

The Insightful Leader Podcast Transcript

Is Management Training Worth It?

Jessica LOVE: If your organization is looking to up its management game, there are plenty of ways to get help. At your disposal are a seemingly infinite number of programs and courses that all teach effective management practices. And if you're wondering whether paying for this kind of training will really add value to your company, there's good news.

BIANCHI: I think that the consensus at this point is that management practices, good management practices, are related to higher productivity.

LOVE: Nicola Bianchi is an assistant professor of strategy at Kellogg. And this isn't just his opinion. A lot of sound research has shown that management training pays off for companies. But until recently, there were still some important questions remaining.

BIANCHI: What we didn't really know yet was, what was the effect of training managers in different areas?

LOVE: The existing research hadn't been able to say what kind of management training—meaning, which managers in which departments—could give you the most bang for your buck. That's because most previous studies had bundled lots of different trainings together. For instance, they might study what happens when you train the marketing team, the operations team, and the sales team all in one fell swoop. But Bianchi and a colleague wanted to break it down, so that they could actually compare the impacts of training in different areas. And what they found is that all management training is *not* created equal.

[musical interlude]

LOVE: Welcome to *The Insightful Leader* from Northwestern University's Kellogg School of Management. Today on the podcast, we look at a study from Bianchi that goes inside the black box of management training. What he found suggests that there are serious dividends to helping train managers in a certain often-overlooked department. We hear what he learned and how a strange historical happenstance made the study possible.

So you want to know what kind of training is most valuable. Why can't you just compare companies that train the HR department to companies that train the sales department, for example, and see which company becomes more productive? The problem is that companies that choose to train, say, the HR team are probably different from companies that don't .

BIANCHI: The fact that they're weak in HR can be related to other factors that might affect productivity. But also the fact that they realize that they're weak in HR and they need to do better can be related to other factors, right?

LOVE: As a result, it's hard to tell which differences in productivity are due to the actual HR training, and which are due to these other, related factors. So to get at thorny questions like this, economists like to do randomized experiments where they take a group of companies that you know are similar, randomly assign half of them to marketing training, half to sales training, and see what happens. However, as you can imagine, these kinds of experiments are extremely expensive, and often impossible to conduct on a large scale. But luckily for Bianchi, he didn't actually have to run such an experiment. Because one had unfolded naturally—thanks, oddly enough, to World War II.

NEWSREEL: America prepares! All America alters its pattern of life and work to meet the demand for protection. America's vast resources are harnessed to the job of being the world arsenal for this and other democracies...

LOVE: By 1940, the U.S. had not entered the war, but it was clear that it soon would. And the Department of War knew that the workforce would drop steeply when many of the men had to go fight. So they wanted to ramp up production of war-related products as quickly as possible. And they figured management training would help with that.

BIANCHI: The original idea was let's improve management practices in all U.S. war supply contractors. So any firm that had a contract with the Department of War, they wanted to reach those firms and improve their productivity.

NEWSREEL: While more and more bombers roll off the assembly lines at high-powered factories...

LOVE: The Department of War provided management training to over 11,000 firms between 1940 and 1945. These training programs each focused on one of three management functions: First was inventory operations, which taught best practices for sales and production. Second was factory operations training, which was all about improving safety and happiness on factory floors. And, finally, there was human resources training, which taught HR managers how to define job descriptions and set up incentives for workers.

But due to an oversight on the part of the program administrators, these training programs were not distributed in any kind of systematic way. Instead, instructors were just assigned to certain cities and states. Meaning, every company in Omaha might get the factory operations training, even if factory operations wasn't what they needed most. Which meant, for Bianchi's purposes...

BIANCHI: It's really random. Like, we did all the tests possible. It's as good as random.

LOVE: And from a research standpoint, Bianchi says that this is even better than if they had run an experiment, since it's data from the real world, rather than from a controlled laboratory.

BIANCHI: It's like a gold mine for economists.

LOVE: The researchers used historical documents to figure out which companies got which trainings. Then they looked at how productive each company was as a result. What they found was that all three trainings did improve productivity. But one significantly outperformed the others.

BIANCHI: Maybe surprisingly for some people, HR management is the most effective type of training to increase productivity.

LOVE: In fact, HR training increased productivity by four to five percent. And why might this be surprising? Because, as important as HR obviously is, companies often don't think about it as integral to their bottom line. But it turns out, human resources training had nearly double the impact as the other two. What's more, when HR was paired with inventory or factory operations, it made those other trainings more effective, too.

BIANCHI: So it's not just that HR is the best or has the biggest effect on productivity, but it makes inventory management and factory operations also more effective in raising productivity.

LOVE: Why did this flavor of training have such a large impact? One reason might come down to what HR was teaching managers: essentially, how to create good incentives.

BIANCHI: Well this is a little bit of speculation, right, but in my opinion, being able to incentivize properly your workers is going to have beneficial effects throughout your organization and for any type of task, right? So, if your workers know that by doing a good job, they are going to be rewarded, then it doesn't matter whether we're talking about. You know, like, keeping the factory floors tidy, making sure that the machines do not break down—it doesn't matter the actual task. If I know that if I do a good job I'm going to be rewarded, that's going to have a positive effect throughout.

LOVE: There was another useful quirk in the data: at different companies, the training programs were provided to different levels of managers. Some were aimed at middle managers, while others were directed toward high-level executives—and, again, this was completely random. And this let the researchers look at how training folks at different levels affected productivity. For the inventory and factory operations training, they found, it didn't really matter which managers received it. But...

BIANCHI: When it comes to HR, the effect of training middle managers is a bigger effect than training top executives.

LOVE: Again, the reason isn't entirely clear. But Bianchi suspects it might have something to do with proximity. If you're a mid-level manager, you probably know more about the rank-and-file employees than top executives do, so you may have a better sense of what they care about. Which could help you design better incentives.

BIANCHI: If you're closer to them, you might be better at it. Just, you know—the CEO might have lost touch in some sense, right?

LOVE: So, about that management training your organization may be considering? To get the most bang for your buck, there are a few things this research suggests you might want to keep in mind. Most importantly: you shouldn't assume that any ol' training is going to have the same impact.

BIANCHI: So, you may want to think harder about where you want to spend your money first. You might want to prioritize the areas that are more effective at raising productivity. And in our case, that was HR.

LOVE: Of course, this doesn't mean that HR is *always* going to have the biggest effect. But Bianchi's bigger point is that it might make sense to focus your training dollars on functions that affect the whole company, such as HR.

Now, to be fair, what was true of the companies Bianchi studied may not be true of every company. But he points out that the firms in his study made up a full 18 percent of the US economy at the time. So, this was a BIG, representative sliver. And while his results did come from the '40s, the companies in the training program spanned manufacturing, agriculture, services, transportation—sectors that are still central in the economy today. In fact, Bianchi thinks that many modern companies would likely benefit from a similar training.

BIANCHI: We have data saying that even today, there's a huge spread in management practices. And a lot of firms, even in the United States, adopt management practices that are quite far from what we think are the best ones.

LOVE: And so being strategic about how you improve management practices could give your organization a serious leg up.

[musical interlude]

LOVE: This episode of *The Insightful Leader* was written by Morgan Levey and edited by Jake Smith. It was produced by Kevin Bailey, Jessica Love, Fred Schmalz, Jake Smith, Michael Spikes, and Emily Stone, and mixed by Michael Spikes. Special thanks to Nicola Bianchi.

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We'll be back in a couple weeks with another episode of *The Insightful Leader*.