

Leadership Development

Building a pipeline

To maximise economic value, companies need to focus more on the current and future performance of their leaders.



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The bad news is that the average CEO falls well short of delivering a level of leadership development that would build a talent pipeline. The good news is that more and more CEOs are questioning their organisation's approach in this field. In the experience of Egon Zehnder International, one way of successfully developing the next leadership cohort is through structured exposure to selected challenging business experiences. Pursued with the involvement of top management, such leadership development initiatives deliver substantial financial benefits.

LEADERSHIP AND TALENT DEVELOPMENT are clearly topical and important themes for senior executives – witness the worldwide proliferation of articles and conferences on these subjects. In our work with clients, we at Egon Zehnder International observe that more and more senior executives, and CEOs in particular, are questioning their own organisation's effectiveness in these areas. In what follows, we want to look at three questions in particular: What exactly is leadership development? What makes it so important? And how can companies ensure that their leadership development efforts are indeed effective?

Experience and exposure

So what exactly is leadership development? For a senior leader in a company, it is very much linked to the issue of talent management. Leadership development should focus on introducing disciplines that will make sure an organisation maximises the current and future performance of its leaders. While the formal training programs and conferences that deliver the bulk of standardised training can still be relevant to leaders, the accent here is on disciplines that ensure they receive the right business experience and senior management exposure.

It follows that leadership development is not solely, or even mainly, a human resources discipline. Of course, the expertise of the human resources function is critical to underpinning a professional approach. But it is the

attention and the insights of the organisation’s existing leaders, combined with structured exposure to some of the more challenging business experiences facing the organisation, that are critical to developing its next leadership cohort. This takes real discipline to make it happen effectively, because the stakes are much higher than many organisations recognise.

Driving real accountability

What makes leadership development so important? In our recent global study of talent management practices among leading corporations around the world, we found that very few major corporations questioned the need to improve their approach to leadership development. We also found a substantial volume of research confirming that they would be well advised to do so. Study after study has shown that ensuring an organisation has the most capable leaders makes by far the greatest impact on its overall productivity. Our own research indicates that the combined financial effect of lower staff turnover and stronger leadership in better organisations raises EBIT margins by 25 to 50 percent.

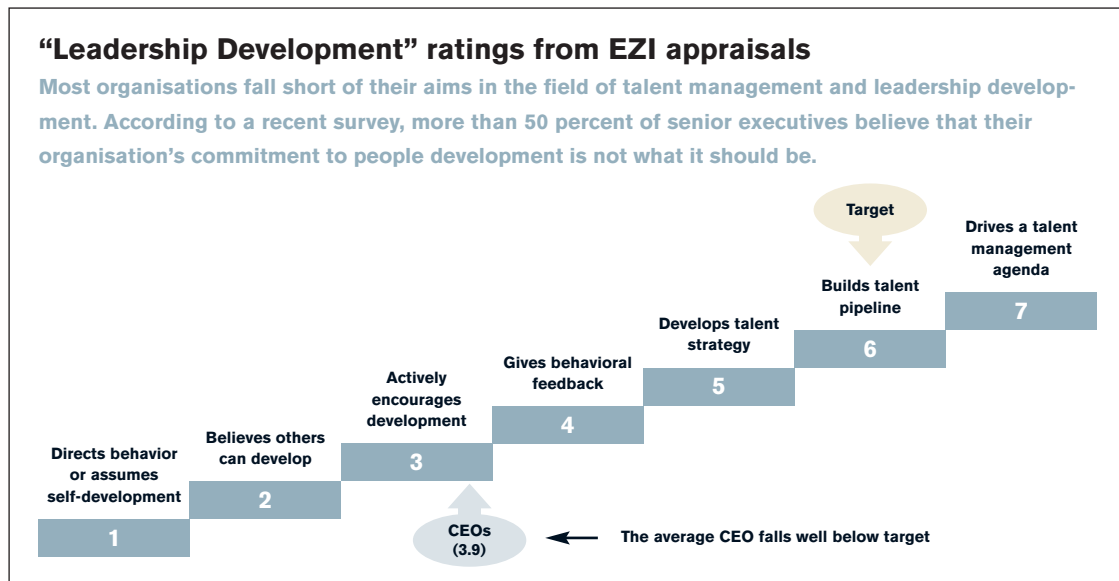
At the same time, most organisations fall well short of their intentions in the fields of talent management and leadership development. A recent *McKinsey Quarterly* article quotes over 50 percent of senior executives as believing that their organisation’s commitment to people development is not what it should be. The reasons are obvious. Many senior executives grew up in companies with poor leadership development practices and have

never had the benefit of working with or around people who are good role models in this respect, while those who have worked in good organisations often move to new companies where such practices are not in place. Here, they find it hard to drive change, often on account of HR and leadership practices that are excessively bureaucratic.

So how can companies ensure that their leadership development approach is effective? In our view, the key lies in driving real accountability for leadership development among the line managers of the businesses. This is the sure way to instil a disciplined approach. At the same time, the line managers need coaching to ensure that they can introduce leadership development practices and leadership reviews that have the same “teeth” as their regular budget reviews.

Within this process, leaders need to work hard to identify the skills, strengths and weaknesses of all the executives in their respective units in a consistent way, and to clearly separate their assessments of performance and capability from their appraisal of potential. Then they need to create targeted initiatives to develop those executives. The most successful of these initiatives will involve on-the-job learning, typically in situations that are specifically designed to expose individuals to areas where they have gaps in their experience.

At one end of the scale this may be through project assignments. These “stretch assignments” are particularly effective means of developing skills such as strategic planning, which may be relatively unimportant in more junior management roles but can be key to being promoted to the next level. Assigning someone untested to



such a project is less risky than promoting them without any track record in the relevant core skills. To get the most out of such assignments, managers need mentoring support and/or coaching from the right sort of executive, often from outside their unit. The outcome is real stretch for the person on assignment, good risk management for the company and an accelerated development process.

At the other extreme, in an organisation with a well-integrated talent management approach, succession planning is also a key longer-term leadership development tool. To be effective, such an approach requires senior executives to classify the types of career experiences that have historically been the most important in developing leadership talent in the organisation. These may include a line-function role switch, a move to run a business unit abroad, or turning round a failing business.

Professionalising the process

Some of these experiences will be more important than others in building the skills needed in each of the company's top executives, so it is still important to tailor the approach to each role, and to the company's changing situation and strategy. By classifying roles as development opportunities, large organisations free themselves from making succession decisions based solely on current fit for the role. In today's increasingly flat organisations, such roles are often crucial in building an effective leadership pipeline over the medium to long term. But without a disciplined approach led by line management, these opportunities will often be lost in favour of making "safe" appointments with less short-term risk.

The executives responsible for developing talent need to realise that, in many cases, they will develop a much better perspective of the strengths, weaknesses and development needs of their people if they call in independent experts to assist them. Most line executives have neither the experience nor the training to be leadership assessment experts, but they do need to understand and be committed to the importance of ensuring that these issues are dealt with professionally. Also, unless the organisation already has a well-constructed and widely understood leadership assessment framework in place, any cross-fertilisation and development of talent through moves between major line divisions will be hard to achieve. This remains true, despite the fact that economies of scope are a major rationale for the existence of large global corporations. In our experience, this linkage is often poorly understood. A "common

accounting language" for talent (often a practical competency model) provides a foundation for developing and assigning scarce high potentials, just as a common accounting system is critical to allocating financial resources across the company. However, most models we encounter are overly complex and yet lack sufficient coverage of senior management requirements. They are also rarely integrated into succession planning decisions or leadership development plans.

The only way to make a step change quickly in this area is to draw on an externally built and validated competency model. Tailoring to the organisation's needs should be focused on selecting a sub-set of competencies from a well-validated model, and on adjusting the language used to express them, so that they are well understood internally. Again this implies close collaboration between line and human resources management to ensure the model is practical, robust and fully understood by the key decision makers.

It is this unusual combination of accountability and support that makes leadership development such a challenging issue for many business leaders. It also remains an issue for which many leaders are not well prepared. In fact, in our global assessment work with senior executives, we have found that leadership development is the area in which there is the biggest gap in performance between average and truly outstanding senior executives.

THE AUTHORS

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