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For twenty five years, the Executive Edge has been a value added service to encourage our employer and candidate clients in their Personal & Professional Development.

THE WAR *FOR* EXECUTIVE LEADERSHIP

By J.B. Hunt

In the US, the retirement rate of baby boomer generation continues its rapid growth. Some 75 million workers in the US have retired, or will between 2008 and 2015, and with them 50 percent of the CEOs of major organizations. The available talent to replace them will need to be picked from the next generation of just 45 million. While that bodes well for our executive search business, it's a real problem for most companies.

The situation is the same in Europe. Even though the evidence for a leadership drought is overwhelming, most major companies are still not prepared to meet the challenge. This was not a tsunami that took us by surprise. It was more like a hurricane. We saw it was coming well in advance of its arrival, but were woefully unprepared for. In fact, this reality has been discussed ad nausea for a decade, yet little to no progress has been made. For many companies, it appears hope is in fact a strategy after all.

Through much of my research for my soon to be released book, Enterprise GPS - Seven Levels of LeaderShift, it's been clear that without the generation that has steered many companies to success, most major organizations will be embroiled in a scramble for the people with the right leadership qualities. In the book, one acronym of GPS is Global People System. While leadership is globally transferable, the still expanding population of the developing world will not provide the answer. Developing economies are strong, and demand for leaders is outstripping supply there too. Corporate raiders from the West may find their check books are being matched by big business in the East.

Organizations that are not developing their own leaders will be forced to recruit from outside. Handled with care this can be a productive strategy but it carries higher risks and encourages a promiscuous job culture lacking in loyalty. With an ever shrinking pool of talent to choose from, the stakes – and the costs – will be even higher.

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Even with the looming deadlines, many organizations are leaving it late to develop a healthy supply of leaders. Yet good practices abound and organizations that have invested in leadership development are seeing a handsome return on their investments.

But who is getting it right? Which organizations are developing more, better leaders faster?

The companies with the best quality leadership are those that are concentrating on developing their own talent. In particular the top companies for leadership are focusing their efforts on identifying and managing the talents of high potential candidates – the population on whose shoulders much organizational leadership is going to fall. With fewer "high potentials" to go round they are going to be a very valuable asset indeed.

The top companies are no different than other companies when it comes to the frequency of practices they provide for mid-level and senior-level managers. However, where they differ is in the amount of effort they concentrate on the high potential individuals they have identified. In actively managing their high potentials the top companies are more likely to:

• have a formal process in place for identifying individuals who are likely to assume leadership roles in the future;

• provide career tracks for high potential professionals or individual contributors that are separate from those for high potential leaders;

• provide formal programs that are designed to accelerate the leadership development of high potentials – the provision of stretch assignments – developmental job rotations which take them out of their comfort zone;

• include marketing as an organizational function from which they get their high potentials, which while common in consumer goods industries, not as prevalent in others;

• fill mid-level positions with internal candidates;

• fill senior positions with internal candidates;

• promote CEOs from within.

Does it matter that there are going to be 30 million less workers in the US – and a similar drop in Europe – from which to draw the next generation of leaders? After all, we are only talking about a handful of CEOs. Surely there must be enough great leaders in those millions? Unfortunately, the pool of talent is shrinking proportionally with the overall loss of workforce – making it hard to find quality.

The Corporate Leadership Council reports that 97 percent of organizations report significant leadership gaps and 40 percent of them say that the gaps are acute. In the US between 2005 and 2012 a total of 60–75 percent of senior management were eligible for retirement including 50 percent of CEOs. In 2013, most have or are planning on retiring in the short term. If they cannot be replaced by leaders of sufficient quality, where does that leave business?

Boom time in the East, but not for leaders

In sheer population terms the developing countries of the East might seem to provide a solution. However, leaders are not in limitless supply there either. Population may be rising but the exploding economies of the East mean that demand for leaders is high there too. Senior managers in India and China are particularly scarce.

In Bangalore, the outsourcing capital of the world, wage inflation has climbed 20 percent per year and job turnover is 40 percent. Then there is the question of quality. Many Asian companies have had to bring in Western CEOs. Corporate raiders from the West using their financial firepower may find they face a battle to hold on to their own talent.

Who needs good leaders?

In terms of productivity, research shows that good leadership makes a significant difference to bottom line performance. One study noted that general managers who created high performing, energizing climates outperformed those who created neutral or de-motivating climates, delivering margins double their size.

This opinion is clearly shared by the top companies. They had more leaders than the average, were happier with their quality and more committed to leadership development. The result of more motivated workers is demonstrated nowhere more clearly than in the bottom line itself.

Good leadership makes a significant difference to bottom line performance

Leadership itself has risen in value too. The value of "intangible assets," which include everything from skilled workers to patents to brand, has ballooned from 20 percent of the value of companies in the S&P 500 to 70 percent today. Leadership now forms a substantial part of those intangible assets and top companies value it accordingly. The Corporate Leadership Council Survey states: 60 percent of employers see high potential employees as 50 percent more valuable than the average, and 15 percent see them as 100 percent more valuable.

Homegrown reaps bigger rewards

What is clear is that it is better to develop your own leaders. Recruiting from outside is always a risky strategy, recruits may not be as well aligned with their new corporate culture as internal candidates and may not fit in. As the Harvard Business Review puts it: "top performers who join new companies… are unusually slow to adopt fresh approaches to work, primarily because of their past successes, and they are unwilling to fit easily into organizations…"

In addition to the risks posed by trying to integrate an outsider, organizations increasingly find themselves engaged in bidding wars for the best candidates. So not only may your organization pay over the odds for the leadership you acquire, it is highly probable that the cost may not be reflected in a better bottom line.

Moreover, once you have hired your "stars" there is no guarantee they will stay – it seems loyalty is no longer what it was. A Society for Human Resource Management study suggested that 83 percent of workers were extremely or "somewhat" likely to search for a new job as the economy recovers.

Organizations that identify and invest in their own supply of leaders can look forward to more loyal leaders who are a better fit with their organizational culture and who are more likely to deliver results. However, it is not going to happen overnight and the deadline posed by the retiring baby boomer generation is an immediate one.

Cultivating a leader takes time

Research shows that it takes around 10 years to develop the skills needed for a senior leadership role. That is a very long timeframe if your CEO is one of the 50 percent set to retire in two to five years – particularly if your organization does not have any formal leadership program in place.

Companies are taking longer to fill jobs with suitable candidates already and say they have to make do with below standard employees. The average quality of candidates has declined at least 30 percent since 2008 and the average time to fill a vacancy had increased exponentially. A high percentage of people getting hired are below average candidates, just to fill a position. If you have cultivated your own leaders you are in a position to identify appropriate candidates for positions before the need arises.

7 practices that make the difference

So what are the top companies doing to ensure more *leaders, better and faster? What are the practices that set them apart from their rivals? What can other companies do to arm themselves in the war for leaders?*

The seven key practices are prevalent across the Fortune 1,000 companies. What varies is the degree of commitment to those practices or the degree of emphasis placed upon them by different organizations.

Essentially the top companies were those who not only had more leaders but who were also happier with the number and the quality of their leaders. Best practices in this realm are soundly based on research that shows that leadership development depends on direct involvement by the CEO and interventions at team and individual levels.

If you are going to do anything, adopt these practices

The top three practices are the same across industries and across regions. A motivating work climate, a commitment to leadership development and training for teams accounts for over 60 percent of what predicts a company is going to have the right number and the right quality of leaders.

A motivating work climate

Developing a successful leadership climate requires organizations to intervene at the individual, team and organization level. It is no good expecting individuals to make a difference if there is no support for them throughout the organization.

Never has this been more true than for the role of the CEO. CEOs of the top companies devote a considerable amount of time and energy making leadership work. They are hands-on people who make sure everyone is aligned with strategy.

Not that alignment has to mean conformity. Leaders can embrace eccentricity or maverick behavior within a team as long as the energy is all flowing in the same direction. That is what the top CEOs do – they get involved and make sure their leadership program is delivering their company strategy.

Commitment to leadership development. Training for leaders and teams – developing your high potentials

Top organizations are likely to have separate career tracks for high potential professionals as well as formal programs designed to accelerate the development of high potentials.

Top companies concentrate more single-mindedly on their high potential candidates than the rest. A detailed analysis of each practice shows that top companies use three leadership development practices more frequently on their high potentials than either mid-level or senior-level managers:

- coaching by a trained internal coach,
- mentoring by another senior manager/executive,
- rotational job assignments.

Research also highlights three specific activities focused on mid-level managers. Top companies invest in external leadership development programs, web-based self-study and executive MBA programs to generate the greatest supply of quality leaders.

Identifying high potentials

Those people within an organization who have the potential to lead are an increasingly valuable assets. *Yet how do you identify someone with high potential? How do you nurture and develop their potential? How do you avoid developing a star player who does not have the potential to be a leader?*

Many organizations are capable of identifying those who are brilliant in their current roles. However, a star player can turn out to be a disaster as a leader. So how do organizations assess potential?

The best organizations are more likely to have a formal process for identifying high potentials. They will not rely on line manager nominations; rather, they collect and debate benchmarking data which enables them to select according to best in class.

To measure potential, organizations need to be clear and objective about both the current abilities of their people and the actual requirements of future role, whether it is the next promotion for the person, or a longer term 'leadership' role. I call this LeaderShift. Work values must shift to meet the standard of a given role.

Organizations should take into consideration growth factors and derailers in succession planning, organization design/development, talent/career development and performance management.

Growth factors are deep-seated traits that affect a person's ability to develop over time. A growth factor, where present in abundance, attracts little in the way of criticism. There are four factors that act as a catalyst to the long term growth of leaders:

• Beyond the boundaries thinking – the ability to address issues conceptually, think strategically and creatively, as well as to translate complex concepts into reality.

• Curiosity and eagerness to lead – the desire to take on different and challenging assignments and so gain new skills and knowledge to apply in other areas.

• Social understanding and empathy – the desire and ability to understand others, not just what they say, but the meaning and feeling behind the words, so as to motivate and influence.

• Emotional balance – a sense of emotional resilience and realistic optimism. Such managers and executives bounce back from adversity, are not overwhelmed by difficult situations, but keep others positive and motivated.

In contrast, derailers are aspects of the person that interfere with their growth and performance. These factors can be an inability to listen, lack of self-control, depression, sulking and self-centeredness.

Alternatively, derailers can be created by the organization. Organizations unwittingly derail the careers of their best employees through, for example, moving a high potential individual too quickly from role to role, eliminating the possibility of learning from the experience and their mistakes.

Identifying growth factors and derailers is only part of the story with regard to identifying and fulfilling potential. It is important to be clear about the level of work you anticipate for a high potential. Also, the specific type of role at that level for example, operations, policy or commercial. Having researched these role types, their success criteria vary considerably and account for why, for example, a star CFO or COO sometimes fails when given the CEO job.

Five key ways to get better business results from the management of potential:

• Know what you need from people. Look at your strategy; define the behaviors, values, competencies and roles necessary to execute it. Focus your selection and development on those behaviors, values, competencies and roles.

• Identify long-term potential through growth factors – not just job-specific abilities, or past performance.

• Potential – for what? Distinguish between long term leadership potential and short term job specific potential.

• Fulfilment of potential. Promoting high potentials or rotating them through assignments is not enough; they need care and development to ensure their promise is fulfilled.

• Growth factors are deep-seated traits that affect a person's ability to develop over time. Create enabling systems for effective talent management. Processes should help find hidden gems. There should be mechanisms that inject objective data into the decision making processes supporting the best deployment of talent.

Job rotations

One significant change from the practices of top companies over the last ten years is the shift from job shadowing for middle management to job rotation for those staff identified as high potentials. Top companies believe that it is more effective to expose their high potential candidates to a broader range of hands on experience than it is to invest time in a larger number of middle management learning roles without any real responsibility. Leaders will not be developed in a silo culture. They simply will not have the perspective needed to be leaders.

Job rotation or "stretch assignments" – the opportunity to work in other functions across the business – can provide a breadth of experience or "perspective." Yet they are not in themselves developmental experiences. To be truly effective, they should provide the individual with a framework which indicates what he or she is supposed to learn from the experience. In addition, sufficient time should also be allowed for the individual to learn from the role and from his or her mistakes.

The relevance of the marketing function

Breadth of perspective is also one of the reasons why marketing is now one of the functions more frequently represented within leaders of the top companies. Top companies are more likely to source high potentials from the marketing function. This may be because best practice organizations are more market focused and value leaders with that background. It might also be because good marketing people have strong conceptual abilities. Marketers also have a much better understanding of the brand values that form part of the intangible assets, worth so much to a company these days.

Gain leaders without losing money

The learning for other organizations that aspire to a greater number of better leaders must be to see where resources are being wasted. There are some practices that no longer make the grade: job shadowing, web-based self-study and executive MBA for senior managers.

These activities have to take place at the right time in a career to have any real benefit – so sending a senior manager on an external MBA is too late to give him the experience he should have had already – experience that the top companies now expect high potential candidates to gain through job rotation, for example. They do not add value when they take place too late in a career.

Different regions, differing practices

While the developed countries show no difference from the overall best seven practices, the developing countries have four best practices that set their top companies apart:

- creating a good work climate that motivates employees;
- providing training and other activities to help leadership teams work together more effectively;
- providing additional developmental activities for mid-level managers;
- mentoring by another senior manager/executive for mid-level managers.

While the first two practices overlap with those for developed countries and these account for the majority of their superiority, they do not include the practice that topped the list in the West – having leaders at all levels who focus on creating a work climate that motivates employees to perform at their best. The third and fourth practices did not feature in the top seven in the West and are more concerned with developing mid-level managers – a practice that the West seems to be leaving behind in favor of a more targeted approach at high potentials.

Different industries, varying success

Given that the time to fill executive jobs has already doubled from three months to six months and that it takes between nine and 12 years to develop a leader, speed is of the essence with a leadership shortage just around the corner. Some industries are clearly better at identifying and developing their leaders than others.

In the key area of identifying high potentials and providing formal development programs, the travel and telecommunications industries identify high potentials almost a year faster than the average. The consumer products industry runs formal programs most frequently and develops the best classically trained leaders.

Typically it takes an industry three years to identify someone with high potential. The transportation and chemical/oil industries take the longest to identify high potentials, up to two years longer than the average. The consumer products and travel/hospitality/service industries have been best at actively managing the careers of high potentials. The consulting and public/not-for-profit industries are the lowest.

Preparation is the key to winning the war for leaders

Time may be slipping away but the steps that organizations can take to lay down formal leadership development programs are defined and implementing them will start to yield results quickly.

There are many proprietorial techniques that will take organizations from a more haphazard approach to leadership to a buttoned down and productive leadership pipeline. If time really is tight and outside hires are a necessity, we strongly recommend companies hire an outside consulting firm that has experience in minimizing the risks.

The top three practices mentioned here account for 68 percent of the difference between the top companies and the rest. However, in terms of concentrating resources and creating a supply of leaders, the fourth makes a significant difference and is the one practice outside the top three that is worth singling out for special attention.

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Great leaders exist in every generation. It is just a question of finding them, and when you have found them of keeping hold of them. Given that the writing has been on the wall for some time now, it is a sobering thought that only 20 percent of CEOs are confident that their talent management processes can deliver the executives needed to win in the future. That leaves an awful lot of organizations facing a future that is as uncertain and haphazard as their current leadership development.

However, the future need not be so uncertain. Even hiring from outside can be done with more confidence of success given the right strategy. An even more dependable source of the right people to take your organization forward is to implement a well thought through leadership development program. With the right advice and by looking at what the top companies are doing better, it is possible to produce a supply of first class leaders who will be the next generation of CEOs books.

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