

The ROI of Talent Development



UNC
KENAN-FLAGLER
BUSINESS SCHOOL

Executive Development

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Introduction

Training and development budgets took big hits across the globe during the recession, but there is light at the end of the tunnel. According to figures released by Bersin by Deloitte in its *2014 Corporate Learning Factbook*, spending on corporate training by U.S. employers increased by 15 percent in 2013, the highest growth rate in seven years. In fact, training and development budgets have been steadily recovering for the past several years. In 2011, U.S. spending on training and development increased by 10 percent, and in 2012, it increased by 12 percent.

This is good news for the U.S. economy as a whole. Organizations that invest in the training and development of their employees at all levels benefit by having stronger talent pools, increased retention, lower turnover, higher employee satisfaction rates, and ultimately, healthier and stronger organizations. But HR and talent management professionals must not celebrate too soon. If HR and talent management professionals want to see their training and development budgets fully recover, they must be prepared to demonstrate the return-on-investment that talent development, particularly talent development at the leadership level, brings to their organizations.

This white paper:

- Explores the increase in training and development spending over the past several years and why employers are investing more in developing their employees;
- Provides the business case for talent development;
- Provides insights on the focus of talent development efforts, and;
- Offers ways to measure the ROI of talent development at the top organizational levels.

Talent Development by the Numbers

Employers have steadily increased their training and development budgets over the past several years. The Association for Talent Development (ATD), formerly the American Society for Training and Development (ASTD), estimates that in 2012, U.S. employers spent \$164.2 billion on employee learning and development (ASTD

staff, 2013), a significant jump from 2011 when ATD estimated that U.S. employers spent \$156.2 billion on employee learning and development. This translates to an average expenditure of \$1,182 per employee (Hollon, 2013 and Miller, 2012).

Bersin by Deloitte and ATD both agree that top companies (defined as “mature companies” by Bersin and “BEST companies” by ATD) allocate more money to talent development than other companies. Mature companies spend 34 percent more on training and development than their less mature counterparts (Bersin, 2014). These high impact learning organizations reap the benefits of investing in training and development by financially outperforming their peers. They earn a profit growth three times that of their competitors (Bersin, 2012).

Companies that invest in training and development do so to maintain or improve their competitive edge, but there are other benefits as well. Studies have found that employees at all age levels want to acquire and use new skills—and that they are more likely to stay with employers that offer rich training and development programs.

A recent study by WorkTrends found other benefits as well. The survey asked employees from 97 organizations to rate their training and development experiences in 2012. The survey found that employee engagement levels in organizations that scored the highest on training and development were 40 percent higher than employee engagement scores in organizations that scored the lowest in training and development. That same survey confirms Bersin’s conclusion about the financial benefits of training and development, finding that organizations with high training and development scores experienced three times higher return on assets than lower scoring organizations (Zhang, n.d.).

Why Talent Development Budgets Are on the Rise

Talent development budgets are a kind of economic bellwether. When talent development budgets shrink, it’s a good indicator that the economy has or will soon be slowing down, and corporations have gone into belt-tightening mode. Conversely, increased talent development budgets often indicate that the economy is expanding, and employers feel more comfortable in putting money back into the development of their people. This is certainly true for this latest trend in increased spending on talent development, but there are other factors at play that make talent development investment more urgent than ever.

As a result of the recession and the slow down of talent development in organizations, employers are starting to see noticeable skills gaps in their organizations. In fact, more than 70 percent of organizations cite “capability gaps” as one of their top five organizational challenges (Bersin, 2014). These gaps, combined with the looming exodus of Baby Boomers from the workplace as they begin to retire, pose a real challenge for employers, particularly since it takes an average of three to five years to get a professional-level employee up-to-speed and fully productive.

The Business Case for Talent Development

There are a host of reasons why it makes sense for an organization to invest in the development of its existing talent. Perhaps the most persuasive argument is that it costs a lot more—some estimates put it at as much as 150 percent of an employee’s annual salary—to recruit new talent than it does to develop existing employees (Lucas, 2013). The costs of recruiting a new employee include selection costs such as interviewing, reference checks, drug testing, on-the-job training, etc. (SHRM staff, n.d).

Investing in talent development is vital for employers because it directly affects employee retention, motivation, engagement, and productivity (*Investor Today* staff, 2014). Talent development investment reduces staff turnover because employees are more engaged

Build or Buy Talent?

According to Ron Katz, president of Penguin Human Resource Consulting, LLC, the decision to build talent or to buy it is all about the interplay between time, money, and people. To begin the “build or buy” decision process, HR and talent management professionals should ask the following questions:

- Do we have the employees with the skills we need now and in the future?
- Do we have the time to develop people to assume the needed roles?
- Is it reasonable to expect someone to learn the needed skills in the time available?
- Can we accept lower productivity early on?
- Can we afford the cost of the training?

If the answers to these questions are no, recruiting talent from the outside (“buy”) may be the recommendation.

(Source: Bruce, 2013.)

and satisfied with their jobs and are less likely to leave the organization. Millennial employees, in particular, are interested in learning and have indicated that they are likely to look elsewhere if their employers fail to give them opportunities to learn and acquire new skills (See UNC white paper: [Managing the Multigenerational Workplace](#)).

The cost of turnover and its link to talent development investment should not be overlooked. While there are physical costs involved with turnover, like separation processing costs, overtime, the hiring of search firms and temporary agencies, there are also hidden costs. These hidden costs include lower productivity, lower employee morale, overburdened employees, lost knowledge, and training costs (Lucas, 2013). These real and hidden costs of employee turnover can be significantly minimized when employers invest in their existing talent.

Employers' Focus on Talent Development Efforts

Talent development efforts can be split into two broad categories; product, sales, and technical training and “intangible” development focused on developing attributes like leadership skills and abilities, team effectiveness, and diversity (Myatt, 2012). The former category is more training-centric, and the business case to invest in it and the ROI can be more readily calculated. The latter, the intangible efforts, is development-oriented where the focus is on developing skills and abilities that will come in handy in the near future. These developmental efforts, while vital to an organization’s long-term success, can be more challenging when trying to make the business case about why investing in these efforts will pay off because the return is not instantaneous. They can also be difficult to assess and to calculate their ROI because of their future focus.

ATD’s 2012 report on training and development spending found that the top three areas of training content comprising about 34 percent of total training and development spending were:

- Supervisory training (13.5 percent);
- Mandatory compliance training (10.8 percent), and;
- Processes, procedures, and business practices training (9.9 percent) (ATD staff, 2013).

The 2010 ATD report on training and development spending found that the bottom three content areas (comprising 17 percent of total spending) were executive development, customer services, and basic skills training (Stern, 2011). These findings indicate that while employers are concerned about the skill gaps they will face in the near future, particularly at the senior leadership levels, the actual focus, at least in terms of the amount of money spent, is still focused on near-term training and not long-term talent development investment.

Although there is value in both training and development, identifying training needs and calculating the success of training efforts is easier than identifying the knowledge, skills, and abilities an organization will need from its leaders in the near future, offering effective development efforts to foster those knowledge, skills, and abilities, and then measuring the results of those efforts. A recent survey by the global consulting firm GAP International found that only a minority of the more than 300 senior executives surveyed said they invest in leadership development programs. In analyzing the results of the survey, Gap International's CEO, Pontish Yeramyan, concluded that senior executives may be reluctant to invest in leadership development programs because they often fail to meet their stated objectives. Because there is no clear ROI, executives are reluctant to invest in them (Vaccaro, 2014).

Why Focus on Leadership Development

Aging Baby Boomers about to retire and the skills gaps noted by executives both point to a real need to focus on leadership development. A 2014 study conducted by the UNC Kenan-Flagler Business School and the Human Capital Institute (HCI) and found that:

- The vast majority (85 percent) of survey respondents said there was an urgent need to step up leadership development;
- Only 21 percent of senior leaders were satisfied with their organization's bench strength;
- Only 25 percent of senior leaders thought their high-potential employees currently were ready to meet their future business needs, and;
- Less than one-third (30 percent) of senior leaders believed their organization had a strong leadership pipeline (Filipkowski, 2014).

These findings should concern HR and talent management professionals. Studies show that it takes an average of 20.3 months to get high-potential employees prepared to assume a mid-level leadership position and 38.11 months to prepare them for a senior leadership position (Filipkowski, 2014).

To prepare high-potential employees for leadership positions, senior leaders responding to the Kenan-Flagler and HCI survey indicated that they are offering their high-potential employees stretch/special assignments (25 percent), coaching/mentoring/counseling programs (21 percent), formal learning and e-learning programs (15 percent), and cross-functional assignments and job rotations (12 percent). Fifteen percent of survey respondents said they were doing nothing to prepare high-potential employees for leadership roles, although the majority of respondents said they planned to offer more leadership development programs in the next five years (Filipkowski, 2014).

Measuring the Impact of Leadership Development Programs: Plan for the Long-Term

It is encouraging to see that senior executives are beginning to recognize the need to offer leadership development programs and to support expanding their leadership development offerings. Their support will quickly wane, however, if HR and talent management professionals fail to measure and report on the impact of those programs to their organizations. Unfortunately, only 14 percent of the senior executives responding to the Kenan-Flagler and HCI survey said that their organizations calculated the ROI of their leadership development programs.

It is challenging to measure the impact of leadership development programs because these programs are intended to be long-term investments. The organization is developing people with the intent that they will be prepared, when the time comes, to assume leadership responsibilities. It is possible, however, to gauge the effectiveness of these programs in both the near and long term. HR and talent management professionals should consider using the following approach when developing and measuring the ROI of leadership development programs.

1. Take a partnership approach.

Once high-potential employees are identified in the organization (See UNC white paper: [*Identifying High-Potential Talent in the Workplace*](#)), HR and talent management professionals should establish a partnership approach to leadership development. High-potential employees should understand that they have been selected for leadership development. In addition, the employee and his or her sponsor should understand that it is an investment that will ultimately benefit all parties in the long term.

2. Ensure open communication of expectations, commitment, career paths, and timeframes. Communicate early and often.

Successful partnerships require open dialogue between the employee and his or her development sponsor (this could be a supervisor or a senior-level leader in the organization). HR should work with both parties from the outset to articulate expectations from the employee and employer perspective. The employee should understand the level of commitment that will be required to fully participate in the process. Possible career paths should be discussed (but not guaranteed) after completion of the program. Perhaps most importantly, in addition to establishing a definite start and end date for the entire process, timelines should be established every step of the way. It will be these timelines that will be used to gauge success and the ROI of the program in the short term.

3. Develop the game plan together and personalize it for each participant.

What will the development look like? There are a number of effective ways that leadership development can be accomplished, and a leadership development plan should include a combination. For example, if a high-potential's leadership development plan includes obtaining an MBA or an EMBA, the plan may include the company's financial sponsorship (in part or all) for successful completion of the MBA or EMBA. Leadership development programs may also include in-house training, participation in outside executive development programs, mentoring, coaching, challenge assignments, and more.

High-potential employees do not come in a "one-size-fits-all" package. Each one will begin the leadership development process with unique strengths and weaknesses, so each program must be developed and personalized to capitalize on those strengths and to improve on the identified weaknesses. A personalized game plan should

include an overarching goal—or example, to assume responsibility for a large division in the organization—and smaller goals that will demonstrate how the participant has acquired the necessary knowledge, skills, and abilities during the leadership development program. For example, the high-potential participant might need to develop project management knowledge and skills before assuming responsibility for a large division. Participating in project management training may be a goal that is articulated in the plan. The measurement of goal achievement, then, may be assuming responsibility for a new project and successfully managing it to its conclusion.

4. Manage the process.

HR's role in this step is to check in along the way to see if short-term goals are being met and to ensure that participants and their sponsors are keeping up with the plan. It is important to gauge the successful completion of the short-term goals and to help guide the employee and sponsor if adjustments need to be made as new skills and knowledge are acquired. HR and talent management professionals are there to support the partnership and to ensure accountability of both parties in achieving the game plan.

Are EMBA's Worth It to Employers?

There is no question that an EMBA is advantageous to recipients, building skills that can boost their careers, but what is its worth for employers who foot all or part of its cost? According to The Wall Street Journal in a 2008 survey of corporate HR and executive development leaders, the value is not only long term, but immediate as well. More than half of the survey participants said they considered the EMBA as a critical business investment. Sixty-four percent said that sponsoring or allowing employees the time to attend an EMBA program was a good way to retain top talent. In the short term, one quarter of survey participants said they saw tangible results from employees who were stronger managers and leaders immediately after completing their EMBA. One quarter of survey participants said they saw tangible results within a year of employees completing their EMBA.

(Source: Dizik, 2008.)

5. Stay with it until the end.

HR and talent management professionals can measure the ROI of leadership development by answering the following questions:

- Were the long-term goals met?
- Were the established timelines met?
- Have high potentials who participated in the leadership development programs been promoted as a result of the leadership development? If not, why?
- What are their retention rates versus employees who did not participate?
- What are their promotion rates versus employees who were not in the program?
- Was the program successful in building the bench strength needed for the organization's future?

It is important that the answers to these questions be compiled, analyzed, and reported to senior leadership. The answers to these questions will ultimately make the business case for the value of continued investment in the development of an organization's talent and will help measure the ROI of the leadership development program.

Building Executive Leadership: Open Enrollment and Customized Executive Programs

When faced with the need to build leadership bench strength, many organizations look to top business schools to help build critical knowledge, skills, and experience. Partnering with a business school can be a very effective way for a company to address specific business challenges while developing leadership skills and building business acumen. Executive development programs, like those offered at UNC, can provide relevant and practical tools and frameworks that leaders can apply immediately in their organization. Business school professors draw from an extensive body of research and real-world business consulting to lead the classroom discussion – often bringing the knowledge and experience of the program participants into the conversation to create a dynamic dialogue. *(Continued...)*

Building Executive Leadership: Open Enrollment and Customized Executive Programs (...continued)

Most world-class programs incorporate hands-on, experiential learning activities to provide an opportunity for participants to apply new skills and practice new behaviors in a risk-free environment. This could include simulations, action learning, team activities, negotiations, and a wide range of non-traditional teaching methodologies.

Many business schools offer a portfolio of non-degree **open-enrollment programs** focused on specific business topics such as leadership, strategy, general management, operations, and business communication. Longer programs often incorporate a range of these topics to provide a well-rounded business education experience. These programs provide a valuable opportunity for participants to interact and network with a diverse peer set. Participants come from a variety of organizations, both public and private, representing a wide range of industries, countries, and cultures. The diversity of backgrounds and experience in the class provides a unique opportunity to discuss common challenges, explore common solutions, and gain a broader business perspective. UNC's open enrollment programs traditionally range from two days to two weeks, and participants come from all over the world to strengthen specific skill sets to enhance career potential.

Several business schools also offer customized executive education and leadership development solutions. These **custom programs** are designed to meet the unique business challenges and talent development objectives of a particular organization. Custom program can be extremely effective because their tools, frameworks, and examples can all focus on a particular company or industry, and participants are given the opportunity to apply this new knowledge and skill towards real business challenges that they're experiencing. Participants can also interact and network with others from their organization to gain a deeper understanding of the business. The goal is for participants to leave empowered with new ideas and tools to grow the business and lead more effectively. *(Continued...)*

Building Executive Leadership: Open Enrollment and Customized Executive Programs (...continued)

UNC Kenan-Flagler Business School's approach to executive education is to draw upon the power of real-world experiences to accelerate learning. Faculty members take care to integrate many different learning methods and tools into the programs they lead in order to challenge participants to think, reflect, and make decisions differently. The programs are highly interactive to ensure participants are engaged in an active learning process. By combining traditional with experiential learning, the school aims to provide a unique and transformational experience that will positively impact individuals as well as their organizations.

(Source: UNC Kenan-Flagler Business School Executive Development.)

Conclusion

Investing in developing talent now will help organizations by building the knowledge, skill, and abilities organizations need today and in the future. It rewards employers in the short term by increasing retention, reducing turnover, and improving employee satisfaction and productivity. It rewards employers in the long term by developing leadership pipelines, improving bench strength, and positioning the company to thrive in the future. HR and talent management professionals must ensure that talent development remains a high priority in their organizations by making the business case for both training in the short term and the longer-term development of employees and by assessing and reporting on the ROI of training *and* development.

About UNC Executive Development

Our approach to program design and delivery draws upon the power of real-world, applicable experiences from our faculty and staff, integrated with the knowledge our client partners share about the challenges they face.

We call this approach [The Power of Experience](#). We combine traditional with experiential and unique learning to ensure that all individuals gain relevant new skills that they can easily implement within their own organizations. Through action learning and business simulation activities, we challenge participants to think, reflect and make decisions differently.

Our Approach: The Partnership

Our team customizes each leadership program through a highly collaborative process that involves our clients, program directors, faculty and program managers. We are dedicated to following-up with our clients and individual participants to ensure that their learning experiences have been meaningful and impactful. This integrated approach consistently drives strong outcomes.

Our Approach: The Results

Our executive education programs are designed with results in mind, and we are focused on successfully meeting our clients' business and academic expectations. Below are a few examples of the results our client partners have achieved:

- Leadership refocused with new strategy and cohesive vision
- Strategic plans created for the global marketplace
- Supply chains streamlined
- Products redefined
- New markets targeted
- Cost-saving measures developed
- Silos leveled
- Teams aligned

Participants leave empowered to bring in new ideas, present different ways to grow business and tackle challenges. The result is stronger individuals leading stronger teams and organizations.

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