

The Importance of
**Leadership
Development**
in an Economic
Downturn



Center for
Creative Leadership®

Study Methodology

The overarching objectives of this research were to understand how an economic downturn might impact organizational spending on leadership development.

An anonymous online survey was commissioned by the Center for Creative Leadership in September–October of 2019 with 300 mid- and senior-level HR leaders who have control over budgets for leadership development, coaching, and employee training. Also, they were the primary or shared decision-maker for choosing providers of leadership development training.

The sample included multinational organizations with at least 1,000 employees and an annual revenue of at least \$100 million. A mix of industries, including technology, financial services, professional services, healthcare, retail, and hospitality were surveyed as well as a mix of “younger” versus “established” companies.

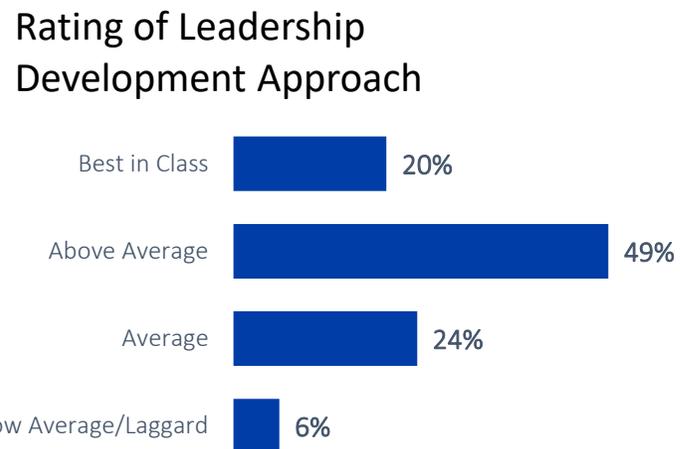
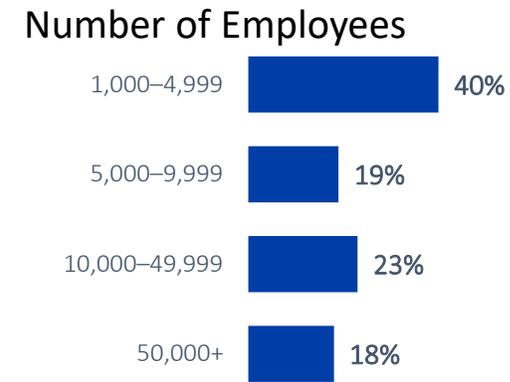
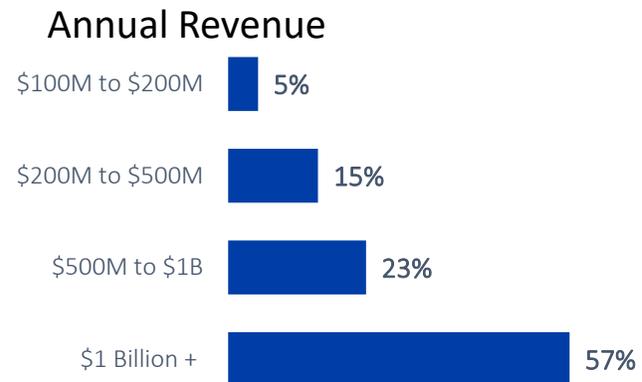
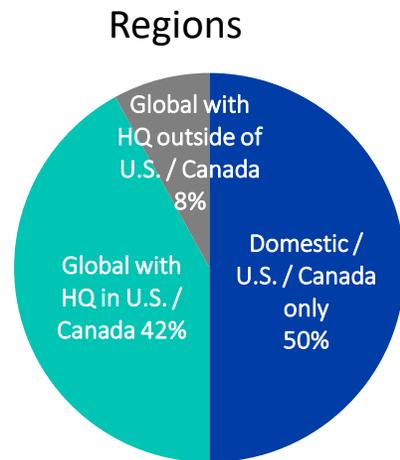
Key Questions Asked

- How is leadership development currently delivered, and which competencies are most important?
- How do businesses perceive their leadership development performance compared to the competition?
- What is the current annual spend on leadership development, and how does this compare to last year?
- How prominent are concerns of an economic downturn/emerging recession?
- How would the overall leadership development budget be affected and what business impact do organizations expect from an increase/decrease in spending?
- In which areas would businesses prioritize investment in the event of an economic downturn/recession (e.g. skills and competencies, development activities, delivery of training, roles/departments, and format)?

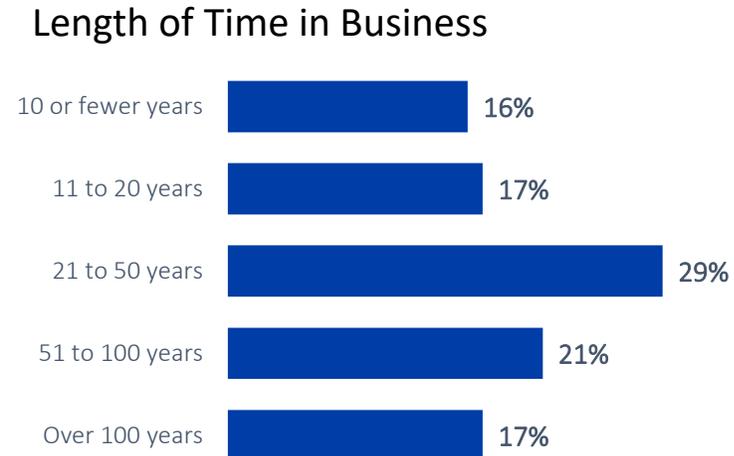


Respondent Firmographics

300 HR Decision Makers
SAMPLE SIZE



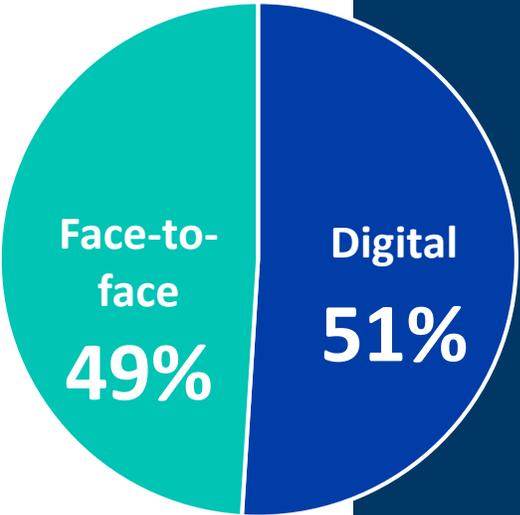
How you would rate your organization's leadership development approach compared with your industry peers?



Leadership Development **TODAY**

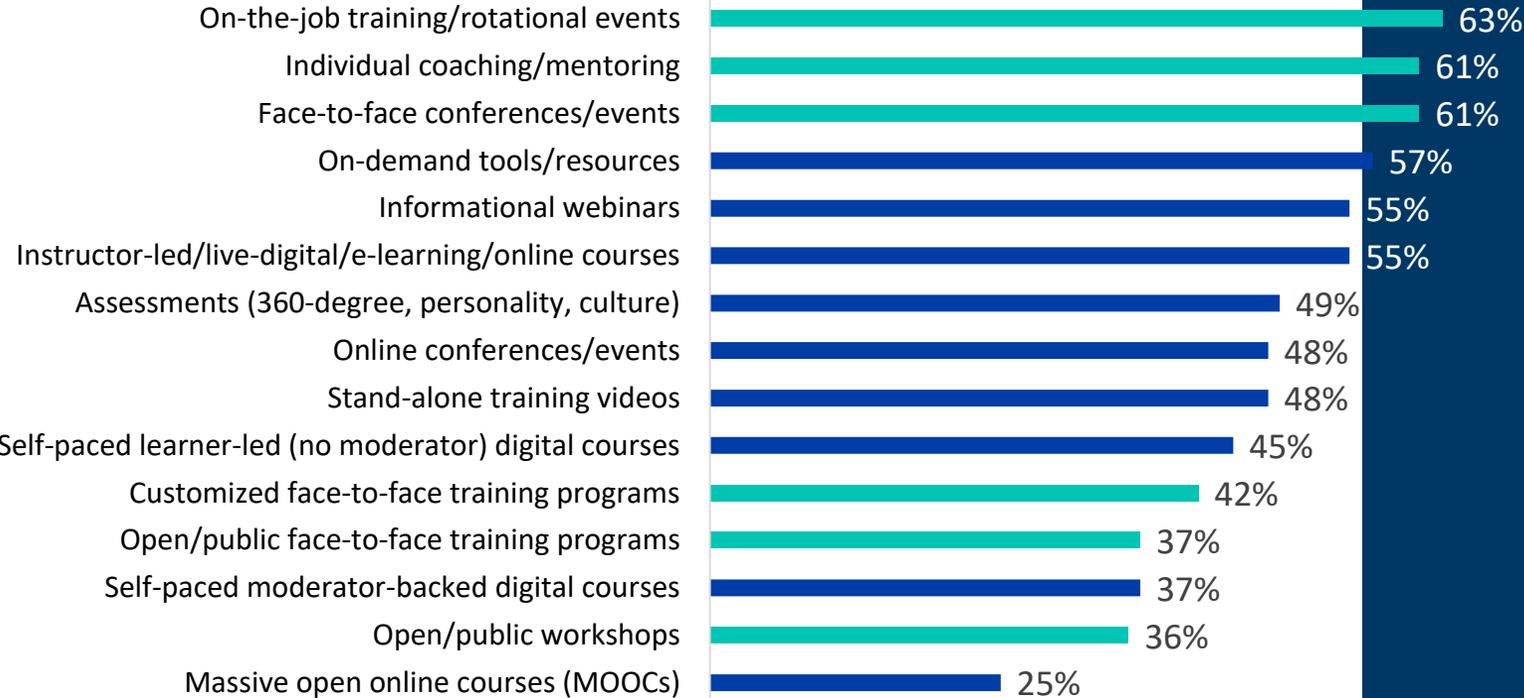


Organizations offer a wide variety of delivery methods for leadership development.



Leadership development is one of the top strategic initiatives in organizations today. Executives believe it is critical to achieve their strategic goals and objectives as well as create a competitive advantage. When they implement leadership development within their organizations, they are not using a one-size-fits-all approach to leadership development. In fact, on average, they use 7 different methodologies with an almost 50/50 split between face-to-face and digital.

Leadership Development Activities Currently Used



The top three are face-to-face activities: on-the-job training, coaching/mentoring, and conferences and events. Digital follows closely with on-demand tools, webinars, and online courses.

Formal activities, such as customized and open/public training programs also have their place. While formal activities are important to the leadership development mix, the most popular activities are ones that leaders can use in the moment.

7 Average of leadership development activities used by organizations.

HR decision makers want to develop a mix of individual, team, and organizational competencies.

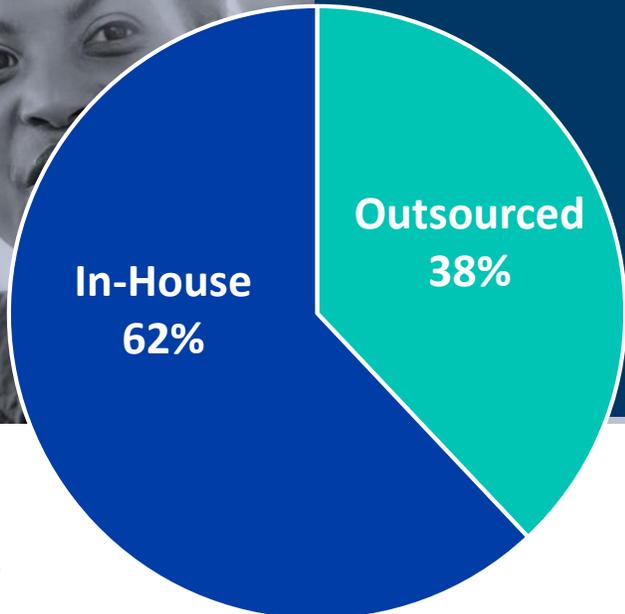
Competencies Addressed by Leadership Development



Organizations are using leadership development to improve skills and competencies critical to organizational success as well as the success of individual leaders.

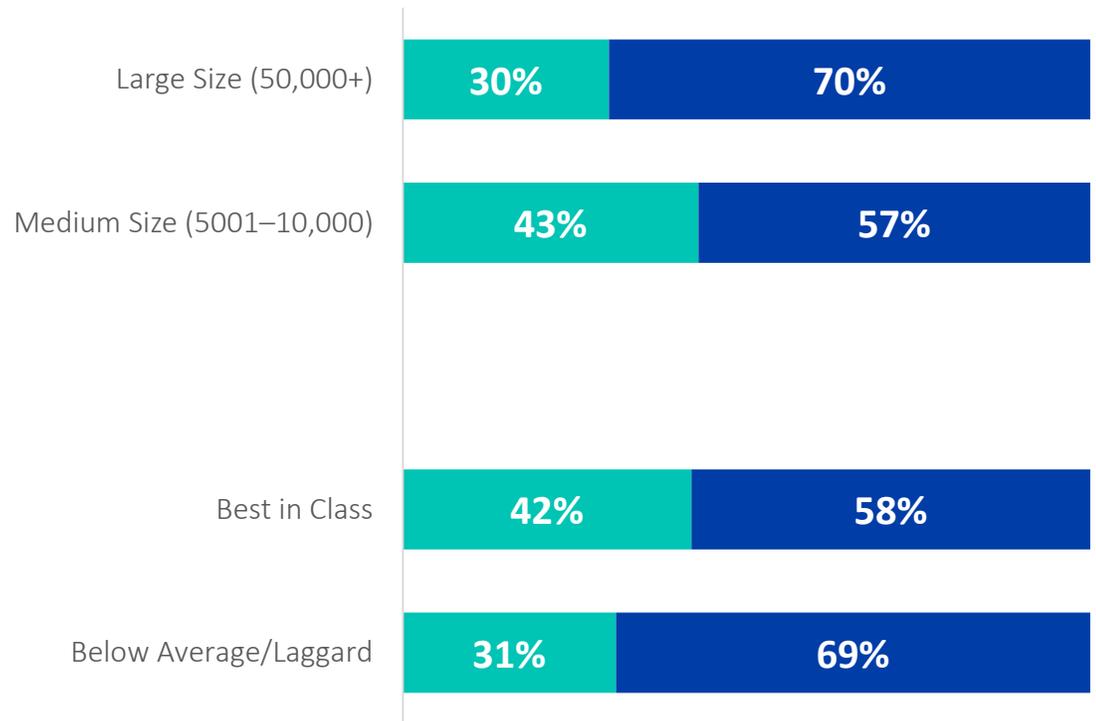
The top 3 skills organizations address with leadership development are ones that improve the individual's leadership skills and make them more effective leaders and managers—communicating effectively, leading and managing teams, and decision-making.

Leadership development for impact on the organization is also important. Almost half of respondents report skills they advance through leadership development activities include: strategic thinking, planning, and execution; leading and managing change; coaching and developing others; managing risk and complexity; and creating a culture of innovation.



Organizations use a mix of outsourced and in-house activities to deliver leadership development.

Mix of Outsourced vs. In-House

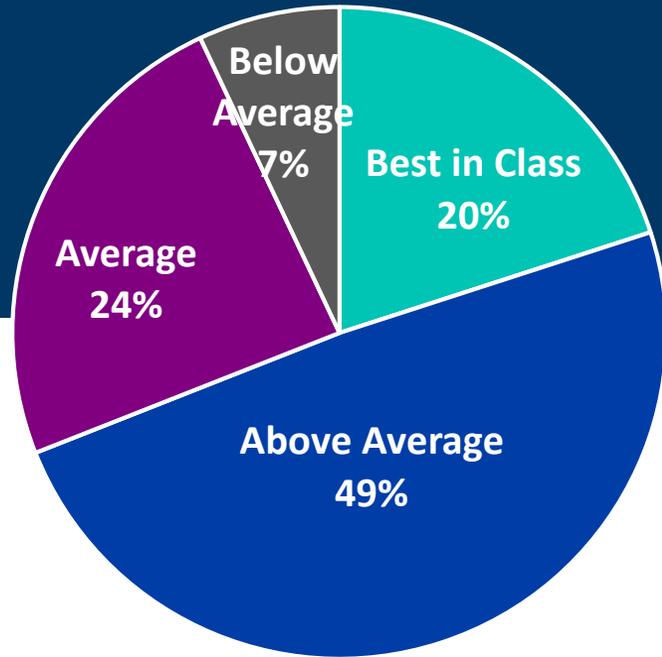


There is an approximate 60/40 split between in-house leadership development activities and those delivered by external vendors.

Not surprisingly, larger organizations allocate more of their budgets to in-house leadership development than medium-sized organizations. Larger organizations typically have more staff and infrastructure to deliver in-house and scale throughout the organization. This allows them to customize development to their internal business objectives to drive impact.

Interestingly, organizations that consider their leadership development approach to be best-in-class are more likely to fund external resources than those that consider themselves below average or laggards in leadership development.

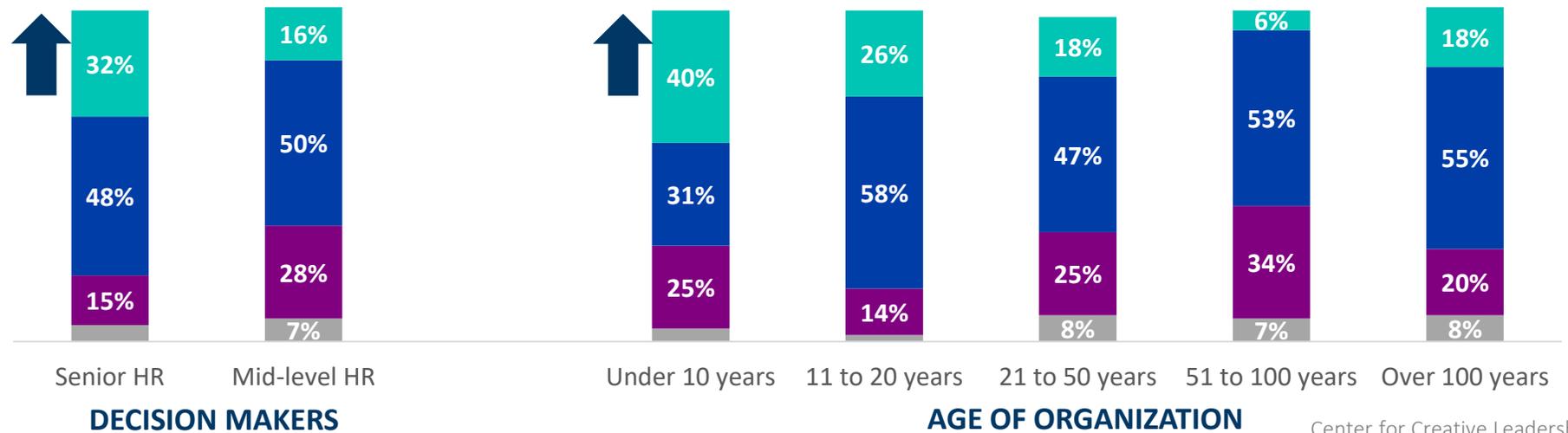
Almost 70% of organizations rate their leadership development approach at least above average compared with their industry peers.



When asked how they would rate their organization's leadership development approach compared with their industry peers, almost 70% reported that it was above average or better. Respondents believe there is room for improvement, but they also believe they are outperforming others in their industry. Senior HR leaders are more than twice as likely to rate their leadership development approach higher than mid-level HR leaders. This might be because senior HR leaders are likely leading the development initiative within the organization and have more control than mid-level HR leaders. Younger organizations (≤ 10 years) are significantly more likely to rate their leadership development approach as best in class.

How Organizations Rank Their Leadership Development Approach

↑ Significantly Higher



Organizations believe leadership development gives them a competitive advantage and they make it a priority.

My organization...



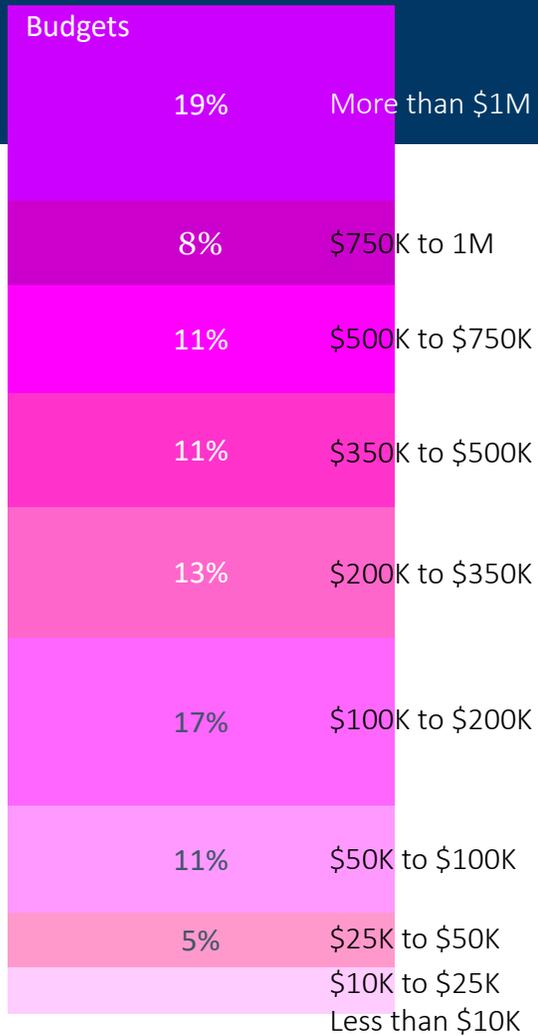
Organizations believe leadership development is vital to the successful implementation of the business strategy. They are making investments in it and developing plans for high-potential leaders. So it is expected that respondents' attitudes toward prioritizing leadership development are favorable.

82% of organizations surveyed believe investing in leadership development gives them a competitive advantage over their industry rivals. The majority also make leadership development a priority and encourage use.

In addition, they promote leadership development by setting aside appropriate budgets and having a significant and structured set of development activities available for employees to choose from.

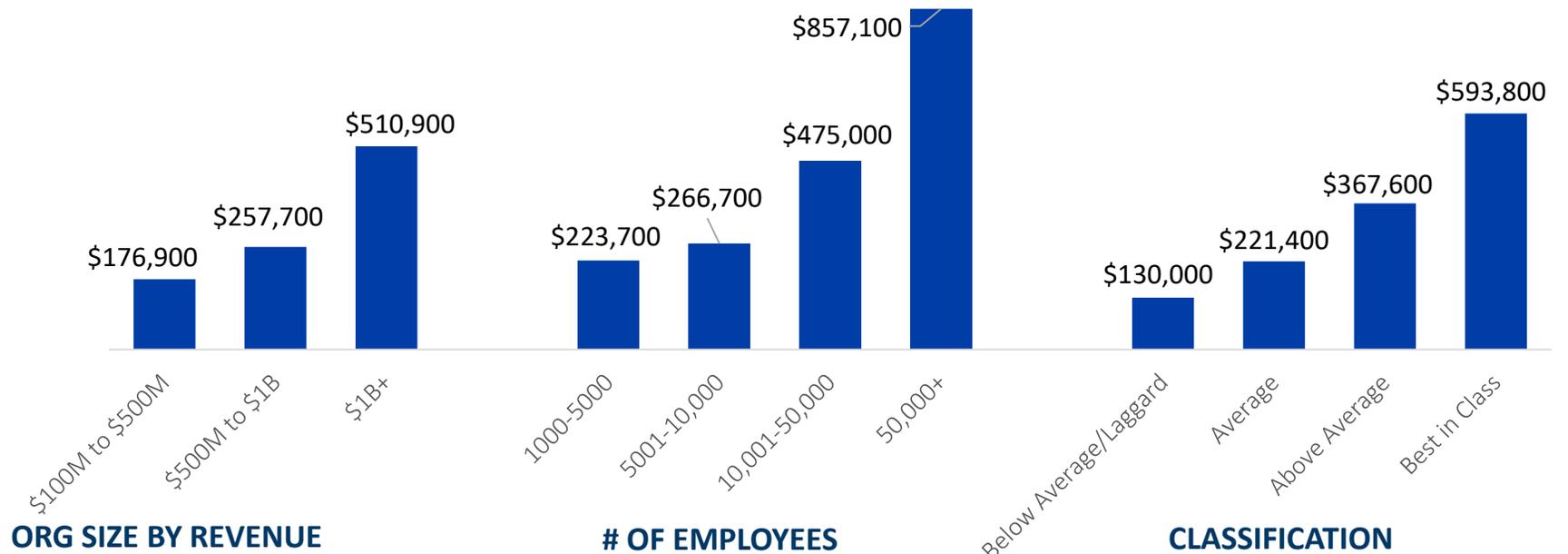
Organizations who consider their leadership development approach as best in class are even more likely to demonstrate these behaviors than organizations overall.

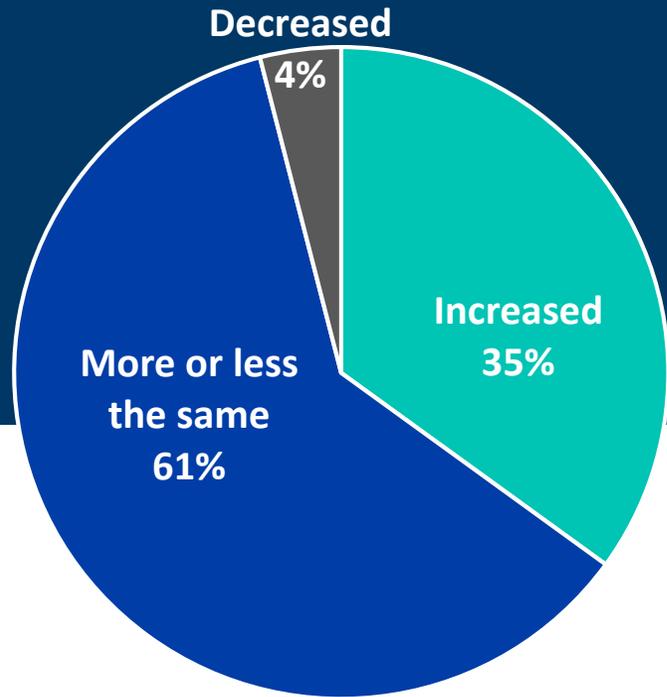
The median overall budget for leadership development is about \$350K.



While the median leadership development budget is about \$350K, there is a wide range of budget amounts used across organizations. Almost 40% spend over \$500K on leadership development each year and nearly a fifth of respondents spend over \$1 million. Larger organizations—both in revenue size and employee size—spend significantly more than their smaller counterparts. Organizations that consider themselves best in class compared with their industry peers spend significantly more than those that don't rate themselves as highly.

Spending was fairly equal at approximately 20% across 5 leader levels: Leading Self, Leading Others, Leading Managers, Leading the Function, and Leading the Organization. Leading Managers received about 5% more of the budget, and Leading Self received about 5% less of the budget. Of course, there are fewer employees at the higher levels than the lower levels, so the spending per employee increases as the level increases.





In 2019, most organizations maintained their leadership development budgets and over a third increased them.

For 2019, 35% of organizations increased their leadership development budgets. The majority of budgets, 61%, remained more or less the same. Only 4% of respondent organizations decreased their budget in 2019.

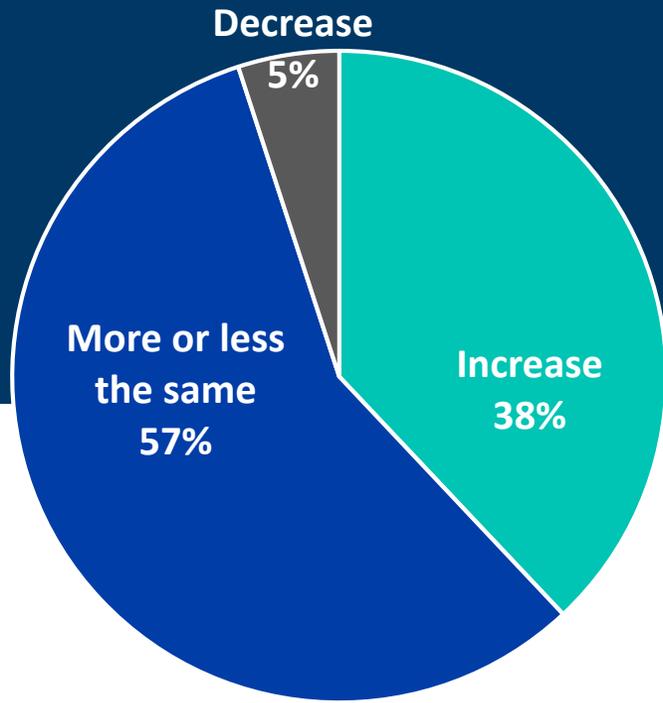
Budgets were more likely to increase for senior HR leaders, younger organizations (≤ 20 years), and in the information technology industry.

Budgets by Decision Makers, Age of Organization, and Industry



↑ Significantly Higher

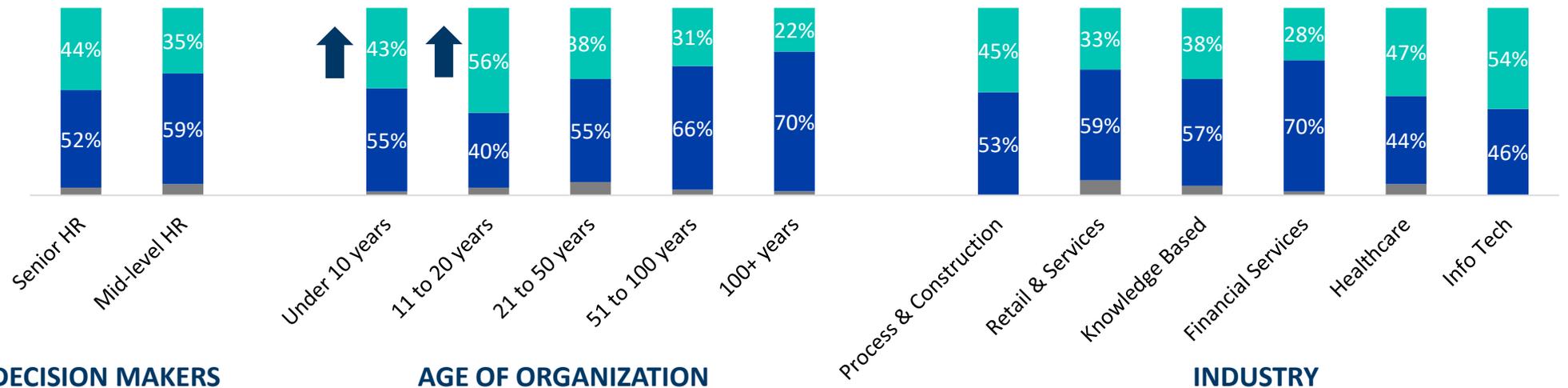
In 2020, nearly 40% of HR decision makers expect to spend more on leadership development.



Investment in leadership development is expected to continue in 2020. Almost all respondents predict that their leadership development budgets will remain flat or increase. About 40% expect their leadership development budgets to increase compared to 2019.

Significantly more organizations in younger businesses (≤ 20 years) anticipate a leadership development budget increase. They are more focused on employee retention and building their leadership pipelines and capabilities. A higher percentage of HR decision makers in the healthcare, information technology, and process & construction industries expect to increase leadership development budgets.

Budgets by Decision Makers, Age of Organization, and Industry

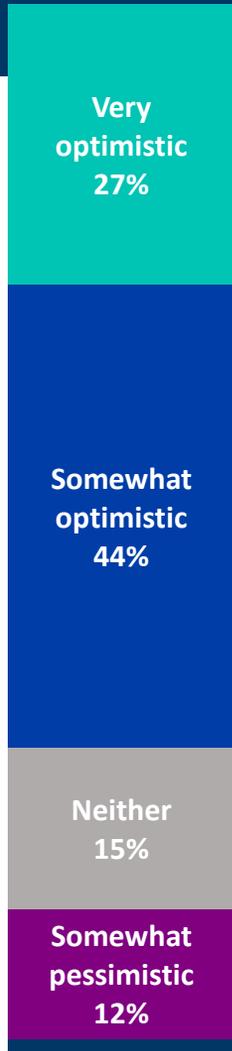


↑ Significantly Higher

Leadership Development **OUTLOOK**



While most organizations are optimistic about the economic future, over half are also making contingency plans.

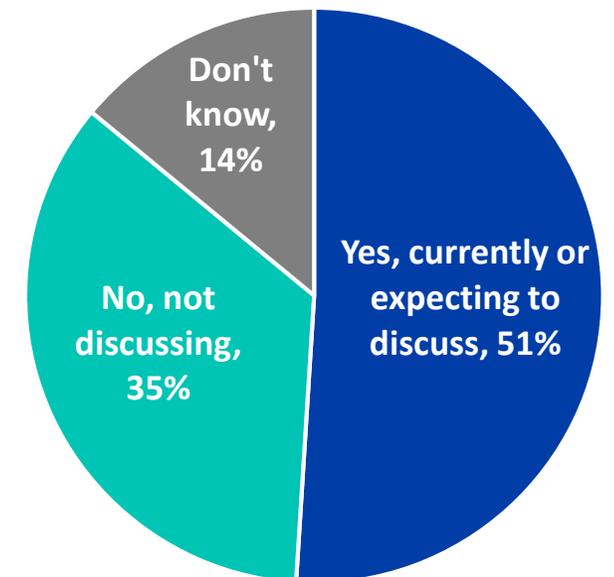


While 71% of organizations are optimistic about the economic outlook, over half are thinking about or currently making plans in case there is downturn.

The age of the organization has an effect on responses to a possible economic decline. Younger organizations (≤ 20 years) are more optimistic as well as more likely to prepare for a downturn. Established organizations (≥ 50 years) are less optimistic and are also less likely to prepare. Also, smaller organizations ($\leq 10,000$ employees) are more likely to make contingency plans than organizations that have over 50,000 employees.

Younger organizations either haven't experienced a recession yet or their first one was the great recession of 2008, so they are more concerned than mature ones and want to be prepared. Mature organizations have weathered many ups and downs in the economy over the decades and likely believe they will be able to handle any future recessions as well.

Making Contingency Plans for a Downturn



Leadership Development **Budgets** in a Downturn





Budget influence is almost equal between HR and line functions during a downturn.

Average Budget Influence by Job Function

CEO/C-Suite
(non-HR)

31%

Central HR
function at
corporate level

30%

Business Line
Leader (non-HR)

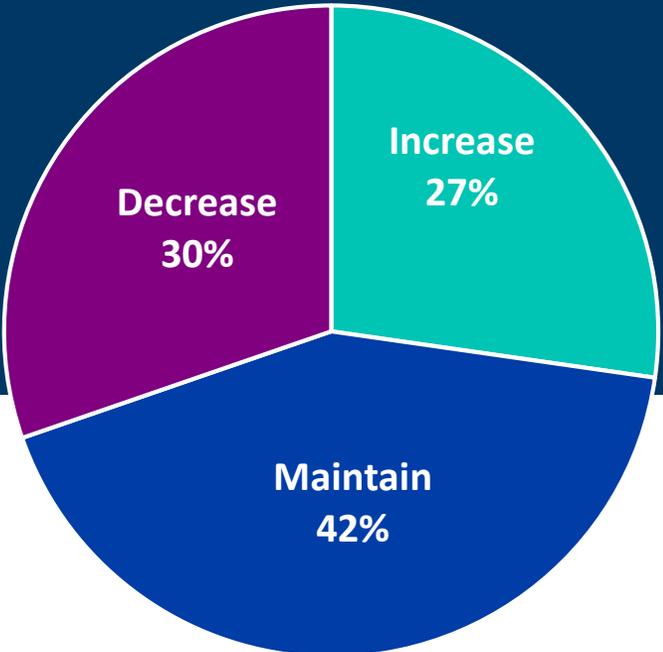
20%

HR function at
business line or
regional level

19%

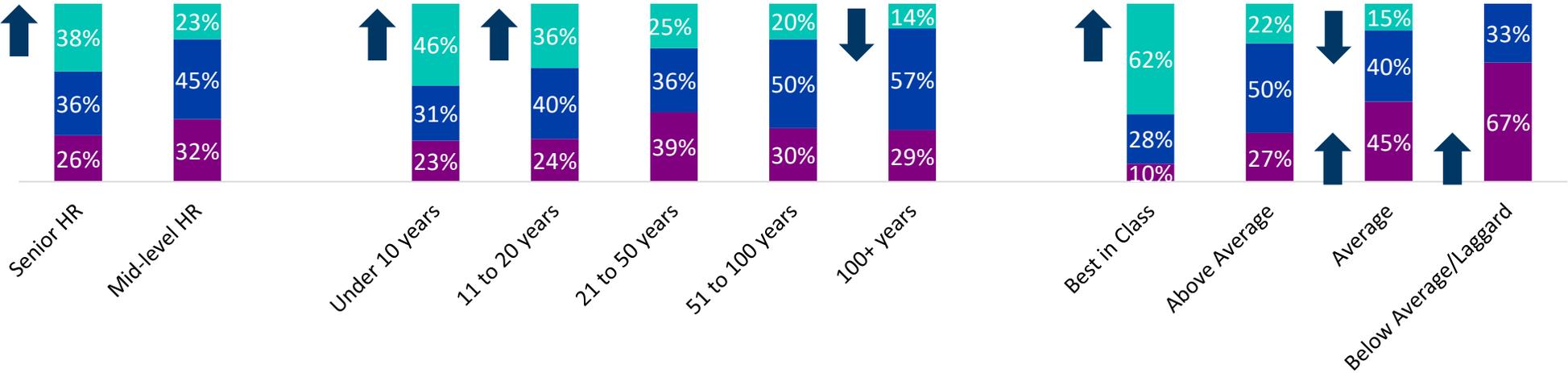
Human resources and business functions would have about equal influence over leadership development budget decisions during an economic downturn. However, centralized functions—HR and C-Suite—have more influence than decentralized leaders in HR and business lines.

Organizations that said they would cut their budgets during a downturn are basically offset by those that said they would increase budgets.



Slightly more organizations expect their budgets to decrease than increase during an economic decline—both about 1/3 each. 42% expect their budgets to be unchanged. Senior HR leaders are more likely to increase leadership development budgets than mid-level HR leaders. Also, younger organizations (≤ 20 years) are significantly more optimistic about their leadership development budgets in the event of a slowdown. Organizations that consider themselves to be best-in-class are extremely optimistic, with 62% predicting an increase in leadership development spending if a downturn occurs. Organizations that rate themselves average or below are very likely to lose leadership development budget.

Expected Budget Decisions During a Downturn

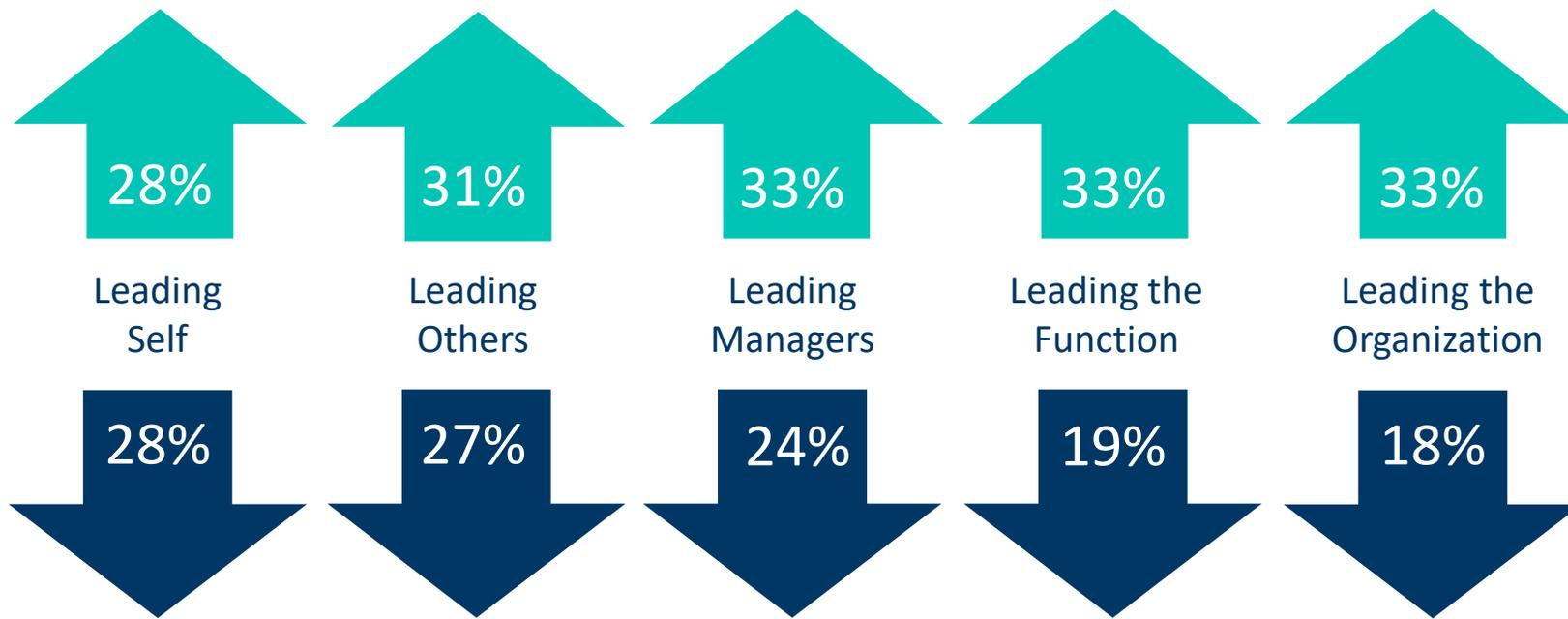


↑ Significantly Higher



For the most part, expected budget decreases at each leader level will be offset by expected budget increases.

Expected Budget INCREASES



Expected Budget DECREASES

When asked which leader levels would be affected by budget increases or decreases in an economic slowdown, respondents expected leadership development budgets to remain more or less the same across leader levels.

Some expect more of a decrease among the lower levels, particularly first-level managers and individual contributors. Increases at each leader level would be fairly consistent, with slightly more at the top 3 levels.

Senior HR leaders are significantly more likely to increase budgets for mid-to-lower leader levels in the organization compared to mid-level HR leaders. Organizations under 20 years old are more likely to significantly increase across all levels.



70% of organizations are motivated to protect leadership development budgets.

Most respondents believe it is critical to protect leadership development budgets during an economic decline. Those who thought it was imperative believe that leadership development is important to the organization. Better trained leaders ensure that a strong leadership pipeline is in place. They also believe that leadership development is essential to employee retention, morale, and engagement—in good times and bad. Another motivation is to ensure the organization has an adaptable, efficient, and agile workforce in order to implement the business strategy and direction.



Benefits of Protecting Leadership Development Budgets

“We need to ensure that **some level of training is continued** even if there are budget cuts. We’ve done a good job of making sure that **even in those times where the budget is tight we continue on with that.**”
– *Mid-level HR leader, Professional Services*

“Effective leadership is **valuable no matter the health of the economy.** Leaders need to be flexible to **make decisions in any environment.**”
– *Senior HR leader, Healthcare*

Perspectives on protecting leadership development budgets from decision makers:

“

“It needs to be protected because having a strong leadership program allows **employees to feel valued and safe at work**. The economic recession will not negatively impact them emotionally as strongly as it would another individual who feels as if their company does not invest in them.”

–Mid-level HR leader, Food & Beverage

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“Increases the organization’s **ability to deal with gaps in the talent pipeline** and reduces the headaches and cost associated with turnover.”

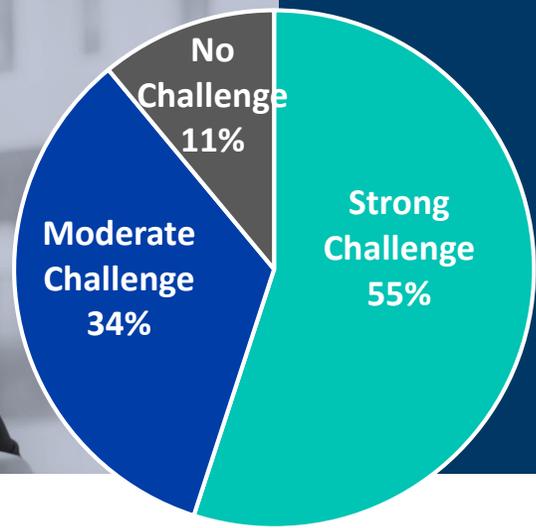
– Senior HR leader, IT

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“Well-educated leaders can run a more efficient business. They can **motivate and engage their employees through a recession**, therefore improving retention and cutting down on employees leaving the company. Better educated managers typically have more engaged teams. **Better engaged teams have higher customer satisfaction and profits**. Both of which will help through a recession.”

– Mid-level HR leader, Automotive / Aerospace





55% believe a cut in their leadership development budget would create a significant challenge.

Consequences of Reduced Leadership Development Budgets



Over half of organizations that would expect to have to cut their leadership development budgets would see this as a significant challenge to the success of their organization. This reaction is driven by the need to support leaders with continuous development, to keep employees and the organization on target, and to maintain employee morale.

“I feel that my team relies on training and would perceive negatively a decrease in budget. I also feel that **other firms that do not decrease training could then lure employees away.**”
– Senior HR leader, Professional Services

“We are a 130-year-old company who has been through all of the up and down markets over the years, so there will be no panic associated with an economic downturn.”
– Mid-level HR leader, Financial Services

Perceived challenges from decision makers on leadership development budget cuts:

“We can adjust quickly and make up for the declined budget through other low cost coaching and development initiatives.”
– Mid-level HR leader, Manufacturing

“It would negatively impact our adaptability, flexibility, and ability to provide effective change management coaching to our clients.”
– Mid-level HR leader, Education

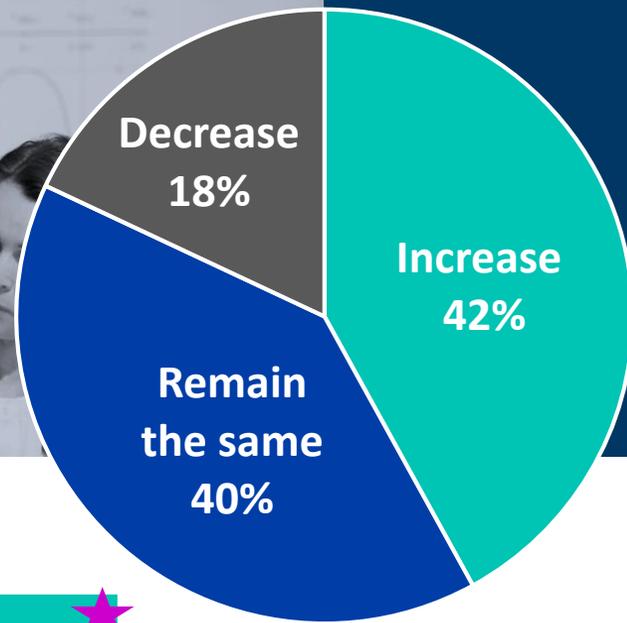
“I think that will have a sizable impact as it is related to staff morale. There will also be a loss of ideas for innovations.”
– Mid-level HR leader, Financial Services

“Things probably will remain the same. Everyone would rely on each other for any additional help or training”
– Mid-level HR leader, Education

“There is always an impact when cuts are made, but this is not a core mission.”
– Senior HR leader, Education

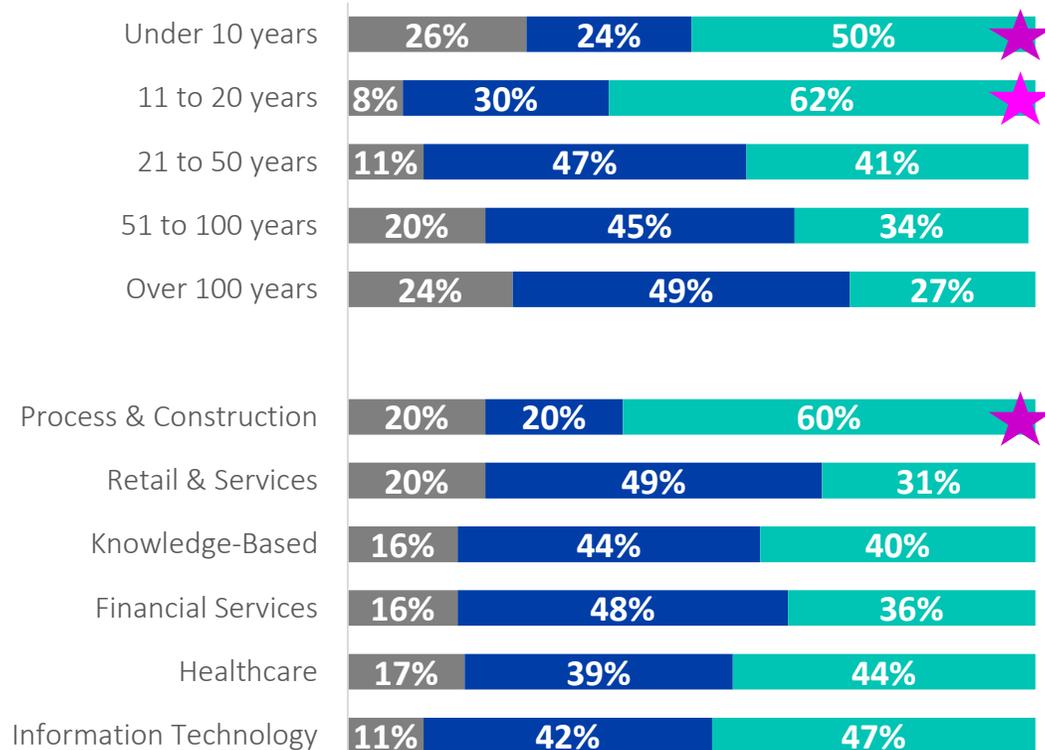
“It will definitely have an impact, although I expect the impact not to be too disastrous. In that world, I envision we will likely cut back on external vendors and use more internal resources to serve our leadership developmental and coaching needs.”
– Mid-level HR leader, Financial Services





High-potentials will continue to receive development during a downturn.

Expected Budget Change for High-Potentials



In good times and bad, high-potentials will receive leadership development. Typically, organizations spend 25%–50% more, on average, developing high-potential employees. In addition, the majority of organizations have an approach in place to identify high-potential employees. In the event of an economic decline, only 18% of respondents predicted they would cut leadership development budgets for high-potential employees. In fact, 42% of respondents said they would increase leadership development budgets for high-potentials.

Younger organizations (≤ 20 years) are significantly more likely to increase leadership development budgets for high-potentials.

Key Learnings



Key Learnings

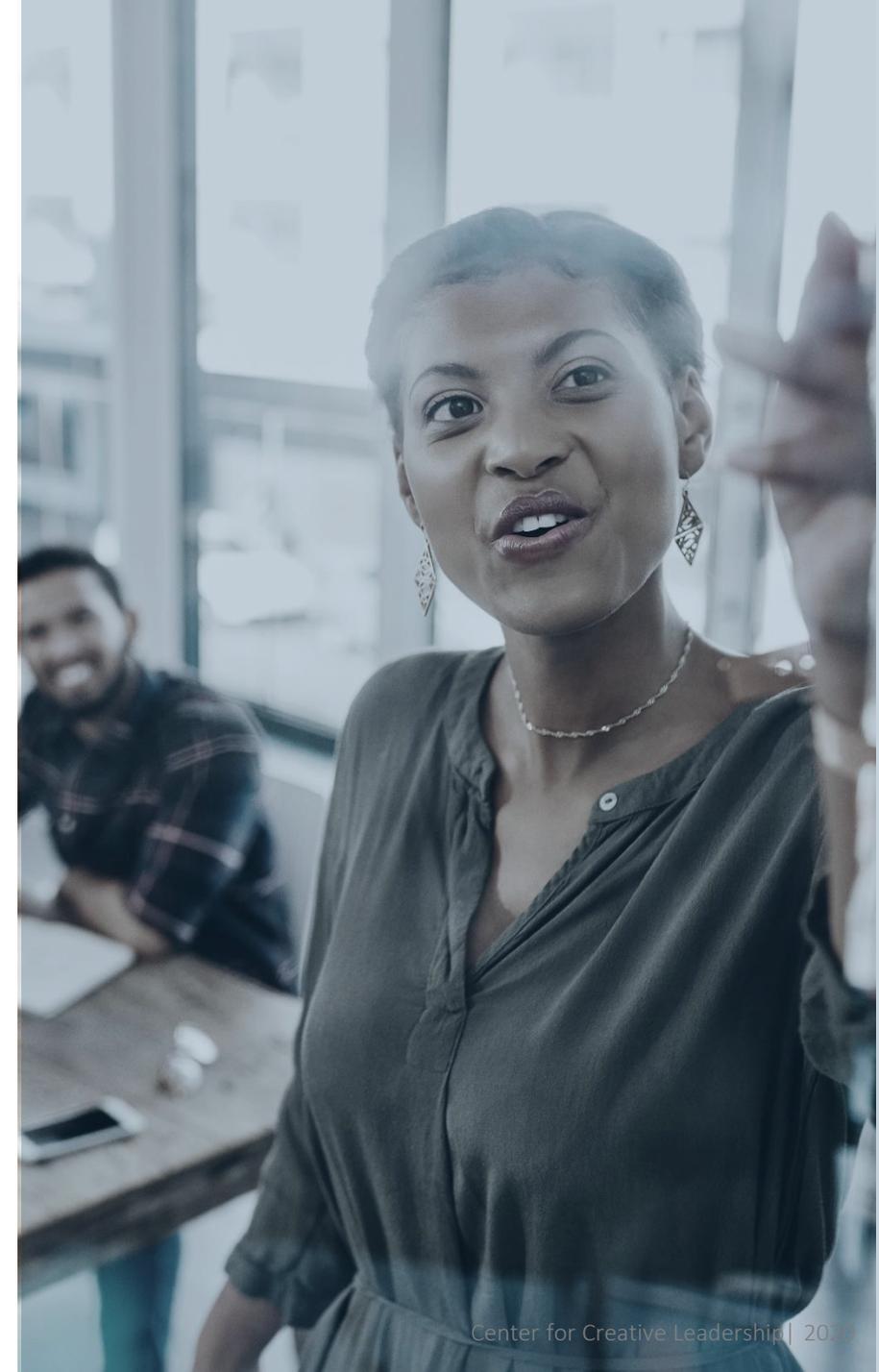
Organizations make leadership development a priority because they believe it **gives them a competitive advantage, helps them achieve their strategy, and improves their ability to attain their goals.**

In fact, in 2019, most organizations maintained the same leadership development budget levels and over a third increased them. **In 2020, nearly 40% of HR decision makers expect to spend more on leadership development.**

In November of 2019, **most organizations were optimistic about the future of the economy, but over half were also making contingency plans.** While the U.S. economy as a whole is not in a recession, some industries, such as manufacturing, are. Most other industries are proceeding with caution due to the uncertainty surrounding the upcoming U.S. elections, impeachment, geopolitical unrest in the world, and now the coronavirus.

While there is caution, **the number of organizations that said they would cut their budgets during an economic downturn are essentially offset by those that said they would increase budgets. A majority (70%) of organizations are motivated to protect leadership development budgets,** and 55% believe a cut in their leadership development budget would create a significant challenge. When broken down by leader level, **expected budget decreases at some levels will essentially be offset by expected budget increases in others. High-potentials will continue to receive development during a downturn.**

Because leadership development is so closely linked to an organization's success, they will invest in it during good times and in bad. Better trained leaders ensure a strong leadership pipeline is in place. Organizations also believe leadership development is essential to employee retention, morale, and engagement. In addition, effective leadership development ensures the organization has an adaptable, efficient, and agile workforce that is ready to implement the business strategy and direction.



How CCL Can Help



CCL can help your organization continue developing its leadership capabilities during an economic slowdown. We can help with:

Face-to-face training: Use our [in-person leadership development programs](#) to provide personalized, face-to-face development for individuals at each leader level. Or, learn [how to strengthen conversations and scale culture change](#) across your entire organization.

Customized, face-to-face training: Partner with our experts to create a winning leadership development strategy for your organization with [customized leadership development solutions](#) that drive better business outcomes.

Coaching/mentoring: Use our [leadership coaching services](#) to provide personalized support to both individuals and teams.

Online learning: Adopt our scalable [digital learning offerings](#) for the flexible, on-demand delivery learners want.

On-demand tools/resources: Support your [in-house development by licensing our content and programs](#) for delivery by your own team, or explore our other [Lead-It-Yourself solutions](#).

Webinars: Take advantage of our [complimentary live and on-demand webinars](#) on an array of leadership development topics.



The Center for Creative Leadership (CCL®) is a top-ranked, global provider of leadership development. By leveraging the power of leadership to drive results that matter most to clients, CCL transforms individual leaders, teams, organizations, and society. Our array of cutting-edge solutions is steeped in extensive research and experience gained from working with hundreds of thousands of leaders at all levels. Ranked among the world's top providers of executive education, CCL has locations in countries worldwide.

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