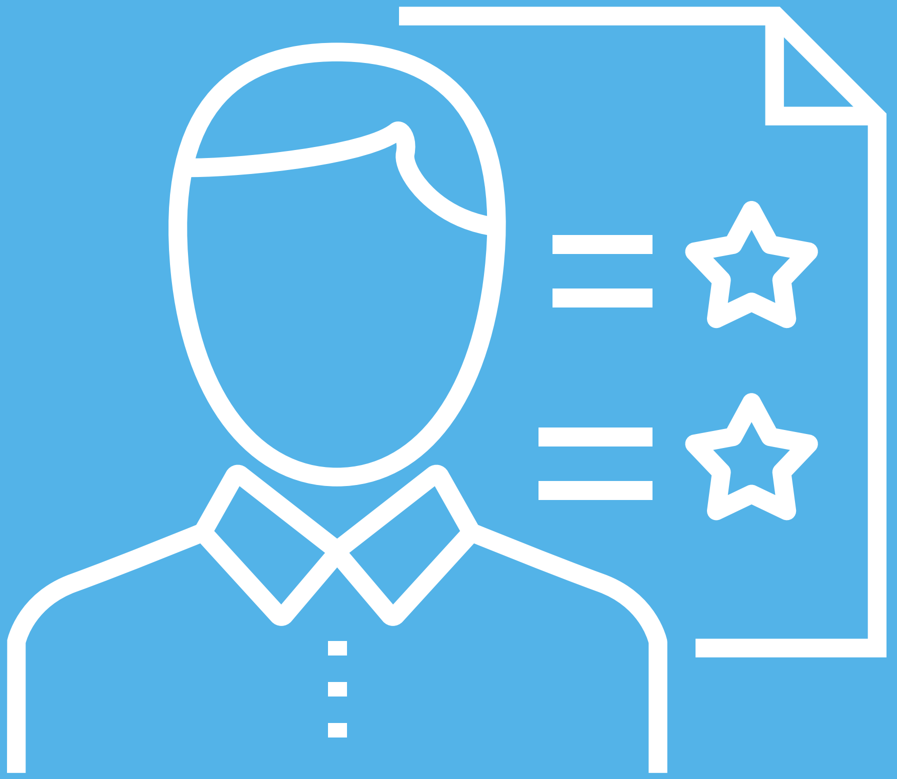
CUSTOMER SATISFACTION

There is a 3-to-1 correlation between customer satisfaction scores and annual sales. Researchers Anthony Rucci, Steven Kirn, and Richard Quinn first quantified this connection in the late 1990s when they identified that every 1.3% increase or decrease in customer satisfaction scores correlated with a subsequent 0.5% increase or decrease in revenue growth.[5]

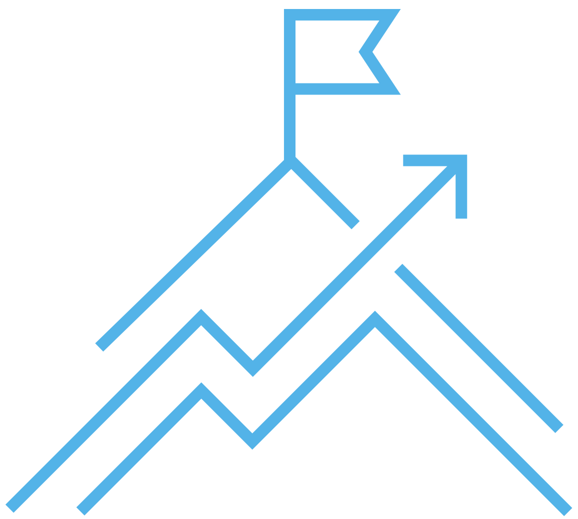
Blanchard research has identified that better leadership practices can generate a 3% to 4% improvement in customer satisfaction scores and a corresponding 1% increase in revenue growth.

A Blanchard initiative with 700 managers and 10,000 direct reports yielded leadership-skill improvements in managers' abilities to delegate, provide feedback, provide support, and provide directive behavior.

Most importantly, a customer satisfaction survey showed the expected 3.8% improvement in overall customer satisfaction.[6]



EMPLOYEE PRODUCTIVITY



EMPLOYEE PRODUCTIVITY

Productivity is the third and most impactful way that leaders help or hinder the bottom line. Providing employees with the tools, resources, direction, and support they need to perform at their best is the key to creating a high-performance work environment.

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%. 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."[7]

The Microsoft Office Personal Productivity Challenge (which drew responses from more than 38,000 people in 200 countries) found that while people work an average of 45 hours a week, they consider about 17 of those hours to be unproductive.[8]

The most common productivity pitfalls are

- Unclear objectives
- Lack of team communication
- Ineffective meetings
- Unclear priorities
- Procrastination

As surprising as this may sound, Microsoft's research and Dahl's conclusion are consistent with the results of a survey of 1,300 private-sector companies conducted by Proudfoot Consulting in 2002. In that survey of companies from seven of the world's leading economies, Proudfoot found that, on average, only 59% of work time is productive.[9]

While it is unrealistic to expect workers to be 100% productive throughout every working day, Blanchard believes that most organizations are operating with a 5% to 10% productivity drag that better leadership practices could eliminate.

A Blanchard leadership initiative involving 300 managers and 1,200 direct reports at a large financial services firm found that the organization achieved a 5% to 12% increase in productivity among direct reports of managers who attended a leadership development training and began using the new skills they learned.[10]

The Leadership Training ROI Worksheet

Ready to begin looking at the impact better leadership practices could have on *your* organization?

In this section, you will learn how to estimate the ROI of a proposed leadership training initiative.

Using Blanchard's methodology you will be able to quantify the financial impact of better leadership practices in your organization.

Leadership Training ROI Worksheet

Company Information

Total Annual Sales $ ______

Number of Employees ______

Average Salary per Employee $ ______

Total Annual Salary Cost (Number of Emp x Avg Salary) $ ______

Employee Retention Gap

Desired Employee Retention Rate ______ %

Current Employee Retention Rate ______ %

Employee Retention Gap ______ %

Employee Retention Gap Converted into Dollars $ ______

Employee Retention Gap % x Total Annual Salary x 20% replacement costs

Customer Satisfaction Gap

Desired Customer Satisfaction Score ______ %

Current Customer Satisfaction Score ______ %

Customer Satisfaction Gap ______ %

Customer Satisfaction Gap Converted into Dollars $ ______

Customer Satisfaction Gap % ÷ 3 x Annual Sales

Employee Productivity Gap

Desired Employee Productivity Rate ______ %

Current Employee Productivity Rate ______ %

Employee Productivity Gap ______ %

Employee Productivity Gap Converted into Dollars **$** ______

Employee Productivity Gap % x Total Annual Payroll

ALL GAPS **TOTAL $** ______

Benefit of Leadership Implementation

Employee Retention Benefit (by decreasing turnover by 15%) $ ______

Customer Satisfaction Benefit (by increasing satisfaction by 3%) $ ______

Employee Productivity (by increasing productivity 5%) $ ______

FIRST YEAR BENEFIT **TOTAL $**

Cost of Leadership Implementation

Total Number of Managers (assuming 7 to 1 ratio) $ ______

Cost of Training per Manager **$** ______

Cost to Train All Managers Total $ ______

Leadership ROI Calculation

First Year Benefit **$** ______

Train All Managers Cost **– $** ______

\# ______

Train All Managers Cost ÷ ______

\# ______

Multiply by x 100

______

Leadership Training ROI Worksheet

Company Information

Begin by identifying the portion of the organization you would like to evaluate. You may select a department, a function, a business unit, or the entire organization. With that group in mind, enter three pieces of information in the boxes to the right.

1. **Total Annual Sales** for this particular group
2. **Number of Employees** in this particular group
3. **Average Annual Salary** for employees in this particular group

Multiply the Number of Employees by the Average Annual Salary to identify the **Total Annual Salary Cost**.

Company Information

Total Annual Sales	$ ________
Number of Employees	________
Average Salary per Employee	$ ________
Total Annual Salary Cost (Number of Emp x Avg Salary)	$ ________

Employee Retention Gap

Desired Employee Retention Rate	________ %
Current Employee Retention Rate	________ %
Employee Retention Gap	________ %

Employee Retention Gap Converted into Dollars $ ________

Employee Retention Gap % x Total Annual Salary x 20% replacement costs

Customer Satisfaction Gap

Desired Customer Satisfaction Score	________ %
Current Customer Satisfaction Score	________ %
Customer Satisfaction Gap	________ %

Customer Satisfaction Gap Converted into Dollars $ ________

Customer Satisfaction Gap % ÷ 3 x Annual Sales

Employee Productivity Gap

Desired Employee Productivity Rate	________ %
Current Employee Productivity Rate	________ %
Employee Productivity Gap	________ %

Employee Productivity Gap Converted into Dollars $ ________

Employee Productivity Gap % x Total Annual Payroll

ALL GAPS **TOTAL $** ________

Measuring Your Employee Retention Gap

In this section, begin by filling in your **Desired Employee Retention Rate** and your **Current Employee Retention Rate**. (The US average employee retention rate is 80% according to the US Bureau of Labor Statistics.)

Next, subtract the difference between your desired rate and your actual rate to identify your **Employee Retention Gap**.

Multiply your **Employee Retention Gap** percentage by your **Total Annual Salary** from the previous page and then again using a 20% replacement cost as described earlier in this ebook to identify your **Employee Retention Gap Converted into Dollars**.

Company Information

Total Annual Sales	$ ______
Number of Employees	______
Average Salary per Employee	$ ______
Total Annual Salary Cost (Number of Emp x Avg Salary)	$ ______

Employee Retention Gap

Desired Employee Retention Rate	______ %
Current Employee Retention Rate	______ %
Employee Retention Gap	______ %
Employee Retention Gap Converted into Dollars	$ ______

Employee Retention Gap % x Total Annual Salary x 20% replacement costs

Customer Satisfaction Gap

Desired Customer Satisfaction Score	______ %
Current Customer Satisfaction Score	______ %
Customer Satisfaction Gap	______ %
Customer Satisfaction Gap Converted into Dollars	$ ______

Customer Satisfaction Gap % ÷ 3 x Annual Sales

Employee Productivity Gap

Desired Employee Productivity Rate	______ %
Current Employee Productivity Rate	______ %
Employee Productivity Gap	______ %
Employee Productivity Gap Converted into Dollars	$ ______

Employee Productivity Gap % x Total Annual Payroll

ALL GAPS **TOTAL $** ______

Measuring Your Customer Satisfaction Gap

For this section, begin by filling in your **Desired Customer Satisfaction Score** and your **Current Customer Satisfaction Score**. (The American Customer Satisfaction Index average is 75% overall with best-in-class organizations averaging 85%.)

Next, subtract the difference between your desired percentage and your current percentage to identify your **Customer Satisfaction Gap**.

Divide your Customer Service Gap percentage by three and multiply this new one-third percentage against your Total Annual Sales. This will reflect the 3-to-1 ratio described earlier in this ebook. ***(Use a 7-to-1 ratio if your organization uses a Net Promoter Score calculation for evaluating customer service—a seven-point improvement will equal a one-percent increase in sales.)*** This will identify your **Customer Satisfaction Gap Converted into Dollars**.

Company Information

Total Annual Sales	$	________
Number of Employees		________
Average Salary per Employee	$	________
Total Annual Salary Cost (Number of Emp x Avg Salary)	$	________

Employee Retention Gap

Desired Employee Retention Rate	________	%
Current Employee Retention Rate	________	%
Employee Retention Gap	________	%

Employee Retention Gap Converted into Dollars $ ________

Employee Retention Gap % x Total Annual Salary x 20% replacement costs

Customer Satisfaction Gap

Desired Customer Satisfaction Score	________	%
Current Customer Satisfaction Score	________	%
Customer Satisfaction Gap	________	%

Customer Satisfaction Gap Converted into Dollars $ ________

Customer Satisfaction Gap % ÷ 3 x Annual Sales

Employee Productivity Gap

Desired Employee Productivity Rate	________	%
Current Employee Productivity Rate	________	%
Employee Productivity Gap	________	%

Employee Productivity Gap Converted into Dollars $ ________

Employee Productivity Gap % x Total Annual Payroll

ALL GAPS **TOTAL $** ________

Measuring Your Employee Productivity Gap

Fill in your **Desired Employee Productivity Rate** and your **Current Employee Productivity Rate**. As described earlier in this ebook, most studies point to an average productivity rate of 65% for current workers.

Subtract the difference between your desired rate and your current rate to identify your **Employee Productivity Gap**.

Multiply this gap percentage against your **Total Annual Salary Cost** to calculate your **Employee Productivity Gap Converted into Dollars**.

Total from All Gaps

Add the following amounts to calculate your **Total for All Gaps**

Employee Retention Gap Converted into Dollars

+ Customer Satisfaction Gap Converted into Dollars

+ Employee Productivity Gap Converted into Dollars

Company Information

Total Annual Sales	$	
Number of Employees		
Average Salary per Employee	$	
Total Annual Salary Cost (Number of Emp x Avg Salary)	$	

Employee Retention Gap

Desired Employee Retention Rate		%
Current Employee Retention Rate		%
Employee Retention Gap		%

Employee Retention Gap Converted into Dollars $

Employee Retention Gap % x Total Annual Salary x 20% replacement costs

Customer Satisfaction Gap

Desired Customer Satisfaction Score		%
Current Customer Satisfaction Score		%
Customer Satisfaction Gap		%

Customer Satisfaction Gap Converted into Dollars $

Customer Satisfaction Gap % ÷ 3 x Annual Sales

Employee Productivity Gap

Desired Employee Productivity Rate		%
Current Employee Productivity Rate		%
Employee Productivity Gap		%

Employee Productivity Gap Converted into Dollars **$**

Employee Productivity Gap % x Total Annual Payroll

ALL GAPS **TOTAL $**

Benefit of Leadership Implementation

Employee Retention Benefit. The Employee Retention Gap can be expected to improve by 15%. Multiply your Employee Retention Gap Converted into Dollars by 15% to arrive at the benefit amount. This percentage is based on the Leigh Branham/ PricewaterhouseCoopers study cited earlier in this ebook that found 15% of people leave organizations because of conditions that are under the control of an immediate manager.[4]

Customer Satisfaction Benefit. Customer Satisfaction can be expected to improve by 3% with a financial benefit equal to 1% of Annual Sales. Multiply your Annual Sales figure by 1% to determine this benefit amount. This number is calculated using the *Harvard Business Review* article ratio of 3 points in customer satisfaction equals 1 point in sales, combined with the Blanchard study cited earlier showing a 3-point improvement in customer satisfaction scores after the successful implementation of a leadership skill improvement program with hundreds of managers.[6]

Employee Productivity Benefit. Employee Productivity can be expected to improve by 5%. Multiply your Total Annual Payroll by 5% to calculate the benefit amount. This claim is based on a Blanchard initiative that generated a 5%–12% improvement in productivity following the successful launch of a leadership skill development initiative with hundreds of managers.[10]

Total First Year Benefit

Add up the Employee Retention Benefit, Customer Satisfaction Benefit, and Employee Productivity Benefit to determine this number.

Cost of Leadership Implementation

Divide your Number of Employees by seven to estimate the number of managers in this particular group of people. This is an average span of control in organizations.

Multiply the Total Number of Managers by $2,500 to generate a Total Cost to Train All Managers. Blanchard estimates the all-in cost of training at $2,500 per manager. This figure covers items like travel, time away from work, costs of workbooks and facilitators.

Leadership ROI Calculation

To determine the ROI of your leadership training initiative, subtract the **Total Cost to Train All Managers** from the **Total First Year Benefit**.

Next, divide that amount by the **Total Cost to Train All Managers**.

Finally, multiply by 100 to convert the resulting number into a percentage. This is your **Estimated First Year ROI of Leadership Initiative**. (This number will typically range between 800% and 1,500%, which represents a return of $8–$15 in benefit for every $1 spent on leadership training. This is because of the multiplier effect—one manager impacts the work environment of multiple direct reports.

Leadership Training ROI Worksheet Continued

Benefit of Leadership Implementation

Employee Retention Benefit (by decreasing turnover by 15%)	$ ________
Customer Satisfaction Benefit (by increasing satisfaction by 3%)	$ ________
Employee Productivity (by increasing productivity 5%)	$ ________

FIRST YEAR BENEFIT **TOTAL $**

Cost of Leadership Implementation

Total Number of Managers (assuming 7 to 1 ratio)	$ ________
Cost of Training per Manager	**$** ________
Cost to Train All Managers	Total $ ________

Leadership ROI Calculation

First Year Benefit		**$** ________
Train All Managers Cost	**–**	**$** ________
		# ________
Train All Managers Cost	÷	________
		# ________
Multiply by	x	100
		________

Conclusion

Good leadership is critical in business today. After all, it is leaders who help employees set goals, make sure 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.

Multiplier Effect

Leadership training always generates a high return because of the multiplier effect with direct reports.

One leader impacts the work environment of multiple direct reports.

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.

Organizations need to make sure 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 and allow their organizations to grow and thrive.

Would you like to learn more about measuring the impact and ROI of Leadership Training?

Got questions—or need some help with the calculations? Schedule a free online consultation with a Blanchard ROI expert.

The consultation is free and appointments are available at a time that is convenient for you.

CONTACT US

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About the Author

David Witt is a Program Director and Senior Researcher at The Ken Blanchard Companies, a leadership learning and development company headquartered in San Diego, CA. He can be reached via the company's website at: kenblanchard.com

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