ROI Statistics for Investments in Soft Skills

The Importance of Exceptional Management

From *Developing Management Skills*, *by David Whetten and Kim Cameron (Seventh Edition)*

"**In the last decade or so, an abundance of evidence has been produced that skilled management – especially those competent in the management of people in organizations – is *the* key determinant of organizational success.** These studies have been conducted across numerous industry sectors, international settings, and organizational types. The research and findings now make it almost unquestionable that if organizations want to succeed, they must have competent, skilled managers.

For example, in one study of 968 firms, representing all major industries in the United States, organizations whose managers effectively managed their people – that is, they implemented effective people management strategies and demonstrated personal competency in management skills – had, on the average, a decrease in turnover of more than 7 percent, increased profits of $3,814 per employee, $27,044 more in sales per employee, and $18,641 in stock market value per employee, compared to firms that had less effective people management (Huselid, 1995; Pfeffer & Veiga, 1999). In a follow-up study of 702 firms shareholder wealth was an amazing $41,000 per employee higher in companies demonstrating strong people management skills than in firms that had less effective people management (Huselid & Becker, 1997). A study of German firms in 10 industrial sectors produced similar results: 'Companies that place workers at the core of their strategies produce higher long-term returns … than their industry peers' (Blimes, Wetzker & Xhonneux, 1997). A study of five-year survivability in 136 nonfinancial companies that issued IPOs in the late 1980s found that the effective management of people was the most significant factor in predicting longevity, even when accounting for industry type, size, and profits. Firms that did a good job of managing people tended to survive; others did not (Welbourne & Andrews, 1996).

A study by Hanson (1986) investigated the factors that best accounted for financial success over a five-year span in 40 major manufacturing firms. The question being addressed was: "What explains the financial success of the firms that are highly effective?" The five most powerful predictors were identified and assessed. They included market share (assuming that the higher the market share of a firm, the higher its profitability); firm capital intensity (assuming that the more a firm is automated and up-to-date in technology and equipment, the more profitable it is); size of the firm in assets (assuming that economies of scale and efficiency can be used in large firms to increase profitability); industry average return on sales (assuming that firms would reflect the performance of a highly profitable industry); and the ability of managers to effectively manage their people (assuming that an emphasis on good people management helps produce profitability in firms). The results revealed that one factor – the ability to manage people effectively – was three times more powerful than all other factors combined in accounting for firm financial success over a five-year period! **We repeat, good management was more important than all other factors taken together in predicting profitability.**

Even research by the U.S. government confirms this management effectiveness link. The U.S. Office of the Comptroller of the Currency studied the reasons for the failures of national banks in the United States during the 1980s. Two major factors were found to account for the record number of bank failures during that period: distressed economic conditions and poor management. The relative impact of those two failures, however, was somewhat surprising. Almost 90 percent of the failed banks were judged to have had poor management. Only 35 percent of the failures had experienced depressed economic conditions in the region in which they operated, and in only 7 percent of the cases was a depressed economic condition the sole cause of bank failure (U.S. Office of the Comptroller of the Currency, 1990)."

Coaching Quotes and Statistics

"Who exactly seeks out a coach? Winners who want even more out of life."

–Chicago Tribune

"Once used to bolster troubled staffers, coaching now is part of the standard leadership development training for elite executives and talented up-and-comers at IBM, Motorola, J.P. Morgan, Chase, and Hewlett Packard. These companies are discreetly giving their best prospects what star athletes have long had: a trusted adviser to help reach their goals."

–CNN.com

"Executives and HR managers know coaching is the most potent tool for inducing positive personal change, ensuring better-than-average odds of success and making the change stick for the long term."

–The Ivy Business Journal, September-October 2000 issue

"Got a nagging feeling that your life could be more fulfilling? Want to change direction but aren't sure how to do it? Here's how to jump start your new life today ... Hire a personal coach."

–Modern Maturity

"The Manchester survey of 140 companies shows nine in 10 executives believe coaching to be worth their time and dollars. The average return was more than $5 for each $1 spent."

–The Denver Post

"Asked for a conservative estimate of the the monetary payoff from the coaching they got, these managers described an average return of more than $100,000, or about six times what the coaching had cost their companies."

–Fortune Magazine, 2/19/01

"A good coach will make you a better performer. A great coach will make you a better person."

–Anonymous

"The soft stuff is always harder than the hard stuff. Human interactions are a lot tougher to manage than numbers and Profits and Losses."

–Roger Enrico, Vice Chairman, PepsiCo

"Management is efficiency in climbing the ladder of success; leadership determines whether the ladder is leaning against the right wall."

–Stephen R. Covey

"I absolutely believe that people, unless coached, never reach their maximum potential."

–Bob Nardelli, CEO, Home Depot

"I never cease to be amazed at the power of the coaching process to draw out the skills or talent that was previously hidden within an individual, and which invariably finds a way to solve a problem previously thought unsolvable."

–John Russell, Managing Director, Harley-Davidson Europe Ltd.

The Importance of Emotional Intelligence (EQ)

From Developing Management Skills, by David Whetten and Kim Cameron (Fifth Edition)

"A study of UC Berkeley Ph.D.'s over 40 years found that EQ was four times more powerful than IQ in predicting who achieved success in their field – even for hard scientists. A McBer study comparing outstanding managers with average managers found that 90 percent of the difference was accounted for by EQ. In a worldwide study of what companies were looking for in hiring new employees, 67 percent of the most desired attributes were EQ competencies. In a study of highly emotional intelligent partners in a consulting firm ... the high EQ partners contributed more than twice as much revenue to the company as did the low EQ partners."

From Developing Management Skills, by David Whetten and Kim Cameron (Seventh Edition)

"One reason emotional intelligence is so important is that general competence levels seem to have deteriorated over time. Whereas average IQ points have increased almost 25 points over the last 100 years – people tend to be smarter now than 100 years ago – emotional intelligence scores have actually declined (Goleman, 1998a). Think, for example of the amount of litigation, conflict, disrespect and divorce that characterizes our society. Less emphasis is placed on emotional intelligence development now than in the past. This is a problem because emotional intelligence has strong predictive power regarding success in management and work settings. For example, it is estimated that IQ accounts for only about 10 percent of the variance in job performance and in life success (Sternberg, 1996), but by adding emotional intelligence (EQ) to the equation, we can account for four times more variance.

For example, a study was conducted of 450 boys who grew up in a small town in Massachusetts. Two thirds of the boys lived in welfare families and one third had IQ scores below 90. They were followed over 40 years, and it was found that IQ had almost nothing to do with life success. Emotional intelligence, on the other hand, was the most predictive factor (Snarey & Valliant, 1985). Another study of 80 PhDs in science who attended the University of California at Berkeley in the 1950s found that what accounted for life success 40 years after graduation was mainly emotional intelligence scores. Emotional intelligence was four times more important than IQ in determining who had achieved in their careers, were evaluated by experts as being highly successful, and were listed in sources such as *Who's Who* and *American Men and Women of Science* (Feist & Barron, 1996). A study of workers followed over 20 years found that employees who were better at empathizing with others – that is, demonstrating a key aspect of emotional intelligence – were more successful in their work, as well as in their social lives (Rosenthal, 1977).

Emotional intelligence has also been found to be an important predictor of managerial success. In a study of managers on three continents, for example, 74 percent of successful managers had emotional intelligence as their most salient characteristic, whereas this was the case in only 24 percent of the failures. A study at PepsiCo found that company units headed by managers with well-developed emotional intelligence skills outperformed yearly revenue targets by 15 to 20 percent. Those with underdeveloped skills underperformed their targets by about the same amount (Goleman, Boyatzis & McKee, 2002). A McBer study comparing outstanding managers with average managers found that 90 percent of the difference was accounted for by emotional intelligence. In a worldwide study of what companies were looking for in hiring new employees, 67 percent of the most desired attributes were emotional intelligence competencies (Goleman et al., 2002). In a study of highly emotionally intelligent partners in a consulting firm, in which they were compared to partners with average emotional intelligence, 41 percent of the high emotional intelligence group had been promoted after two years whereas only 10 percent of the low emotional intelligence partners had been promoted. More importantly, high emotional intelligence partners contributed more than twice as much revenue to the company as did the low emotional intelligence partners (Boyatzis, 1982). The point should be clear: effective managers have developed high levels of competency in emotional intelligence."

Owner / Victim Quotes and Statistics

STUDIES on Optimism:

"Recent studies show that optimists excel in school, have better health, make more money, establish long and happy marriages, stay connected to their children, and even live longer."

- Dr. Alan Loy McGinnis

20 YEAR Study on PESSIMISM:

"Why should we bother to learn to think optimistically? Isn't pessimism just a posture with no real effects? Unfortunately not. I have studied pessimism for the last twenty years, and in more than one thousand studies, involving more than half a million children and adults, pessimistic people do worse than optimistic people in three ways: First, they get depressed much more often. Second, they achieve less at school, on the job and on the playing field, much less than their talents would suggest. Third, their physical health is worse than that of optimists. So holding a pessimistic theory of the world may be the mark of sophistication, but it is a costly one."

- Dr. Martin Seligman

The Damaging Effects of Emotional Stress

From The HeartMath Solution, by Doc Childre and Howard Martin

"According to the American Institute of Stress, as many as 75 to 90 percent of all visits to primary-care physicians result from stress-related disorders. To cope with these complaints, Americans alone consume five billion tranquilizers, five billion barbiturates, three billion amphetamines, and sixteen thousand *tons* of asprin (not including ibuprofen and acetaminophen) every year.

Medical science continues to make great strides in connecting external factors such as diet, lifestyle and environment to our most serious diseases. We now take it for granted that high blood cholersterol, diabetes mellitus, and cigarette smoking are high-risk factors for heart disease. Yet in over *half* of the new cases of heart disease, none of these risk factors is present.

In his 1998 landmark study, Dr. Hans Eysenck of the University of London reported that unmanaged reactions to stress were more predictive of death from cancer and heart disease than cigarette smoking.

In fact, in the aftermath of a heart attack, the greatest predictors of recovery aren't physiological factors – such as arterial blockage or the condition of the heart itself – but emotional factors. A startling report by the secretart of the federal Department of Health, Education, and Welfare revealed that job satisfaction and "overall happiness" are the factors most likely to determine a patient's recovery. A growing body of compelling scientific evidence demonstrates the direct impact of mental and emotional attitudes on health and well-being:

- In a ten-year study, people who were unable to effectively manage their stress had a 40 percent higher death rate than nonstressed individuals.
- A Harvard Medical School study of 1,623 heart attack survivors found that when subjects got angry during emotional conflicts, their risk of subsequent heart attacks was more than double that of those that remained calm.
- A twenty-year study of over 1,700 older men conducted by the Harvard School of Public Health found that worry about social conditions, health and personal finances significantly increased the risk of coronary heart disease.

- In one study of 202 professional women, tension between career and personal commitment to spouse, children, and friends was the factor that differentiated those with heart disease from those who were healthy.
- An international study of 2,829 people between the ages of fifty-five and eighty-five found that individuals who reported the highest levels of personal "mastery" – feelings of control over life events – had a nearly 60 percent lower risk of death compared with those who felt relatively helpless in the face of life's challenges.
- According to a Mayo Clinic study of individuals with heart disease, psychological stress was the strongest predictor of future cardiac events, including cardiac death, cardiac arrest, and heart attack.

Other Quotes and Statistics

As reported in Mass High Tech and The Business Journal of Phoenix

Findings from a three-year ASTD report that studied results from 575 publicly held companies showed investments in training went straight to the bottom line:

- Companies that invested $680 more in training per employee than the average company improved total stockholder return by 6% per year.
- Those in the top quarter of the study group that invested, on average, $1,595 per employee experienced 24% higher gross profit margins.
- Top-quarter companies also saw their income per employee that was 218% higher than their peers.

From "Studies About The Workplace 2009"

Guess what the latest research about the workplace shows?

- Over 91% of people spend a huge chunk of their day frustrated by their coworkers' dysfunctional behavior and think regularly about quitting their job. Go figure.
- Managers waste 37% or more of their day dealing with dysfunctional behavior. Who can afford that?
- One dollar out of every three payroll dollars is LOST for good due to disengaged employees. Hmmm... enough said.

From http://www.fastcompany.com/magazine/73/leadnow.html

"In a study of 3,000 companies, researchers at the University of Pennsylvania found that spending 10% of revenue on capital improvements boosts productivity by 3.9%, but a similar investment in developing human capital increases productivity by 8.5% - more than twice as much."

From the 1997 Quarterly Journal of the International Public Management Association for Human Resource

"Training alone increased productivity/effectiveness by 22.4%. Training with coaching increased productivity/effectiveness by 88%."

Five Cases for High-Performance Management

From "The Real Keys to High Performance" by Jeffrey Pfeffer.
http://leadertoleader.org/knowledgecenter/journal.aspx?ArticleID=155

Studies in a wide range or manufacturing and service industries show that management systems that encourage personal commitment and competence achieve greater productivity, quality, and cost efficiency than systems that impose direct control. Highlights of five studies suggest just how much people can deliver when supported by effective management.

Among 702 large firms in many different industries, being one standard deviation better on an index of high-commitment human resource practices resulted in an increase in shareholder wealth of $41,000 per employee, according to a study by Mark Hustled of Rutgers University and Brian Becker of SUNY-Buffalo.

Motor vehicle manufacturing firms implementing flexible production processes and associated practices for managing people enjoyed 47 percent better quality and 43 percent better productivity than firms relying on traditional mass-production approaches, according to a world-wide study by Wharton School's John Paul MacDuffie.

The five-year survival rates of initial public offering showed that firms whose human resource practices scored in the top one-sixth of IPO firms had a 33 percent higher probability of surviving than those in the lowest one-sixth. Firms in the upper one-sixth in providing financial rewards to all employees, not just managers, had almost twice as much chance of surviving for five years, according to research by Theresa Welbourne of Cornell and Alice Andrews of Vanderbilt.

Steel minimills using a high-commitment approach to management required 34 percent fewer labor hours to make a ton of steel and had a 64 percent better scrap rate than minimills using a command and control approach, according to Jeffrey Arthur of Purdue.

Apparel manufacturing firms that had changed to modular production, relying on teams of multi-skilled people paid more on a group (rather than individual piecework) basis, had 65 percent better operating profit as a percent of sales, 22 percent higher gross margins, and 49 percent more growth in sales from 1988 to 1992 compared to firms that relied on traditional bundle manufacturing and paid single-skilled operators on the basis of individual piecework. So found John Dunlop of Harvard and David Weil of Boston University.

The Importance of Organizational Culture

From Diagnosing and Changing Organizational Culture by Kim Cameron and Robert Quinn.

"No organization in the twenty-first century would boast about its constancy, sameness, or status quo compared to ten years ago. Stability is interpreted more often as stagnation than steadiness, and organizations that are not in the business of change and transition are generally viewed as recalcitrant. The frightening uncertainty that traditionally accompanied major organizational change has been superseded by the frightening uncertainty now associated with staying the same."

"As many as three-quarters of reengineering, total quality management (TQM), strategic planning, and downsizing efforts have failed entirely or have created problems serious enough that the survival of the organization was threatened. What is most interesting about these failures, however, is the reported reasons for their lack of success. Several studies reported that the most frequently cited reason for failure was a neglect of the organization's culture. In other words, failure to change the organization's culture doomed the other kinds of organizational changes that were initiated."

"Most of the scholarly literature argues that successful companies – those with sustained profitability and above-normal financial returns – are characterized by certain well-defined conditions. At least six such conditions are believed to be crucial [high barriers to entry, nonsubstitutable products, a large market share, low levels of bargaining power for buyers, suppliers with low levels of bargaining power, and rivalry among competitors.] Unquestionably, these are desirable features that clearly should lead to financial success. They seem pretty much common sense. However, what is remarkable is that many of the most successful U.S. firms in the past thirty years have had none of these competitive advantages. The top performers in the past three decades – those who literally blew away the competition in financial returns – were not the recipients of any of the so-called prerequisites for success. These highly successful firms, taken from Money magazine's list of the best-performing stocks between 1972 and 2002, include Southwest Airlines (annual average return of 25.99 percent), Walmart (23.72%), Kansas City Southern (25.61%), Comcast (21.99%), and Kroger (21.16%). What differentiates these extraordinarily successful firms from others? How have they been able to make it when others have failed? The key ingredient in each case is something less tangible, less blatant, but more powerful than the market factors listed earlier. The major distinguishing feature in these companies – their most important competitive advantages, the most powerful factor they all highlight as a key ingredient in their success – is their organizational culture."

"Kotter and Heskett interviewed seventy-five highly regarded financial analysts whose job is to closely follow certain industries and corporations. Only one of the seventy-five indicated that culture had little or no impact on firm performance. All acknowledged culture as a critical factor in long-term financial success."

The Exponential Pace of Change

From Diagnosing and Changing Organizational Culture by Kim Cameron and Robert Quinn.

"Change in organizations is pervasive because of the degree and rapidity of change in the external environment. The conditions in which organizations operate demand a response without which organizational demise is a frequent result. Of the largest one hundred companies at the beginning of the 1900's, for example, only sixteen are still in existence. Of the firms on Fortune magazines' first list of the five hundred biggest companies, only twenty-nine firms would still be included. During the past decade, 46 perc3ent of the Fortune 500 dropped off the list."

"If you were to guess which country possesses the following characteristics, which country would you select: the richest country in the world in per capita income, having built the largest military, the acknowledged center of world business and finance, possessing the most developed education system, provides the world's standard of values, and has developed the highest standard of living? Suprisingly, the answer is England in the year 1900."

"The top ten in-demand jobs of 2012 did not exist in 2004. The amount of new technical information currently doubles in less than two years. This means that for students in higher education institutions, at least half of what they learn will be outdated in 2 years, and the remaining half will be divided by two again before graduation. The U.S. Department of Labor estimates that today's learners will have held ten to fourteen jobs by the age of thirty-eight."

"Predictions are that by 2013, a supercomputer will be built that exceeds the computational capability of the human brain, and by 2023, a readily available computer that costs a mere one thousand dollars will exceed the capabilities of the human brain. The implication is that in less than a decade, the possibility exists that a computer could invent something that a human being cannot even comprehend. Moreover, it is predicted that by 2049, a computer that sells for one thousand dollars will exceed the computational capabilities of the entire human race."

"The rate of technological change associated with this information explosion has created an environment intolerant of the status quo. Today's average wristwatch contains more computing power than existed in the entire world before 1960. The technology currently exists to put the equivalent of a full sized computer in a wristwatch or to inject the equivalent of a laptop computer into the bloodstream. Over a hundred animals have been patented to date, and 4 million new patent applications are filed each year related to bioengineering. Almost no one dares predict the changes that will occur in the next ten years. **Moreover, not only is change ubiquitous and unpredictable, but almost everyone assumes that its velocity will increase exponentially.**"