

# THE STATE OF LEADERSHIP DEVELOPMENT

RESEARCH REPORT



C O R P O R A T E   L E A R N I N G



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# THE STATE OF LEADERSHIP DEVELOPMENT

## EXECUTIVE SUMMARY

In today's complex world, businesses need effective leaders at all levels who are aligned with the organization's strategic objectives. But what are learning and development teams in organizations doing today to cultivate and nurture leadership talent? Are those programs aligned with the strategic objectives of the business? And are those programs valuable both to those who participate in them and to the corporate bottom line—and perceived as such?

To answer these and other key questions, we surveyed our client partners in learning and development (L&D) and the Harvard Business Review Advisory Council, which represents senior leaders and managers from all lines of business. With this survey we sought to identify the traits shared by strong, successful leadership development programs that contribute to financial success and improved market position, and uncover their best practices.

The views we uncovered are alarming. While the vast majority of organizations have leadership development programs, only 7 percent of respondents characterized their programs as Best in Class. What defines Best in Class? A program that tightly aligns with strategy, enjoys executive support, has cultivated a strong talent pipeline, and demonstrates an impact on overall success.

Even among Best in Class companies, two areas are ripe for improvement—measurement of learning impact and innovation. How to determine the ROI of a leadership program is a key challenge. Business-line managers may see end-user satisfaction as important, but they and L&D professionals really want harder numbers to demonstrate

the program's relevance to the organization and win over the C-suite.

Indeed, demonstrating program value should be a priority for all L&D professionals. Our survey revealed a startling gap between their views and business-line managers' perceptions of leadership development program effectiveness. Generally, those on the business side see less value in programs than their L&D colleagues do. Even in Best in Class companies, business managers are 32 percent less likely than L&D to see leadership development as a strategic priority for the organization. Perhaps that's because they aren't seeing the connection between programs and the work they do every day: Only 19 percent of business-line managers believe programs are relevant to the issues they face.

The challenge for L&D is clear: Win them over.

It's possible to do so, as examples from a variety of industries illustrate. Innovation holds the key, said managers from both L&D and the business side. There are opportunities for innovation in design, methodologies, and strategic alignment. Program design needs to be rethought in order to be most usable and relevant to today's learners. L&D must forge fresh strategies to work with senior leadership and garner their support. Above all, organizations need new ways to measure program impact. These changes represent a new direction for L&D teams: To be more open, more communicative, more risk-taking, and more aligned to their business-line partners.

## METHODOLOGY

We surveyed more than 700 individuals from companies around the world. Business-line managers composed 56 percent of respondents, and L&D managers composed 44 percent. The majority of respondents worked for companies employing more than 10,000 people. Ninety percent of respondents had attended a leadership development course at some point, with more than half having done so in the previous year. Respondents' answers thus reflect a current perspective on leadership development.

## The State of Leadership and Development Today

The challenges facing learning and development executives echo those of other organizational leaders; demands for change to address threats from global competition and technology-driven upstarts; the need to engage a multigenerational workforce with a range of work styles; and the imperative to cultivate a new generation of leaders who can meet these needs and thrive.

But while leadership development programs are nearly omnipresent in today's organizations—90 percent of the companies in our survey said they have some leadership development programming, and two-thirds have regular, structured programming—they face an additional challenge of perceived effectiveness. Only 7 percent of respondents characterized their leadership development programs as Best in Class programs that tightly align with strategy, enjoy executive support, have cultivated a strong talent pipeline, and demonstrate an impact on overall success.

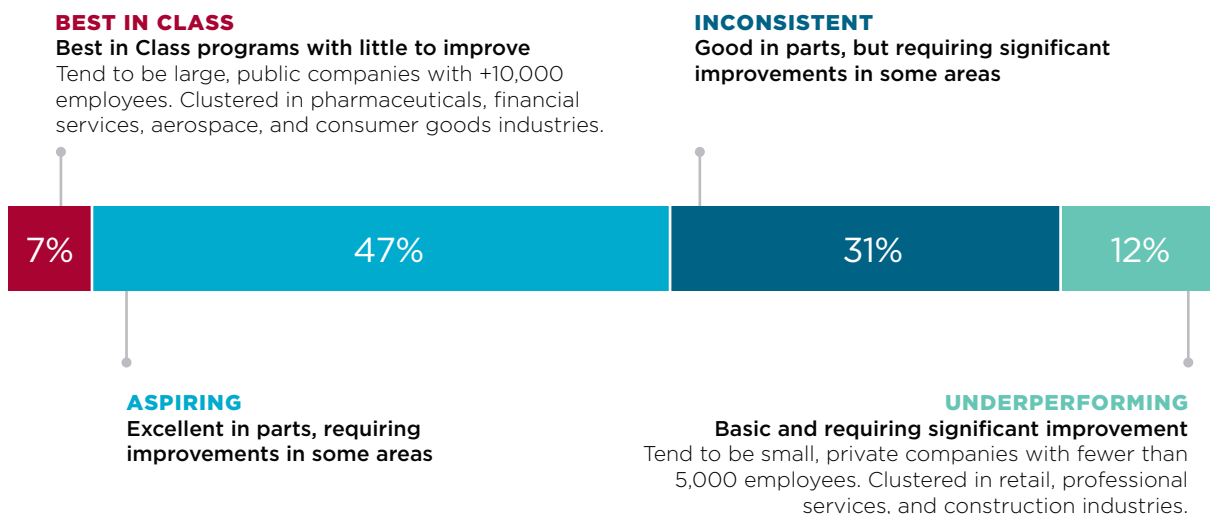
The perception problem is one that has important ramifications for L&D leaders and their organizations. L&D teams have made headway in embracing more innovative technologies, and have adapted to the changing workforce by focusing on leadership capabilities that address complexity, engagement, and integrity. But around the world, most organizations still don't fully commit to leadership development's role as a strategic need—one that provides true value to the bottom line of the organization—for many reasons, not the least of which is a perceived lack of relevance.

L&D leaders need to convince business managers that their programs make a difference.

Around the world, organizations still don't fully commit to leadership development's role as a strategic need.

**FIGURE 1**  
Leadership Development Typologies

What phrase best describes your current leadership development programs?



N=737

Best in Class leadership development programs are more likely to be in large public corporations or in the pharmaceuticals, consumer goods, and aerospace industries.

## WHAT STANDS IN THE WAY?

Our survey asked respondents to characterize their organizations' L&D programs on a spectrum from best to worst. Their responses helped us classify programs into the following groups. [figure 1](#)

- Best in Class: Excellent across the board, with little to improve.
- Aspiring: Excellent in parts, but requiring some improvement.
- Inconsistent: Good in parts, but requiring significant improvement in others.
- Underperforming: Basic and requiring significant improvement.

Given that so many programs are either Underperforming, Inconsistent, or Aspiring (excellent in parts, but requiring improvement in some areas), there is room at most organizations for their L&D programs to improve. What stands in the way?

Respondents report a series of hurdles. The overwhelming top barrier cited by both L&D and business-line managers is "time constraints," at 43 percent. But the next three barriers, cited almost equally, point to lack of data showing benefits ("no proven ROI," 26 percent), workplaces in flux ("too much organizational change," 25 percent) and lack of funding, (24 percent). While three of the four groups rank "time constraints" at the top, underperformers cite "lack of support from senior management" as their biggest barrier (45 percent).

Company size matters here. Our data shows that Best in Class leadership development programs are more likely to be in large public corporations (10,000+ employees) and in the pharmaceuticals, consumer goods, and aerospace industries. That may be largely a function of such organizations' long-standing commitment to developing leaders, and the financial resources that they can dedicate. By contrast, Underperforming programs tend to be in the professional services, construction, and retail sectors. Both cultural and financial factors could play a role. For example, some retail industries experience volatile markets and higher employee turnover that may limit the availability of investment dollars and inhibit a culture of leadership development. And the deeply individual culture of professional services firms may mean that organizational leadership development programs are less valued in favor of personal development. However, it goes without saying that each company is unique and there are examples of best- and worst-in-class in all industries.

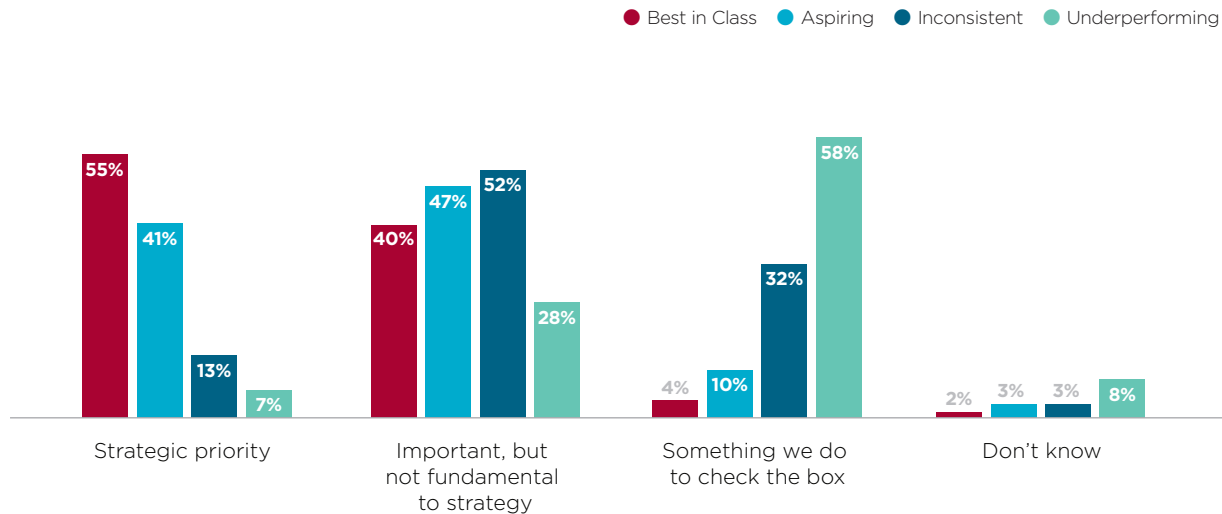
## LEADERSHIP DEVELOPMENT IS IMPORTANT, BUT NOT SEEN AS STRATEGIC

Leadership development programs have been growing, with 52 percent of organizations saying in a 2013 survey we conducted that they will increase spending in the next two years. Yet despite this growth in L&D investment, only 28 percent of organizations in our most recent survey see L&D as a strategic priority. While Best in Class organizations value the programs more than the others groups, it is not unanimous. Only 40 percent of these firms reported that it is an important but not essential element of their business strategy. [figure 2](#)

FIGURE 2

## Leadership Development a Priority for Best in Class—But Not Others

Which of the following best describes the priority your organization places on your leadership development programs relative to other business priorities in the past three years?



## TECHNOLOGY-ENABLED LEARNING CONTINUES TO RISE

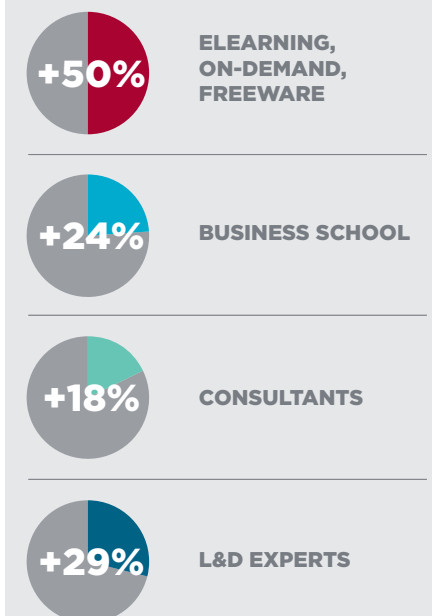
How individuals prefer to learn has shifted over the years, which is reflected in companies' choices in leadership content and instruction. Respondents reported that they expected to increase their use of elearning, on-demand, and freeware content. They're split on more traditional sources of leadership development, such as business schools and consultants.

This data shows that L&D teams as a whole are starting to embrace digital learning and experiment more with alternate modes of instruction. In our 2013 survey, 55 percent of L&D professionals said they were using elearning. In 2015, the proportion has risen to 64 percent. Whatever their industry, L&D professionals are responding to the needs of their learners and trying to make program offerings relevant and engaging as new leaders rise up through the ranks. Consider millennials, who compose an increasing proportion of managers as they advance in their careers and baby boomers retire. They were raised in a digital world and expect on-demand, ongoing learning opportunities, and L&D programs are responding with elearning and on-demand content. [figure 3](#)

One benefit to technology-enabled learning is certainly its lower cost compared with traditional face-to-face methods. The increase in use we see in the survey results could indicate that L&D professionals are pursuing cost-containment strategies while investing in resources that provide learning impact at scale. We know from our work with clients that technology-enabled learning is taking hold and that learner satisfaction and business outcomes are as successful as—or even more successful—than traditional face-to-face learning.

FIGURE 3

## Planned Increase in Use for L&D Programs



## EFFECTIVENESS OF L&D PROGRAMS SHOW DISCONNECT

L&D and business-line managers agree on the most critical leadership capabilities. Overall, four capabilities are rated as very important by two-thirds or higher.

- Demonstrating integrity (77%)
- Managing complexity (75%)
- Inspiring engagement (70%)
- Acting strategically (70%)

Respondents rated as most valuable those traits and skills that are especially relevant to the challenges companies face today, challenges that notably include less engaged employees, greater turnover, and millennials' desires for learning opportunities and a sense that their work has purpose and value. Leaders who demonstrate integrity, manage complexity, maintain a strategic focus, and inspire others are well suited to lead their organizations today.

However, asking respondents to assess the effectiveness of leadership development programs in preparing leaders with these vital capabilities revealed a disconnect between L&D and business-line managers. Business managers see leadership development programs not delivering as well in any of the most important capabilities. [figure 4](#)

### TAKEAWAY

While leadership development programs are found in most companies, their quality, relevance, and outcomes still leave a lot to be desired—especially when it comes to demonstrating key leadership qualities.

Next, we'll take a look at successful programs to uncover what makes them work, and we'll also strive to understand the pain points they still experience.

## The DNA of Successful Programs

In our survey, Best in Class leadership development programs are not monolithic, yet key similarities emerged in our survey:

- They have an impact on organizational results and are regarded as a strategic priority.
- They benefit from C-suite support.
- Programs are not restricted to senior management, but are instead offered for all levels.
- They develop a strong pipeline of internal candidates, creating opportunities for promoting from within.

When Hilton Worldwide set up a leadership development program to build bench strength at four of its hotel brands, it invested in systems and people. The systems included an online assessment of top managers' individual leadership traits. The company devoted time to collect insights from a cross-section of exceptional Hilton leaders to understand their successful practices. Then they developed a web-based system to regularly distribute

FIGURE 4

Business Manager versus  
L&D View of the Effectiveness  
of Programs

INSPIRING ENGAGEMENT

**11% LESS EFFECTIVE**



DEMONSTRATING INTEGRITY

**6% LESS EFFECTIVE**



ACTING STRATEGICALLY

**5% LESS EFFECTIVE**



MANAGING COMPLEXITY

**3% LESS EFFECTIVE**





new techniques from top-performing managers to other leaders. The company found that the firm's employee engagement scores rose, as did revenue generated by hotels with the most engaged managers.<sup>1</sup>

## IMPACT ON ORGANIZATIONAL RESULTS

A distinguishing feature of Best in Class programs is their impact on organizational performance. Best in Class programs are 94 percent more likely than Aspiring programs to make a significant impact on a company's financial success. And they were almost 70 percent more likely to say they had a major impact on competitive performance. [figure 5](#)

Best in Class companies are also 96 percent more likely than other groups to report that leadership development is a strategic priority, which positions these organizations to ensure their programs address issues the business faces.

Emirates NBD illustrates the point. Emirates made leadership development a key element in its strategy to become a leading financial services firm in the Middle East. It employed a program to build leadership capacity among its leaders. Through a blend of self-paced learning sessions, face-to-face workshops, virtual meetings, and projects, participants learned how to pursue key issues to the bank's strategy, including entering markets, growing market share, and formulating value propositions. Emirates followed the principles listed above.

Within a year of completion, Emirates NBD had promoted almost 40 percent of its program participants and calculated a direct business impact of more than \$1 million, more than four times its L&D investment.<sup>2</sup>

Best in Class programs are 94 percent more likely than Aspiring programs to make a significant impact on a company's financial success.

1 Hilton Worldwide experience described in "Leadership Development in the Age of the Algorithm," by Marcus Buckingham, *Harvard Business Review*, June 2012.

2 "Leading Bank Builds Leadership Capacity Across Mid-Level Managers," Harvard Business Publishing client case study, 2014.

**FIGURE 5**

**Best In Class Programs Are More Likely to Report Impact Over Other Programs**



Best in Class are 96 percent more likely than other groups to report that leadership development is a strategic priority.

## C-SUITE SUPPORT IS CRITICAL

When done well, leadership development, in addition to contributing real business value, garners respect in the C-suite. Nearly half (48 percent) of all programs enjoy strong CEO support, but that proportion rises to 75 percent among Best in Class programs.

It must be noted that disentangling cause and effect is difficult here: It is not clear from this data whether C-suite support comes from well-designed programs, or well-designed programs come from C-suite support. Ideally, a virtuous circle sustains a Best in Class program.

## PROGRAMS OFFERED AT ALL LEVELS

Inclusivity is a hallmark of Best in Class programs. Whereas only 35 percent of the organizations represented in our survey provide programs for all employees, from the C-suite to the individual contributor level, most Best in Class companies—nearly 90 percent—focus leadership development from senior leaders to new leaders equally. Notably, most of the Best in Class programs (64 percent) use leadership development both to help leaders move to the next level in their careers and to help newly promoted leaders succeed.

By contrast, other organizations tend to devote resources to developing leadership only at the highest levels in the organization—for instance, through traditional face-to-face training programs.

## DEVELOPMENT CREATES STRONG INTERNAL PIPELINES

Broadly focused L&D programs also create strong pipelines of internal talent and encourage promoting from within. Nearly half of the Best in Class companies said their organizations had a deep pool of internal talent, and just more than half said L&D has had a significant impact on promoting from within. By comparison, nearly two-thirds of respondents from Underperforming programs said that L&D has little to no impact on internal promotions.

## MEASUREMENT STILL A PROBLEM

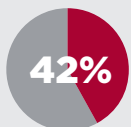
Aircel, an Indian telecommunications company, developed an L&D program to build flexible, innovative, and engaging leaders to help it achieve profitability. L&D used multiple tactics to measure the program's benefits, including tracking participants' feedback, written assessments of knowledge gained, and self-assessments and supervisor reports. The program itself included projects designed to help participants learn strategic lessons through actions at work. The end result: These projects contributed \$5.7 million to Aircel's bottom line. Every rupee invested yielded one rupee returned and another 3.25 rupees generated or saved.<sup>3</sup>

FIGURE 6

Even Best In Class Struggle with Measurement



BELIEVE THEY CAPTURE THEIR PROGRAMS' EFFECTIVENESS



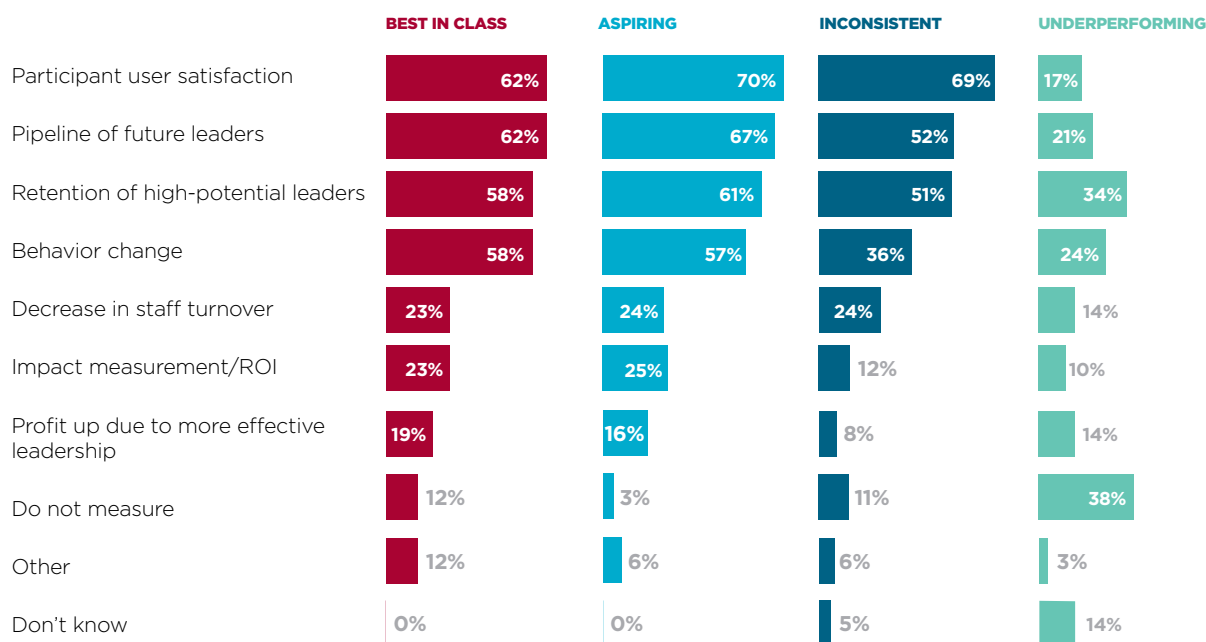
SAY THEY DO NOT CAPTURE THEIR PROGRAMS' EFFECTIVENESS

3 "Achieving Profitability Through Focus on Leadership Development," Harvard Business Publishing client case study, 2014.

**FIGURE 7**

## Few L&D Programs Measure ROI

How does your organization measure the effectiveness of your leadership development programs?



N=322

Aircel's experience shows that it takes dedicated effort to quantify results. However much value a program offers, measuring that value can be difficult. In our survey, only a quarter (26 percent) of respondents agreed strongly or slightly that they have an effective way of measuring the impact of their programs. Even Best in Class struggle here. They are just as likely to agree as disagree that they can capture their programs' effectiveness (40 percent disagree, 42 percent agree). [figure 6](#)

Organizations are using participant feedback to measure effectiveness.

Most commonly, organizations are using participant feedback to measure effectiveness. About half of companies assess behavior change. Few organizations tie L&D outcomes to profit; indeed, only 19 percent of Best in Class programs do so. [figure 7](#)

### TAKEAWAY

Best in Class programs offer a model to emulate in terms of how they structure their programs for success, which includes the importance determining methods for measuring impact and alignment with business strategies. But even the best of the best struggle with some of the key challenges facing L&D.

## The Perception Gap Between L&D Leaders and the Business

Alignment between L&D professionals and business-line managers is critical to a company's success. But our survey exposes a significant divide between these two groups' perceptions of leadership development programs. While L&D respondents perceive their programs as strategically important, business-line managers are less likely to share this view. Even in Best in Class companies, business managers are 32 percent less likely than HR to see leadership development as a strategic priority for the organization.

Other issues from the survey further illustrate this disconnect:

- L&D professionals are 48 percent more likely than those on the business side to believe that leadership development will become a strategic priority in the next three years.
- L&D professionals are 36 percent more likely than those on the business side to believe they have a strong pipeline of candidates to fill leadership positions.
- L&D professionals are 29 percent more likely than those on the business side to think they have strong support for their programs from the CEO and the board.

To close the gaps between L&D professionals' perceptions and those of business-line managers, L&D needs to show the strategic value of their programs. They also need to reach consensus about how to use learning technologies and program design to reach their shared goals. [figure 8](#)

### OPTIMISM ABOUT THE FUTURE OF LEARNING TECHNOLOGIES

Both L&D and the business seem to agree that the most growth in new learning technologies will come in elearning and freeware. But L&D is far more optimistic about the use of these technologies than business managers are. When asked what training approaches will likely increase over the next three years, L&D believed that MOOCs, on-demand content, and freeware would be used more than business management did. [figure 9](#)

The survey distinguished between expectations for using learning technologies and how effective L&D and business-line managers believe these technologies are. When it comes to effectiveness, the business side is more bullish in some cases than L&D is on technology-enabled learning.

For example, business-line managers are twice as likely as L&D professionals to view elearning as effective. They also rate the effectiveness of simulations and social learning much higher.

This disconnect may represent some lack of confidence on the part of the business that L&D will fully embrace more innovative technologies in the future. While L&D reports that they will use these technologies more in the coming years, the feeling that L&D simply isn't innovative enough may cast some doubt, even though business end users are game.

FIGURE 8

#### Leadership Development Perception Gap

L&D professionals are more likely than those on the business side to believe that their L&D programs:

48%

Will become a strategic priority

36%

Have created a leadership pipeline

29%

Have CEO support

## RELEVANCE TO BUSINESS OBJECTIVES NOT STRONG ENOUGH

Demonstrating L&D programs' relevance emerged as a challenge from our survey. Only 19 percent of business managers strongly agree that their programs have a high relevance to the issues facing their organizations. For their part, L&D professionals are 110 percent more likely than business managers to say that their leadership development programs have a high relevance to the issues their businesses face. [figure 10](#)

As noted earlier in this report, there is a perception that many programs struggle to develop leaders in key capabilities, such as acting strategically and managing complexity. In fact, 32 percent of business-line managers believe that they saw no or very little difference in their effectiveness. In our work with clients, we've seen significant change, restructuring, and turnover in the L&D teams at large corporations. A lack of relevance—perceived or otherwise—in programs may be one key factor driving the tumultuous environment for L&D professionals.

FIGURE 9

Increase in Use of Learning Technologies in the Next Three Years

	Leadership & Development		Business Managers
MOOCS	35%	vs.	18%
ON-DEMAND CONTENT	50%	vs.	29%
FREWARE	53%	vs.	32%

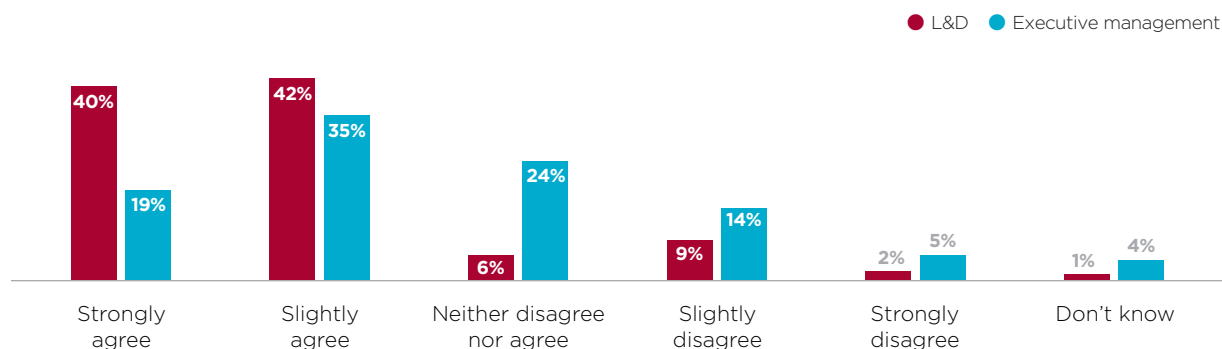
## MEASURING IMPACT ON PERFORMANCE NEEDS WORK

Both L&D and the business-line sides agreed that leadership development programs do not make a sufficient impact on the financial health and competitive position of companies. But about 65 percent of both groups say that they do make some basic contribution to financial and competitive performance. Another 20 percent state they do not know or cannot tell. Interestingly enough, in the cases where leadership development programs are perceived to be having an impact, business managers are 31 percent more likely than L&D professionals to say leadership development programs are making a major contribution to financial performance.

FIGURE 10

Business Managers Are Less Likely to See Relevance of L&D Programs

How strongly do you agree or disagree with each of the following statement? "Our leadership development programs have a high degree of relevance in terms of the issues our business faces."



N=737

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There is a glimmer of hope here that business managers at Best in Class organizations do feel that leadership development programs are having an impact on performance, even without clear forms of measurement. The survey findings emphasize the need for solid evidence that ties leadership development to performance. They also highlight that L&D may not be taking appropriate advantage of support for leadership development where and when they can.

### TAKEAWAY

There is a much clearer divide than L&D teams may realize between their teams and their business manager colleagues on the purpose, quality, and results of their leadership development programs. Any program wanting to attain Best in Class status needs to resolve these disconnects.

## Time for L&D to Partner with Business Leaders

As our survey reveals, L&D professionals have some changes to make in order to be successful. Few L&D programs are fully optimized and qualify as Best in Class. Attaining that status requires being more innovative in every way to design programs that align with the business and—this is critical—that demonstrate material contributions to organizational results.

While Best in Class programs show the possibilities for leadership development as a strategic driver of organizational success, disconnects between L&D and the business as a whole are stifling program growth and impact at many organizations. It's clear that in order to bridge this gap, and to secure the time, support, and resources needed to create effective programs, L&D has to look beyond its own department and industry to get in sync with the real concerns of the business and its leadership.

Our data shows that optimism is in order: 75 percent of respondents from Best in Class companies said that in the next three years, L&D will be a strategic priority. And more than half of all companies (57 percent), including those with Underperforming programs, said the same.

But in order to make that optimistic future a reality, L&D needs to take steps now to shore up the relationship with their business-line partners. First, they should embrace more innovative and relevant program design; second, they need to engage senior leadership with fresh strategies for alignment and engagement; and lastly, they must develop more effective ways to measure program impact at their own organizations.

L&D needs to take steps now to shore up the relationship with their business line partners.

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