Whitepaper ROI of 360 Feedback /

Over the last few years, leadership development spending has continued to increase as organizations look to gain competitive advantages in their respective marketplace.

In fact, larger organizations that have created highly developed leadership programs are now outperforming their competitors 12 to 1. In addition, smaller businesses are getting in on the action, spending an average of 23% more on leadership development in 2013 compared to 2012 (Bersin & Associates, 2014).

So where are these companies devoting their time and effort in order to strengthen their workforce and gain competitive advantages? One specific area that consistently returns positive results in providing a foundation for leadership development is 360 feedback.

However, in this economic climate, companies still want to make sure its leadership development programs can be directly tied to a positive Return on Investment (ROI). Pinpointing the direct impact of leadership development programs, and in particular 360 feedback, and relating that to dollars and cents can sometimes be a challenge.

In this white paper, we will address ways to overcome those challenges and effectively measure the ROI of the 360 process, including how it can help minimize turnover, improve employee engagement and performance.

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EMPLOYEE TURNOVER

Bad bosses drive workers away. While not a new concept, the reality is that if employees are dissatisfied at their current position, they will leave as soon as the first job offer comes their way.

Replacing employees is expensive. While the formulas to calculate the costs can vary, it is widely accepted that turnover costs can equal up to 150 percent of an employee's annual salary, and turnover for leadership and sales positions comes at a significantly higher cost (200 –250 percent of annual compensation). Plainly speaking, those costs can really add up.

Consider that when an employee gives their two weeks notice, the company must pay accrued vacation time, and in some cases sick time. In the meantime, the company has to take the time to review resumes and then interview candidates. This doesn't take into account all the lost productivity while the company tries to find a replacement as well as the time spent getting a new person up to speed.

Most companies understand these costs and the risks of turnover, and yet recent studies show a large number of managers are still underperforming.

WHY SOME MANAGERS ARE INEFFECTIVE

Recent research from a 2013 Gallup study stated, "63% of employees are "not engaged" at work"— a relatively unchanged trend from 2009 to 2012. During the same time, the number of employees putting forth high levels of effort has only slightly increased from 11% to 13%.

That finding corresponds, "low levels of engagement among global workers continue to hinder gains in economic productivity," according to the report. It indicates that regardless of region or industry, businesses that seek to adapt in a rapidly changing and advancing climate must sustain a highly productive and engaged workplace in order to keep up change and growth. The survey encompassed nearly 74,000 respondents in 141 countries and an additional 151,000 respondents from the U.S.

Ineffective managers can have a negative influence on individual motivational levels and team morale. In addition, these managers may cause problems beyond their sphere of influence.

All too often companies promote workers on the basis of past accomplishments rather than managerial potential. As a result, many managers are not given a well-rounded practical concept of what management entails. The transition from individual contributor to manager is not just a new role and title; it is a career change that requires an entirely new set of skills.

People look to managers not just to assign them tasks, but also to provide vision and define purpose. Managers must organize workers to maximize efficiency, while effectively nurturing skills, developing talent, and inspiring results.

Too often managers are focused on a specialized talent or skill, when in fact they need to broaden their competencies to help ensure the company will succeed and grow for the long-term. Unfortunately, without proper development and training, many managers will fail in this endeavor.

WHERE 360 FEEDBACK COMES INTO PLAY

If managers don't know what they are doing wrong, they can't fix it. The good news is that leadership, just like other skills, can be learned. Research proves that personality is stagnant, but behavior can be changed. This is when leadership development and training proves very useful.

While most organizations require periodic performance appraisals, many of these programs do not provide a comprehensive, nor accurate view of both strengths and weaknesses. For leaders to perform at their highest potential, successful organizations consistently turn to feedback tools.

The most reliable tool for collecting feedback is 360 feedback assessments. Unlike traditional reviews and feedback, 360 feedback evaluates job performance based on confidential responses from, peers, direct reports, and other stakeholders. Since the opinions are voiced anonymously, it encourages a higher level of honesty.

360 feedback assessments measure a variety of leadership competencies that can include decision-making, being assertive with ideas, communicating more clearly, and clarifying goals and objectives.

When performed properly and with the right assessment, the 360 feedback process helps leaders:

- Raise their self-awareness through understanding the perspective of coworkers
- Create action plans to guide learning, personal growth, and development where it will have the most impact
- Respond to the needs of colleagues and teams
- Foster an empowering, team-driven environment

MEASURABLE CHANGES

Keep in mind that feedback alone will not guarantee behavior change; it is the action that people take after receiving the feedback.

Dr. Frank Shipper in his research paper, Investigating the Sustainability of a Sustained 360 Process, stated there are minimal significant changes experienced from simply providing feedback to participants.

Shipper, a Professor of Management in the Perdue School of Business at Salisbury University, said measurable change using 360 feedback tools will not happen in a one-shot intervention or event. His report is based on a middle-level management development program that was tracked for approximately 15 years in a business setting.

"To expect meaningful changes to occur simply from the process of feedback without providing additional assistance and a supportive environment is naïve at best," (Frank Shipper, 2009).

If companies aren't able to see meaningful changes it can result in a poor impression of the 360 process along with the inability to find the ROI. This is why it's important for key executives to involve themselves in the selection of the instrument, and actively take part in the process themselves. They will then receive a clear understanding of the 360 process, along with the intended outcome. Not to mention they'll be role modeling a widely accepted best practice of leading by example..

In order for 360 feedback surveys to produce sustainable changes in managerial effectiveness, the 360 process should be an ongoing practice. This allows participants to receive continuous feedback on specific skills that can warrant future change in behaviors.

During the 360 process, participants are assessed by questions that reflect a behavior - high scores represent behavior consistent with the value, low scores reflect inconsistency. Rather than relying completely upon raw scores when analyzing feedback, a combination of norms and centiles are used. Norms are used as performance benchmarks to help interpret results of the feedback more effectively, which can help managers get a full understanding of the data.

According to Shipper, the more often the manager goes through the process, the greater the improvement in scores. In his report, he stated the managers who went through the 360 process four times, three times, twice, and once – their subsequent performance evaluations showed improvement of 21%, 16%, 10%, and 7%, respectively.

360 FEEDBACK PROVIDES A ROAD MAP

The 360 process provides managers with guidelines on how to improve a specific skill area, allowing organizations to target specific training and development initiatives where they are needed most.

Sound surveys are an important component of the 360 process, but it's only one piece to a successful leadership development program. Proper guidance on feedback interpretation, goal alignment, and individual planning is equally important. This is why participants and companies must be provided with development tools and services throughout the 360 process to ensure that they have the correct tools to start the path toward improvement.

Development is the fundamental purpose, and so the key to finding significant changes in managerial effectiveness is in the follow-up organizational support and efforts after the results are received. Managers who participate in developmental activities after receiving feedback are more likely to improve their performance than other managers.

A successful development plan includes:

- **Coaches (or Mentors)** - assigned to each participant
- **Resources –** interactive online development plans, workbooks, management workshops

- **Accountability** – participants are held accountable on their development plans to ensure goal completion

- **Ongoing** - we personally recommend the 360 process be repeated every 12-18 months so participants can measure progress and identify ongoing development requirements

LEADERSHIP DEVELOPMENT IS CRUCIAL TO RETENTION

As we mentioned, it is extremely expensive to replace an employee – particularly those in management and leadership roles. In addition to the hefty financial costs associated with replacing those roles, the search period can take a substantial amount of time, anywhere from a month to six months.

But there's more. It takes any employee, even a skilled and experienced one, quite a while to get accustomed into their new job and role. The individual must learn a new corporate culture, a new team, and a different set of dynamics. It is widely known that anyone entering a position cannot be expected to have a significant impact until at least six months after they've come to the company.

So, it makes financial sense to invest in training internal candidates because they already know how to navigate the organization. When well executed, leadership development is a superb tool that not only helps lock in loyalty, but also ensures leaders are performing at a high level.

Leadership development programs provide organizations with a purposeful technique to improve the skills of managers, emerging leaders, and high performers. When leaders undergo leadership development programs, such as the 360 process, the leaders are able to address strengths and weaknesses, which in turn make them a better leader.

And effective leaders not only hire, but also inspire standout employees. In a study of large company programs, a group of Harvard researchers found that, "there is a direct relationship between a strongly defined leadership development program and the type of job candidates the company attracts, external stakeholders' perceptions of the business and employees' understanding of the firm's values and strategies."

A sound leadership development program not only alleviates the issue of ineffective managers, it can also help retain both the manager and direct reports.

DEFINING THE ROI

While the 360 process clearly leads to improved results and performance, defining the ROI of 360 feedback is still a bit tricky. When it comes down to it, calculating the ROI of the 360 process is really calculating the ROI of people, which doesn't always produce hard and fast business numbers.

It is no secret that people are the most valuable asset in any company. According to a 2014 article in *The Harvard Business Review*, although we are in an era of technology and innovation, “Management and managers are the central resource, the generic, distinctive, the constitutive organ of society ... and the very survival of society is dependent on the performance, the competence, the earnestness and the values of their managers.”

It’s no surprise then that, according to Bersin & Deloitte, for the second consecutive year, “U.S. organizations boosted leadership development spending by an average of 14%, totaling 15.5 billion in 2013”. Successful Companies continue to invest in the development of their employees because they understand that it is vital to the success of their organization.

Recently, the Fuqua School of Business/Coach K Center on Leadership and Ethics (COLE) at Duke University conducted its *Duke Executive Leadership Survey*. The survey found that those skills associated with inspirational and ethical leadership were most strongly linked to organizational performance in terms of profitability and revenue growth.

Leaders who displayed ethical leadership behaviors – that is, those who place the long-term interests of a group ahead of their personal goals – are more likely to ensure the long-term survival and success of the organization, according to the survey.

To ensure that leaders exhibit those behaviors, an organization needs to effectively determine where its leadership competencies stand. This is where leadership development programs and assessment tools that reliably measure individual competencies are proven invaluable.

As previously stated, companies that have created highly developed leadership programs are now outperforming their competitors 12 to 1. Regardless of the size of company, the trends for developing employees continues emerge as a top priority at all levels; from front-line managers to high level executives.

Therefore, there really is no substitute for effective leadership development. When performed properly, the 360 process can provide companies with a competitive advantage in today’s ever-changing business environment.

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