

# FOUR LESSONS LEARNED IN HOW TO USE HUMAN RESOURCE ANALYTICS TO IMPROVE THE EFFECTIVENESS OF LEADERSHIP DEVELOPMENT

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The tools and methodologies being developed in the emerging field of human resource analytics can be used both to measure the impact of your organization's investment in leadership development and, perhaps more importantly, to improve the return on that investment. In particular, analytics can be used to move your organization beyond one-size-fits-all competencies by identifying the unique leadership competencies that drive your organization's business results (sales, profits, and employee turnover). Your employee "engagement survey" is a powerful, but typically underutilized, tool for doing so. By linking it with other, disparate pieces of data (180/360 assessments, Learning Management System (LMS) records, turnover, and financial data), you create the foundation for understanding where leadership competencies explain variation (positive and negative) in your organization's business results. This, in turn, creates a strong evidence base for optimizing your leadership development strategy—and is done so using metrics and analysis, which is the language of CEOs and CFOs.

## Introduction

We have been using human resource (HR) analytics to help organizations improve their return on people for over 20 years. The spectrum of "people issues" where analytics can be helpful is very broad—ranging from improving employee engagement to increasing profitability—and it includes leadership development. The key lessons we have learned about how to apply analytics to improve an organization's return on leadership development are as follows:

1. Make sure the leadership competencies in which you are investing are, in fact, those that will drive better organizational performance.
2. The best way to know if leadership development has, in fact, occurred is to tap into the wisdom of your workforce for information on this.
3. Linking together key (and disparate) pieces of data yields actionable insights for improving the return on investment in your leadership development investments.

4. Do not allow the perfect to become the enemy of the good.

The discussion that follows elaborates on each of these points.

### Making Sure You Are Investing in the Right Leadership Competencies

At one level, investing in the right leadership competencies may appear so obvious that you might be inclined to skip over the next few paragraphs (or perhaps even the entire article!). But, we have learned the hard way that this fundamental point cannot be taken for granted. The problem is that one-size-fits-all leadership competencies—the ones that many big consulting companies have developed product offerings around—are not necessarily going to fit very well in your organization.

Using generic competencies to guide your leadership development investments is roughly the equivalent of buying a suit off the rack without having it tailored. It is unlikely to be a good fit unless your organization happens to be perfectly average in all respects (highly unlikely). At a minimum, you need to have the suit altered. For the best fit, you should choose to have a suit tailor-made, but this option is obviously more expensive as well.

To push the point a bit further, consider the following questions about the leadership competencies your organization uses:

1. When you read over these competencies, do they sound like they were written by an industrial and organizational (IO) psychologist or by a business executive?
2. If you are successful in developing leaders with those competencies, will those leaders be equally successful elsewhere or will they be most successful in your particular organization?

If your answer to the first question is “IO psychologist,” and/or your answer to the second is “equally successful elsewhere,” that really suggests you need to take steps to figure out the unique leadership competencies that drive better business results in *your* organization.

This work is more challenging than just using off-the-shelf competencies, but analytics is a powerful tool that can help you do just that. First, however, you should start by interviewing key leaders and

employees, supplemented perhaps by focus groups, to identify those competencies that your organization collectively believes are the most important for its leaders to have at this time given current organizational maturity, key goals, external economic landscape, and so on. After identifying a core set of competencies, you can then begin to use analytics, as discussed in more detail in the following section, to weed out which of those are most important and which are secondary or even unnecessary.

### Tap Into the Wisdom of Your Workforce

Perhaps the only way to truly know whether your leaders have the competencies they need to be successful is to ask the people who see these leaders in action day in and day out—the people who work for and with them.

How best to get that information from those employees? You need thoughtfully designed and cleverly analyzed (more on that below) employee surveys and/or 180-degree (or 360-degree) feedback. First and foremost, this requires you be very clear about the leadership competencies that are critical to your organization and in which you are investing (see the previous section). Ask employees multiple specific questions about the extent to which their leaders (often broken down into at least two levels, such as “senior leaders” and “my immediate supervisor”) demonstrate the leadership competencies you have identified. Separate questions should be asked for each major competency.

Second, therefore, you need to be prepared to allocate an adequate amount of your “survey real estate”—both employee engagement surveys and 180/360 surveys—to asking people to assess the extent to which leaders possess the competencies that matter most to your organization.

Given “turf” issues that exist in many organizations, such survey development can be challenging to pull off. For example, especially within large organizations, the ability to influence the content (questions asked) on the annual employee survey is typically a closely held and tightly controlled process. In that setting, significant input from the leadership development function may not be initially welcomed, but the impact of investments in leadership development can only be properly

evaluated and optimized if leadership development is directly incorporated into the content of your various surveys and feedback assessments. Indeed, not only does your employee engagement survey represent your best avenue for evaluating the effectiveness of your return on your investments in leadership development, but it also has the potential for generating fact-based analyses for *improving* the return on these investments.

In other words, beyond just measuring trends in employee engagement levels, your firm's employee engagement survey represents an enormously valuable source of analytical insight for identifying those specific elements of more effective leadership that will best enable better business results over time. So, you should be prepared to lobby hard if that is what it takes to get more say over what goes into the survey.

### Link Together Disparate Pieces of Data

At its core, the purpose of analytics is to create actionable insights that will help your organization drive better business results. (Note it is not about “reports” or “proving the worth of HR”—two common misconceptions that get in the way of effectively using analytics.)

The essence of analytics is putting together heretofore disparate pieces of data. In the realm of leadership development, analytics typically takes the form of statistically linking data on leaders' competencies (as measured in the well-designed employee survey or 180/360 assessment described earlier) to key outcome measures within your organization. These outcomes can be either “soft” measures that serve as proxies for difficult-to-measure or intangible outcomes or “hard” outcomes (actual data).

A classic example of a “soft,” but nonetheless very important, outcome is employee engagement. It is typically measured by creating an index of questions asked within an employee survey. And so, measures of leadership competencies (measured either within the same survey or in a 180/360) can each then be statistically linked to engagement—thereby providing a rigorous analysis of which of the specific competencies drive (or dampen) engagement.

The insights from such an analysis can be combined with measures of leaders' strengths and weaknesses on specific competencies to create a strong evidence base

for how to optimize your investments in leadership development. In particular, you can pinpoint with precision those competencies that represent top areas of opportunity for driving improved employee engagement. Your top opportunities in this area would typically be competencies that are important for driving engagement but are also relative weaknesses for some (or many) of your leaders. In other words, they are worthy of additional focus both because of their importance and because there is significant room for leadership growth in those areas. In addition, the analysis can inform the breadth and scope of the needed development by determining whether the needed improvements are specific to a small number of leaders or more broad-based.

Other “soft” outcomes beyond employee engagement can also be measured within an employee survey and then linked to leadership competencies. For example, by asking a question in your employee survey about the extent to which the work environment enables employees to provide great customer service, you have created a “soft” outcome measure that can be used (through linkage analysis) to generate a rank ordering, of which leadership competencies are the most (and least) important drivers of better customer service within *your* organization. Similarly, your survey can be used to create outcome measures for safety, openness to innovation, ethical behavior, and so on.

The same type of linkage can also be performed with “hard” outcomes—such as sales, costs, safety, absenteeism, and employee turnover—that are collected through other data systems in your company. Essentially, this is a six-sigma-type approach to the leadership development investments. By identifying the leadership competencies that are most closely associated with positive/negative variation in key outcomes (either soft or hard), you will be able to develop a strong evidence base (and business case) for optimizing your leadership development investments.

Furthermore, you can use data from your learning management system in this statistical linkage analysis. Often, there is what is considered a “naturally occurring experiment” in the data within your organization—some managers and leaders have been exposed to more and/or different types of development investments than others. By linking that data into the analysis, you can identify the impact of these investments. For example,

**Figure 1. Statistical Linkage of Leadership Competencies to Business Outcomes**



you could examine the changes in turnover rates (or survey engagement scores) after one set of leaders received a certain development initiative and another set did not. Did turnover go down more among those leaders who received the intervention?

For all of the possible analyses described earlier, the key element is to begin to develop a capacity to link together disparate pieces of information. A sample set of categories is included in Figure 1 above.

In short, your employee survey and 180/360 assessments are potential gold mines for measuring important but difficult-to-quantify aspects of your organization that drive business results and are, in turn, improved under more effective leaders. This (typically) untapped wealth of information holds enormous promise for improving your organization's ability to measure the impact of your leadership development investments and, perhaps more importantly, to improve that impact.

Beware, however: undertaking this type of analysis is not for the faint of heart. You may find that the link between the leadership competencies your organization is investing in and its business outcomes is small or even nonexistent. If that is the case, then you need to be prepared to ask hard questions about whether or

not you are investing in the right competencies (see #1 in Introduction). Analytics can be used to test a variety of competencies to identify those that matter most and, therefore, in which you should be investing the most. You should also consider experimenting a bit in each year's survey, asking employees about leadership competencies in which you have made little or no investment, to see whether those competencies are important drivers of outcomes and thus worthy of consideration for leadership development investments in the future.

### Do Not Allow the Perfect to Become the Enemy of the Good

The current reality is that most organizations have a very low level of maturity with regard to HR analytics. Many have a large amount of data and reports; but actionable, analytics-enhanced insights that can provide guidance for optimizing the allocation of tight budgets? That is typically lacking.

The problem is often even more acute in the realm of leadership development, where accepted wisdom often goes unquestioned, and management by myth is the norm rather than the exception. And that is precisely why the leadership development function continues to struggle so mightily with "the Return On Investment (ROI) question" in most organizations. Rarely, can leadership development provide a concrete answer to the question "what are we getting for the money we are investing?"

Many organizations are paralyzed, however, unable to answer that question and overwhelmed by everything that would need to be done in order to do so. Do not seek perfection from the beginning. Simply taking action on the analytics initiatives outlined above can go a long way toward shifting the conversation within your organization—and help you to make progress in escaping from the defensive crouch of having to "prove your worth" without having any good answers.

Although gaining the analytical maturity necessary to provide fact-based analysis for guiding your investments in leadership development will not happen overnight, that should not be a reason not to get started. You can take a few small steps in the right direction simply by putting together two pieces of information that have never been put side by side. See what you learn, go from

there, and keep moving yourself—and your organization—in the right direction!

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