



Leadership Development Factbook® 2009

*Benchmarks and Analysis of Leadership
Development Spending, Staffing and Programs*

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Introduction

Organizations that have survived many economic cycles have learned that “leadership matters” over the long term. Our research shows that leadership development continues to be a top priority within organizations. However, with the economic recession, many of these programs are being curtailed or modified for greater efficiency. Therefore, we set out to determine how much is being spent on leadership development and how these programs are being conducted.

Our research has culminated in the first-ever *Leadership Development Factbook*, the industry’s most comprehensive source of data on leadership development spending, staffing, delivery and programs. The primary purpose of this study is to provide organizations with key metrics against which they can benchmark their leadership development efforts. Metrics contained in this report are shown in Figure 1.

Figure 1: Key Metrics Provided in This Report



Source: Bersin & Associates, 2009.

These metrics reveal the amount of time and resources dedicated to leadership development today, broken down by four leadership levels – executives, senior-level leaders, mid-level managers and first-level managers (or supervisors). In addition, metrics are reported by company size, demonstrating the differences between small, midsize and large organizations, as well as by industry group (see sections, “Appendix II: Key Metrics by Company Size” and “Appendix III: Key Metrics by Industry,” for more details).

The study also examines how leadership programs are being conducted and the impact of leadership development on the organization. Key topics include:

- How leaders are selected for participation in development programs;
- How formal and informal leadership development programs are conducted for each leadership level;
- How companies can improve the effectiveness of their leadership development programs; and,
- The impact of leadership development on the organization’s turnover, employee productivity and other business metrics.

The data in this report was collected in June 2009 through a survey with 352 U.S. companies from a broad cross-section of industries and company sizes. All companies in this study offer some type of leadership development programs. In addition, examples and case studies are included throughout the report to illustrate certain trends and best practices. These are based on qualitative interviews with HR and talent management executives across a range of company sizes and industries. Thus, this study represents a snapshot of how leadership development is being conducted today in organizations across the country. (For more information, see section, “Appendix I: Study Methodology.”)

While this report contains ready-to-use information for planning purposes, we also realize there are many ways to interpret this data. Bersin & Associates provides advisory services to help you understand and use this information to create a world-class training organization. Please contact us at info@bersin.com or go to www.bersin.com/services for more information.

We want to thank all of the people who participated in this study. Without the diligent efforts of managers and executives across the country in gathering data, this report would not be possible.

As always, we welcome your feedback on this report. Please feel free to contact us at research@bersin.com with any questions or comments. The input from our readers is vital in helping us to shape next year's study.

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Executive Summary

Overall, our research shows that leadership development continues to be a top priority within organizations. However, there is clearly still a lot of work to be done.

The following are key findings from this research, which are explored in more detail throughout the report. In addition, most of the data in this report is broken out by company size and leadership level.

Key Findings

1. Leadership Development Beginning to Mature

We categorize companies into one of four stages in terms of their organization's leadership development maturity level. The numbers show a shift to higher levels of maturity. Just under one-half of U.S. companies have no leadership development programs or use an inconsistent approach. This is a decline from last year's figure of 60 percent. Approximately one-quarter (26 percent) have a focused or strategic approach to leadership development – an increase over last year's figure of 17 percent. So, although leadership development is still immature within most companies, many organizations are making progress in moving toward more effective leadership initiatives.

Figure 2: Bersin & Associates Leadership Development Maturity Model (with percent breakdowns by Maturity Level)



Source: Bersin & Associates, 2009.

2. Only One-Half of Leaders Participate in Development

KEY POINT

Only one-half of all leaders participated in development over the last year due, in part, to tighter budgets.

Our research shows that approximately one-half of all leaders within U.S. companies participated in some type of formal or informal leadership development over the past year. This number is discouraging and is lower than we expected. It means that one-half of leaders *have received no development in the last year*.

These low participation rates are due, in part, to tighter budgets in the current economy. With fewer budget dollars, companies are being more selective in choosing leaders for development programs. Formal leadership development can be expensive (see “Key Finding 3”). But companies should remember that development options can also include activities, such as coaching, mentoring and “stretch” assignments, which are low or no-cost, yet are still extremely effective.

3. The Majority of Leadership Budget Goes to Lower-Level Leader Populations

Thirty-two percent of leadership development budget dollars goes to first-level managers and another 31 percent for mid-level managers. Since first-level and mid-level managers vastly outnumber higher-level leaders, it was not surprising that they require more funding. In addition, these lower-level leaders receive primarily formal, more traditional types of development, in the form of instructor-led classroom (ILT) and online courses. Program design and delivery, plus travel and food costs for face-to-face participation, result in larger implementation costs for such large audiences.

At the upper levels of leadership, executives receive 15 percent of leadership development budget dollars and senior leaders receive 22 percent. Although these proportions are smaller pieces of the overall budgetary “pie,” these are actually fairly high percentages, given the small populations in both of these leadership groups. As we will see next, development is typically quite expensive for these leaders on a per-person basis.

4. The Average Annual Spend per Leader for Development Is \$2,000

KEY POINT

Annual spending for leadership development ranges from \$533 per first-level manager to \$3,333 per executive.

On a per-person basis, companies spend \$2,013 annually for each leader participating in development. This figure includes leadership development program dollars and operating expenses, plus salaries for leadership development staff.

Although first- and mid-level management programs receive the lion's share of total budget dollars, senior-level leaders and executives receive far more on a per-person basis. Companies spend an average of \$533 per first-level manager and \$1,000 per mid-level manager, annually. Annual spending on the two upper tiers is many times higher, at \$1,900 per senior-level leader and \$3,333 per executive. Executive education, external coaches and assessments are common at these levels, and come with a high price tag.

Do not fret, however, if your numbers are not this high. Even if your organization does not have a budget, you can still develop leaders. Surprisingly, we found that approximately 12 percent of companies are developing their leaders without investing any budget dollars. This development is being conducted informally, such as with coaching, collaborative and experiential types of learning activities.

5. A High Staff-to-Leader Ratio Demonstrates the “High-Touch” Nature of Leadership Development

Most companies have just a few staff specifically dedicated to leadership development. The staff is typically responsible for developing the leadership strategy, designing and delivering programs, and evaluating and measuring its success. However, compared to the number of leaders participating in development, the staff-to-leader ratios are quite high, particularly when compared to general learning and development (L&D) staffing. For example, large companies employ an average of 9.0 leadership staff for every 1,000 leaders participating in development, as compared with 3.4 L&D staff per 1,000 learners to cover all learning and development initiatives. This demonstrates the very personalized, “high-touch” nature of leadership development, much of which occurs in face-to-face classrooms, or in individual coaching or mentoring sessions.

6. Informal Learning Making Traction

A great deal of leadership development happens informally, meaning it is not part of a structured program. Informal learning takes many forms, and may include books, reference materials, videos, podcasts, online self-study materials, project teams, coaching, mentoring, social networking and job-aids. This learning may be self-directed or part of a customized development plan tailored to a particular individual.

The higher up the leadership chain, the more informal and personalized the development becomes. Once an individual reaches the executive level, the majority of development occurs informally. Just one-third of the companies in our study said that they offer formal development programs to executives. Executive development consists primarily of coaching, mentoring, and experiential or on-the-job learning.

7. “Strategic” Companies More Selective of Leadership Participants

Companies use a number of methods to identify leaders for participation in formal development programs. First-level managers are most often automatically enrolled in a core training program. This is a time when essential leadership competencies are being developed. These individuals need training on team-building, performance management and communication skills, as well as budgeting and internal HR systems.

Mature companies use more selective processes for choosing participants at all leadership levels – typically, a nomination process to identify and select appropriate candidates. In fact, companies at the “strategic” level of leadership development maturity are twice as likely to use a nomination process to identify leaders for development, as compared with companies at the “inconsistent” leadership development level.

8. Leadership Skills Insufficient at Every Level

In our study, we asked participants to rate the skills and capabilities of each level of leader, based on the expectations for that role. The results demonstrate that many leaders are falling short in their skills development.

**KEY POINT**

Leaders at every level received lackluster performance ratings, reflecting the need for continued investments in development.

First-level managers received the lowest scores. Only 18 percent of leaders at this level received an “excellent” rating on their skills and capabilities. Scores increased with each successive leadership level, with executives receiving the highest scores. Still, only 37 percent of executives were rated as having “excellent” skills and capabilities – a very low number, considering the magnitude of the responsibility at this level.

Given the lack of leadership development maturity in most companies, these low performance scores are not that surprising. The scores reflect the need for continued investments in leadership development.

9. Executives Not Getting Enough Focused Development

Top leaders play an enormous role in the success of organizations. The senior leadership team creates and implements the business strategy, drives growth, inspires a high-performance workforce, and sustains the company’s competitive advantage. As business technologies and markets shift, leaders must be able to adapt, as well. So it was surprising that our research found that:

- Less than one-half of executives have development plans in place; and,
- Twenty percent of companies do not offer any development (formal or informal) to executives, more than any other management level.

Furthermore, the lackluster performance ratings of executives, as described above, clearly show a lack of development at this crucial leadership level.

Executives should be developed to improve performance in their current roles, as well as to prepare them for future roles. Nothing shatters the market credibility of a company more dramatically than the loss of a top business leader. Companies that have strong executive-level development (*and succession management programs*) are able to manage transitions between top executives quickly, providing calm and stability to shareholders, employees and customers. How do these organizations accomplish such transitions? Executives and high-potential¹ leaders are

¹ 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.”

given developmental experiences, coaching and special education over a number of years to prepare them for successive leadership positions, including the role of CEO.

10. Strategic Leadership Development Improves Company Performance

Throughout our research, we found that companies with best-practice leadership development consistently outperform those with poor or nonexistent strategies. A number of key business metrics are indicators of success. Companies that have reached the strategic stage of leadership development perform better than companies with inconsistent approaches in the following areas:

- Overall employee turnover is 18 percent lower;
- Turnover among high-performing² employees is 62 percent lower;
- Two to three times higher ratings on leadership capabilities;
- Higher productivity and financial performance; and,
- One-half the rate of downsizing during the current recession.

These companies are not just developing leaders – they are creating high-performing, sustainable organizations. These companies will be the first to come through the recession – and will be around for a long time to come. They will be the *enduring* organizations. This is the bottom-line impact of leadership development.



KEY POINT

Companies with mature leadership development programs have lower turnover, higher productivity and have fared better through the economic recession.

² 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.