

BLUTEAU DeVENNEY & COMPANY



Leadership

Making the Critical Investment



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Leadership: Making the Critical Investment

White Paper on the State of Leadership Development

Leadership is about performance and results – both for the individual and the organization. We can't wait – we need to invest.



LEADERSHIP: MAKING THE CRITICAL INVESTMENT

TABLE OF CONTENTS

<i>Truth and Consequence</i>	
Executive Summary.....	Page 5
<i>Part 1</i>	
The State of Leader Readiness Today.....	Page 13
<i>Part 2</i>	
The Bottom Line Impact of the Lack of Leader Preparedness.....	Page 24
<i>Part 3</i>	
The Solution - Investing in Leadership Development.....	Page 28
<i>Part 4</i>	
Questions for Reflection.....	Page 36
<i>Part 5</i>	
First Actions.....	Page 40
Background and Research Methods.....	Page 43
Acknowledgments and Disclaimer.....	Page 45
About Us.....	Page 47
Conclusion.....	Page 48

Leadership: Making the Critical Investment

Truth and Consequences

Executive Summary

The Point:

Why don't we get it?

Leadership matters. Yet, the confidence in leaders has been declining over the past ten years. Only 35% of people have confidence in their leaders to achieve organizational success, (down from 47% in 1999). At the manager level, the confidence drops to only 25% meaning three of four direct reports do not believe their managers have the ability to lead successfully.

Development matters. Yet, only 29% of organizations have any form of development program for their leaders. And even those mostly don't work! When asked, 94% of executives didn't feel their leaders were prepared adequately for advancement.

The result – 45% of new leaders fail within 18 months of their promotion.

The bottom line – organizations lose 37% of their potential financial performance due to lack of leadership at the manager level.

We are failing to prepare leaders to achieve organizational success – particularly at the manager level. It matters!

The Impact:

Where is the sense of urgency?

There seems to be a feeling that we can always do something about it – later. Even at entrepreneurial growth firms, people development is always something to look at in the future. It is important – but not urgent? The statistics show that 75% of senior leaders will be retiring in the next 7 to 10 years as a result of the Baby Boom effect. We are not ready – do we need a crisis to do something about it?

The lack of leadership development results in a performance gap now and in the future.

Why are organizations not doing something about it?

Right now, organizations are experiencing a performance gap as a result of poor investment in people development (particularly at the manager level). And what development we are providing is being offered in an ineffective way. Less than one third of organizations have a formal development program and the effectiveness rating of those programs as assessed by participants is a dismal 29%.

Further, people development is not linked to organizational strategy resulting in a lack of engagement and focus. Harvard Business Review outlined in a 2008 study that only 8% of strategic plans actually achieve the desired results or better – 37% of strategies fail completely. Despite the politically correct mantra of “people are our greatest asset”, the development of people is more of a reactive transaction than a proactive process. People are treated as expenses rather than investments.

People development at the manager level needs to be a core business strategy for all organizations. We can no longer continue to lose 37% of our potential financial performance due to lack of leadership capability.

Managers are the linchpin of organizational success – they translate potential to performance. With such a low confidence rating in managers and a high failure rate, what is missing?

One of the most challenging transitions occurs at the manager level. High performers make a “natural” progression to managing and supervising others without any training as to how to engage the commitment of teams. Most people are promoted due to high performance as an individual – yet performing well as a manager means making a transition to performing through others. It seems a simple shift but with a 45% failure rate, the change does not happen easily. Organizations tend to offer little support for new managers in the transition. The main reasons managers fail or perform poorly in their new roles are a lack of training in leadership, interpersonal, and strategic thinking skills. They are provided with technical training but left on their own to figure out how to lead people – hope is the main strategy.

There is no shortage of leadership capacity. The gap is in leadership

development. For most organizations, training is ad hoc, short-term, and technical and not leadership skills.

For the maximum return on the people asset, organizations need to link strategy to people development with clear criteria for people selection and an ongoing leadership development process.

Do companies that invest the right way in leader development see a difference?

Yes! Organizations that use best practices in leadership development for their people experience on average a 22% boost in the bottom line profitability. Shareholders see a greater return on their investment.

In a turbulent world, organizations need to invest wisely to maximize return on investment. No other investment yields as great a return than developing the right people the right way.

When people are developed to be effective leaders, the organization realizes tremendous returns:

- Productivity increases of 69%
- Employee morale increases of 53%
- Customer satisfaction increases of 53%

More importantly, the return on the leadership development of key people achieves an increasing dividend to the organization over time. Returns increase from the development investment as the years go by. A Canadian study showed that the returns on a leadership development program generated increasing returns over 10 and 20 years.

Few investments today provide a growing stream of dividends.

The Landscape:

The situation today sees organizations operating in a more complex and competitive environment with much greater necessity to change - all on an accelerated basis. Leaders can no longer do it alone. Leadership is needed throughout the organization to translate the strategic vision to real results.

Organizational leaders are missing targets and opportunities. People do not have a sense of urgency and do not get the



strategic direction. The organization is not performing to potential.

The performance gap occurs directly as a result of people not being linked to the organization's strategy. The typical strategic planning process rarely includes a people plan. The connection between the desired strategic results is not made to the people and competencies needed to achieve the outcomes. Managers do not see the strategy and teams are left to figure it out on their own.

Why?

There are seven development sins.

1. Most organizations have no coordinated leadership development plan or process. The development investment is reactive and not integrated with the business strategy. People are not prepared with the competencies needed to achieve the plan.
2. Less than one third of organizations have any formal process for succession planning. Promotions are made on a reactive basis and not from criteria related to strategic success. Only 38% of organizations have a succession plan and for most companies promotion depends on external hires.
3. People and strategy are not matched. Career progression for talented people is not aligned with the competencies the organization will need to achieve their strategic vision. High potential employees stall or leave and people are not ready as needed. Execution deficiencies follow.
4. Followers are changing. A more interactive and participative generation of employees demand a different type of leadership. Old models that worked in the past twenty years will not be effective today and, more importantly, tomorrow. Providing direction and working through bureaucratic methods is not going to work anymore. Teams disengage from lack of involvement and performance suffers. Leadership approach needs to change.
5. Challenges are more complex and take longer to resolve. Solutions need perspectives from more than one person and one level to achieve results. Organizations are slowing down and spending more time correcting past mistakes than proactively planning for tomorrow and staying on the innovative edge. Again, the leadership structure needs to be different to successfully solve problems that face the organization.

6. Within the organization, human resources and executives tend to work against each other. It is rare for the human resources department to be represented at the senior leadership level. Management of people is assessed as an operational issue rather than a strategic leadership component. Executives see human resources as transactional and human resources see executives as distracted and not committed to people. A lack of cohesion results and investment in people suffers.
7. Organizations often confuse high performance with high potential. The wrong people are invested in and leadership ability is lacking. Promotions are made based on performance, likeability, or seniority factors. Rarely is a promotion made against formal selection criteria to ensure someone has the potential to lead others. Sadly, the wrong people are promoted to the wrong positions hurting performance at all levels.

The impact to organizations presently is grim. In a time of economic pressures, most organizations are saddled with unnecessary internal risks. There is a succession gap and companies are not prepared with the right people at the right time. Promotions are ad hoc and people are not supported with the right training to transition from individual performer to leader. The vise tightens from the Talent War with increases in turnover and employee dissatisfaction.

Where is the opportunity?

Organizational leaders are striving to achieve five core goals – leverage performance to generate increasing profits, capture growth opportunities to expand revenues, innovate and differentiate to increase competitiveness, be responsive and build customer loyalty, and answer the shareholder with a strong leadership legacy.

Leadership is the only real sustainable competitive advantage remaining in today's market. The capacity is there but the current approach in most organizations is not working.

Where to start?

Organizations should take the first step of clarifying the core competencies needed for their leaders to achieve the strategic vision. However, the wheel does not have to be re-invented. 85% of the competencies needed for organizational leaders to succeed are known and the remaining 15% can easily

be identified. Clear competency criteria create a leadership brand for the organization and drive success in all other areas – hiring, development, promotion, retention and strategic execution.

Secondly, a clear and consistent model for assessing people and making promotion decisions should be developed and followed. Criteria should result in an accurate and dependable method of selecting people based on performance, potential and customized to the organization so the right people are promoted to the right positions at the right time.

Lastly, people should be supported with an investment in development. Development should focus on supporting the leadership competencies needed for organizational success. An effective development program is a process that involves a combination of proven strategies and applied to actual work. Again, the models that are proven to be successful are known – use them.

Overall, people selection and development should be linked to the business strategy of the organization. Competencies developed need to match the capabilities needed to achieve the strategy. People development should be a core component of the strategic planning process.

Proven best practices are available for organizations to succeed in developing the right people the right way to maximize organizational performance and results.

Investing in the leadership competencies of managers provides a critical return for organizations to achieve strategic success. A clear leadership brand is developed and realized to achieve desired strategic results. People are assessed accurately and bench strength increases. Performance results for leaders in a coordinated development process are typically increases of 40% to 50%. Leadership development matters!

To maximize the return on an asset, you need to invest wisely. You select smartly and take care of your investment to realize your best results.

The Bottom-Line:

Investing in developing the leadership skills of your managers translates potential to performance.

Do top companies develop people differently?

- Yes!

Does this contribute to the bottom line?

- Yes!

Organizations that invest in the leadership development of their managers increase bottom-line profitability by 22%.

Leadership is the only true source of sustainable competitive advantage. People are a proactive investment and not a reactive transaction. Leadership development of managers needs to be a core business strategy for organizations.

The solution exists – use them.



The Investor:

Stephen Oldenburg is the CEO of an organization with market recognition, a growing and loyal customer base, a strong leadership team, and opportunities for growth.

Yet, results are not as they should be. Shareholders are more demanding and impatient. Employees do not seem to get the strategic vision Oldenburg has outlined with excitement. Teams seem to work in silos and the leadership team members often have their own agendas. Something is not connecting from senior leadership meetings to the front line. There never seems to be enough time and Oldenburg feels isolated at times and doesn't feel he hears the whole story.

Oldenburg sees targets being missed and opportunities passed by. Good people are leaving and it becoming increasingly difficult to find the right people. It seems like many people in the organization don't see the bottom-line and waste money and time. There is a lack of focus on doing the right things and people are not performing to their potential.

What Oldenburg wants is for the organization to pull together behind the vision and close on several of the growth projects. He needs to leverage time, energy, and resources to thrive and not just survive the financial environment. Everyone needs to respond positively to the customer and make decisions that build satisfaction and loyalty – everyone should know who the client is and make their experience great! Oldenburg wants to be seen as innovative and making money.

To get there, Oldenburg needs to get the organization working together. Managers need to be clear and motivated on the strategic vision engaging their teams to perform.

The Investment:

Catherine Dolliver is an ambitious and smart performer who delivers. She sees where the puck is going and not just where she is standing. Dolliver is seen as capable and aware seeing the big picture and having a way with people – both customers and colleagues. She also wants to grow and is always looking to learn.

As a high performer, Dolliver is often pressured and overwhelmed. She can be impatient to move forward and get things done. Sometimes, she can push people hard to get the results she needs. Dolliver sees the big picture but always needs to get approval from her boss – even for things that make great sense. She is living a great life but wants more. There never seems to be enough time.

Dolliver has been surprised lately with increasing friction with reports and colleagues. She is selling her ideas but they are not always buying. Her boss can be vague at times and Dolliver pushes forward. Many of her ideas get stalled. She is concerned her career will stall and rarely hears about future direction and learning. Recruiters call here and there and sometimes she wonders about making a move. There is a lot of competition – both internally and externally. She wonders why people don't get it but rather worry more about their coffee breaks than the results. How does she get results and get ahead?

To get there, Dolliver needs support in developing her leadership competencies to effectively engage people and her strategic thinking to take the right actions.

Leadership: Making the Critical Investment

The State of Leader Readiness Today Part One

Leaders engage others to perform. Dwight Eisenhower had a great description of leadership to be the ability to “get other people to do what you want them to because they want to do it.”



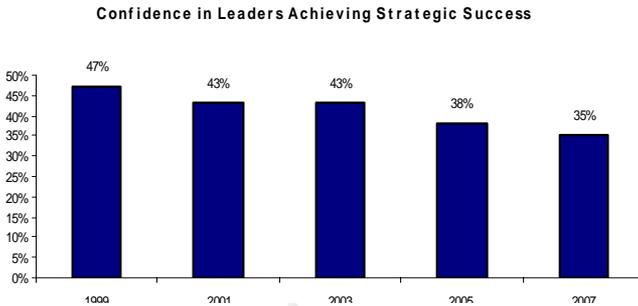
We need leaders that can connect with people, involve them, and show them the path to a bigger future. Performance results from investing in relationships rather than directing actions.

Yet, it seems we don’t have time to do the right things to engage people. We try to “jump the line” and get right to what needs to be done. The result is a reactive environment with little forward thinking and a lack of focus on doing the right things.

Leaders are not connecting and organizations are not engaged.

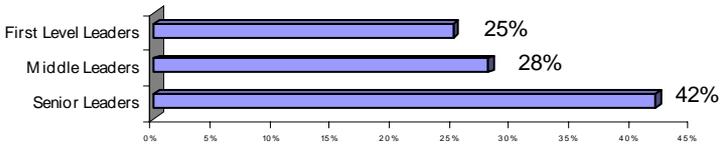
Lost Confidence:

A recent global survey highlighted the decline of confidence in organizational leaders and their ability to achieve strategic success.



Confidence is flagging and even more so in managers as compared to senior leaders.

Confidence in Leaders Achieving Strategic Success by Level

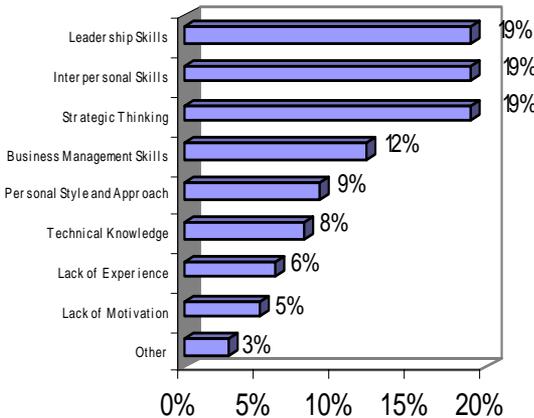


One of the key challenges in building engagement is the disconnection occurring at the manager level in terms of translating the strategic vision in a way that employees see the meaning of their contribution.

The Center for Creative Leadership (CCL) completed a study in 2006 which measured the effectiveness of leaders being promoted to a new position. The study indicated that 45% of people promoted to leading others failed in their

roles within 18 months of taking the position.

Reasons That New Leaders Fail



The primary reason that new leaders fail is due to lack of training and support in developing leadership skills, interpersonal skills, and strategic thinking. People were promoted to being leaders without being trained in how to be leaders.

The good news is that more than 60% of the failures could be turned into successes with the right support in skill development and personal awareness.

Leadership skills can be developed. Research studies continuously show that self-awareness, interpersonal and relationship skills, and leadership ability can be learned and developed at any time.

With lagging confidence and the ability to change the trend, why are organizations not developing leaders better?

The development of leaders today is subject to several shortfalls:

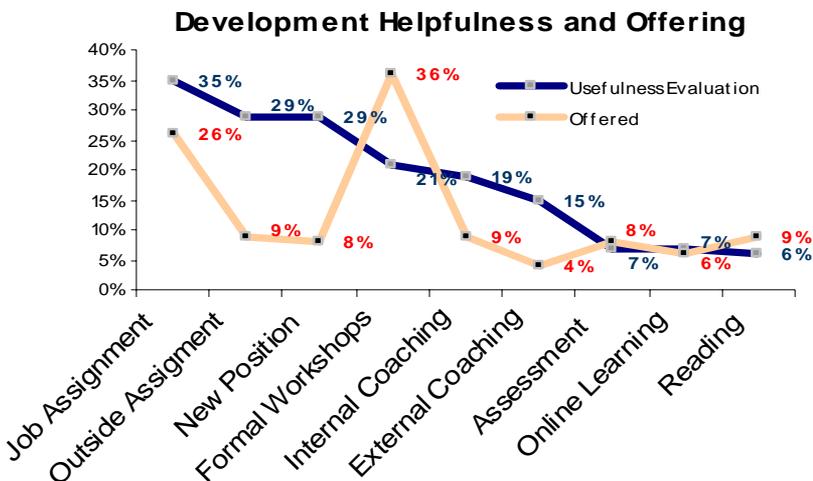
- The right development is not provided
- Development programs are poorly executed
- Succession planning rarely exists
- Human resources and executives do not work together
- Followers have changed and demand a different model of leadership
- Selection of people for promotion to leaders is not based on clear and consistent criteria
- People development is not linked to business strategy

The Right Development is Not Provided

A recent study outlined that leaders are increasingly dissatisfied with how organizations are providing training and development – only 41% of survey respondents were satisfied.

The quality of development programs has also declined with only 29% of participants saying the program was high quality – 49% rated the offerings as poor. Despite organizations maintaining their overall investment in training and development (ranging from 2% of payroll on average to 6% of payroll for best practice organizations), the investment has resulted in less and less satisfaction from participants.

Programs receiving the highest ratings were those that involved participants interacting together and the ability to apply learning to the job.



A further note is that used in combination, methods become more useful from the participant's perspective. Assessments alone may only be rated as 7% useful but when used with job assignment or another method the evaluation greatly increased. However, few programs offer a coordinated approach combining different methods.

The end result is that although many organizations invest in the development of their people, few do it in a useful way.

Development is Poorly Executed

Many studies show that poor execution is the key reason strategies fail. One survey recently showed that 70% of business initiatives fail due to lack of execution rather than a bad idea or poor strategy.

The reasoning holds true for development. Often treated more as a transaction, investment in leadership development can be ad hoc and disconnected with organizational goals.

There is a lack of clarity as to the desired outcome of a leadership development program and how the program should be executed. Senior leadership support and involvement is critical for development program success yet only 35% of organizations hold senior leaders accountable for developing younger leaders.

Inconsistent messaging and lack of ongoing senior leadership involvement doom a development investment. The investment process becomes more of a case-by-case decision where individual leaders present proposals for external program events. There is no coordinated plan. With no coherent plan, the outcomes are less than spectacular.

What's worse - results are generally not measured.

- “What gets measured, gets better” Peter Drucker

Like any other investment, results should be measured so that the best possible outcome is realized and smart decisions are made. Leadership development is no different but seems to be the only significant business process for which measurement is mostly ignored.

The combination of a lack of a coordinated plan with clear outcomes, no accountability for leadership involvement and no measures of results wastes time, money, and energy.

Done right, leadership development dramatically improves organizational success – few organizations are doing it right.

Succession Planning Rarely Exists

Succession planning is defined as a systematic process for identifying and developing candidates to fill leadership and management positions.

There is a looming cloud about to fall over businesses in the next five years. In fact, it has already started. The vice is tightening.

The baby boom generation is fast approaching retirement and recent studies indicate that nearly 75% of senior management positions will be vacated in the next five years. The key challenge for leaders is not that there is a lack of new leaders to move up and fill these positions but that little is being done to prepare them for the transition. We are facing a succession gap.

It seems everyone recognizes the succession problem but few are preparing. A recent study reported that only 29% of organizations have any form of succession process in place and that 94% of companies do not feel their developing leaders are prepared adequately for advancement. As well, most succession plans deal with the CEO and not all the other leadership levels resulting in a weak bench.

What is the real problem behind succession?

For many leaders, succession sounds like a four-letter word. It is seen as replacement planning and most people do not want to be replaced and so we avoid the issue. The result today is that succession is a reactive process rather than a proactive plan – leaders look at replacement rather than development. The leadership capacity is there – in fact, younger employees are demanding development opportunities – organizations just need to have a proactive process.

The actual practice of succession today is often seen as a transaction. A leadership position becomes vacant and a selection committee is organized to replace the departing person. Recruiting firms hunt for new talent or someone from inside is promoted with the hope that it all works out. Many times the succession decision is made without fully understanding the fit for the new person with the organization's strategy and culture – it can cause long-term damage.

The problem underlying the succession challenge is that the reactive replacement process followed by most organizations has a shaky foundation:

- Strategic planning doesn't incorporate a talent development plan so that the people you need are there when you need them – leadership development processes (if they even exist) are generally not tied to organizational strategy leaving gaps in the ability to deliver on the plan
- Executives do not focus on developing their people so that departures leave gaps and a pool of internal talent is not available to step up to fill the vacancies – the pressure on short term performance takes away from the importance of developing capable leaders at all levels to support the continued competitiveness of an organization
- Valuable people leave as they do not experience the development they want or see the path of advancement
- Turnover increases and transitions are not smooth – people are dropped into places without a clarity of how leadership works in the specific organization and a development plan to successfully take over the new role

The end result is reactive decisions that do not work well for the organization or the individual. It is costly in time, energy and money.

Organizations need to move away from the reactive transactional succession process to one of ongoing development tied to business strategy. Great people inside the organization need to be groomed at all leadership levels to have a greater positive impact on the performance of the company.

Only one third of companies in a recent survey believed they had the leadership capacity to respond successfully to sudden change or meet business challenges. The senior leader must set the agenda for leadership development.

Human Resources and Executives Do Not Work Together

It seems that human resources (HR) professionals and senior leaders are from different planets. The relationship is more operational than strategic.

HR is seen as an administrative transaction and it is rare that HR is included at the senior leadership table. Despite the corporate window dressing that “people are our greatest assets”, few organizations are progressive enough to actually include HR as a strategic function and a member of the senior leadership team.

The relationship of HR and the leadership team is often characterized by poor communication, little collaboration, and lack of trust. HR is generally assumed to be responsible for development initiatives but not included in the strategic discussion – how can it work?

Senior leaders lacked confidence in HR – more than one third of executives rate the HR function as fair to poor. The leadership team for most organizations does not see HR as having the ability to support the success of the organization.

Alternatively, HR professionals are equally disenchanted with the leadership team. More than two thirds of HR professionals surveyed felt the main reason new leaders are not prepared to succeed is the lack of involvement and feedback from senior executives. HR professionals felt executives do not invest the time needed to prepare new leaders.

The sad outcome is that HR is not a strategic partner – which it should be. It is a battle as recent surveys show only 30% of CEOs feel HR should be at the senior leadership table.

Followers have Changed and Demand a Different Leadership Model

The attitudes of followers have changed and the kind of leadership approach that was effective in the past no longer will get results. We have moved from a society of bureaucratic followers to interactive collaborators.

In the past few decades, organizations have moved from an industrial mode to a knowledge mode of production. In the industrial mode of production, leaders are managers who evaluate performance within hierarchical bureaucracies. The knowledge mode of production is different – the challenge of leadership is to create collaboration. The manager needs to be a leader who communicates purpose as the collaborators manage themselves.

As well, the social culture has changed and created a shift in leadership models. In the past, followers often looked for a parental leader figure (where we work hard to earn respect over time). Now, it is more of a sibling

relationship where followers want to be interactive and involved – and they want it now.

- They find meaning at work in adding value for customers
- They want their rewards based on measurable results and not on position or evaluation by the bosses
- They are so confident of their skills that they believe they don't have to work as hard as other people – they think highly of themselves and are quick to label themselves as experts
- They see business like a video game in which they can always find a way to win and they are optimistic that they will succeed – failure is just a learning experience
- They see leaders as useless and even evil. Even in video games, they can take turns leading and it is a matter of coordinating roles – the game generation believes in skill and they don't believe in following orders
- They shift roles and identities easily depending on what's required in the game – they believe in the rule, I can control the way I come across to people depending on the impression I wish to make

Followers now want leaders who are collaborative and inclusive. They want a meaningful purpose to their work and they need an interactive environment. People are more important than process.

Times - and people - have changed. Leaders urgently need to come to terms with that fact. People today respond to different qualities in leaders than they did a generation ago.

The attitudes of followers have changed and that kind of leadership that was effective in the past no longer will get results.

An essential quality for leaders in the knowledge age is the ability to keep learning, and specifically to keep developing and employing their personality and strategic intelligence.

Selection of people for promotion to leaders is not based on clear and consistent criteria

“The way we treat potential, and the steps we take to ensure that those employees with the capability and desire to become leaders succeed, matters more than ever.”

Personnel Today

Only about 15% of executive selections and promotions come from a clear set of criteria and a focused decision-making strategy. People are still seen more as transactions than investments – organizations hire or promote when the time comes and hope it all works out. To a great extent, it doesn't work out.

Most promotions are based on task performance rather than relationship performance – being an excellent individual performer does not necessarily translate into an effective leader. Aside from performance, most promotions are a result from decisions based on seniority, politics, or likeability.

Much of the selection process for promotions is subject to three myths – being brilliant means you have learning agility, high current performance means having high potential, and the best performer deserves the promotion.

Like most myths, the three above are not true.

Knowing who to invest in is more than a gut feeling. Being a star performer means you excel at what you do now – not necessarily that you have the capacity for promotion. High potential employees have the ability to grow to be leaders and are harder to spot.

High potential employees are a function of demonstrated performance, character, intelligence, relationships skills, learning agility, motivation to lead and achieve, and the right experience. Investing in people is not due to time on the job or how much someone is liked. Rather than hoping someone will develop and be the manager or leader needed, time should be invested in assessing talent carefully and selecting the right people for investment.

High potential employees are described as those that can advance at least two levels in the next two or three year period.

In many cases, the wrong people are being selected for promotion.

People development is not linked to business strategy

For most organizations, people are not part of the strategy. Outcomes are clarified, strategies are determined, and tactics are identified. Yet, organizations rarely link or incorporate people in the strategic equation.

Who do we need to achieve the strategic plan?

What capabilities do we need from our people to achieve the strategic plan?

These are two questions that are not asked until later – when results are not being realized as expected.

The talent war is on, people are one of the key pillars of business success and yet, the human resources function is rarely represented at the senior table and the strategic planning process. HR is seen as a transaction. In an executive survey, 59% of organizations do not integrate human resources in the strategic plan – a key reason for the lack of team alignment.

Strategies can only be achieved with the right people and the right capabilities in place.

Conclusion:

A McKinsey study found that the pipeline for future leaders is broken – when responding to the statement, “we develop people well”, only 3% responded yes.

The bottom line – companies scoring in the top 20% of talent management practices outperform their industry’s mean return to shareholders by 22%.

The current state of development should give us all heartburn – we have a leader readiness gap. The competition is fiercer today than ever before for new leaders and effective leadership represents a rare source of competitive advantage. With strong leadership and a richly stocked pool of future leaders, organizations prosper and endure.

A recent study benchmarked where the state of leader development is today:

- Most companies are not very confident in their ability to meet future growth needs
- In most companies talent development is still considered to be a project or program and not a way of doing business
- Organizations want leaders who have the courage to make the right decisions and who get business done by building strong relationships and inspiring others to drive necessary change
- Managers of future leaders will play a critical role in development, but most companies are not prepared to fully leverage this resource

- Uncovering best practices continues to be a challenge, in part because most companies still struggle to measure the effectiveness of their current leadership development practices.

Supporting the transition of individual performers to manager leaders is a high return investment for the organization.

From a logical standpoint, this is the greatest transition of all – from doing the work to seeing that it is done by others – from being motivated to motivating others – from being developed to developing others – from managing our work to managing the work of a team – from working to delegating.

Yet, few people are developed on much other than technical skills in most organizations.

What is the business case for development?

Most organizations now have a sense of urgency about developing their leadership talent, but their attempts to do so are falling seriously short. 75% of executives identified improving or leveraging talent as a top business priority – and signaled at last the importance of leadership for organizational success. Yet, despite recognition of its importance, leadership development is going nowhere fast. Most leaders are not satisfied with their organization's development offerings. And confidence in leaders has declined steadily over the past eight years.

A recent study revealed that only 1/3 of organizations retain their high-potential employees and only 1/4 of businesses believe what they are doing now will deliver the leaders they need for the future – the odds are about 1 in 12 (or 8%) that we will retain and develop the right leaders!

We can and need to do better to prepare leaders to be successful.

Leadership: Making the Critical Investment

The Bottom-Line Impact of the Lack of Leader Preparedness

Part Two

If there is an emerging constant on the business horizon, it is that companies can expect to face a world of increasing complexity, uncertainty and competitive pressures.



The Leadership Challenge:

The impact for organizations is real:

- 37% of strategies fail due to lack of leadership at managerial levels (worse yet, only 8% of strategies actually deliver the desired results)
- 45% of new leaders fail within 18 months of taking their position
- 70% of turnover is due to poor relationships with leaders within the organization

With turnover increasing and the competition for talent becoming fiercer, the inconvenient truth is the looming business crisis with nearly 75% of all management positions being vacated (from retiring Baby Boomers) within the next five years.

Only 29% of organizations have invested in leadership development programs and mostly with effectiveness – 94% of organizations feeling that their developing leaders are not prepared.

Of the current managers in position now, more than 50% are not performing to their potential. In a recent study, only 7% of companies felt they had the right managers in place to achieve their strategic goals – and this will reduce by 15% further by 2015.

The results of poor management are far reaching. In exit interviews, 70% of employee turnover is due to poor relationships with the immediate manager. A further reason given for their departure, 25% of employees leaving

organizations cited lack of growth and development opportunities. Overall employee turnover has increased 20% in the last six years alone – the national average turnover rate is now 24% per annum. With the cost of turnover estimated at 150% of the departing employee’s annual salary, the cost of poor manager performance directly cuts into the profitability and shareholder value of the company.

Yet, a further study from the Center for Creative Leadership indicated that almost 60% of managers who performed poorly in their roles could have succeeded with the right development.

With the vise tightening, organizations need to shift from leadership development as a reactive transaction to a model of developing high-potentials as a proactive strategy.

It is critical that organizations make the leadership development of talented young professionals a critical core business strategy.

Ad hoc assessment, poor if any selection criteria, and lack of effective development result in an inconvenient truth. There is a looming business crisis as few organizations are prepared for the challenges and complexities they will face in the future – strategies will not be executed, results will not be delivered, profits will be missed and customers will be lost.

We are not assessing, selecting or developing the right people the right way.

Hope is not a strategy!

Jonathan’s Story

Jonathan enjoyed a rewarding career. From his first days after university, Jonathan worked hard and smart. As an investment advisor, he put in long hours, focused on his clients and had the discipline to keep doing what needed to be done. In his first four years, Jonathan built a profitable business based on solid performance with above-average client satisfaction. He was recruited to another investment firm where he continued his disciplined personal approach to performing – working hard and not being afraid to do the work himself. Jonathan’s business continued to increase – he was recognized as a star performer.

Two years ago, a national firm approached Jonathan and offered him the

position of Vice-President of Sales. Jonathan was seen as high-performing and technically expert bringing great value to the firm's sales team. No one had seen more energy and investment from an executive – Jonathan was out in the field with the salespeople, meeting clients and traveling non-stop to be on the front-line. He put in longer and longer hours and made sure he kept his hands on all areas. Jonathan didn't need an executive assistant – he organized himself, he kept notes from meetings and provided instructions for everyone.

After nine months, Jonathan had a review meeting with the CEO. Jonathan looked forward to assessment.

Can you guess what happened?

Jonathan was fired from his position – another statistic.

The greatest challenge Jonathan faced was the same for developing leaders everywhere – how to make the transition from individual performer (and often star performance) to performing through others. He focused on doing – not leading.

The inconvenient truth is that despite the significant opportunity for new leaders, the failure rate is high and increasing. Only 20% of new leaders develop their own natural advantage for leading others.

Managers in transition typically require six months of post-transition experience to recognize, accept and develop reasonable proficiency in performing their new responsibilities. It may even take up to 18 months for most managers to feel emotionally confident in their new role. Many organizations do not recognize or dedicate necessary and sufficient resources to adequately prepare or support them through the intellectual and emotional learning curves. Managers in transition tend to be left on their own.

What are the primary business challenges leaders will face in 2010 and beyond?

- Communication and talent development
- Team building
- Quick decision making in the face of pressure and ambiguity

Most companies felt their current leadership capacity could not adequately meet these future business needs – and do nothing to help their new leaders get there.

The Competitive Opportunity:

Leadership is about results. Leaders engage people in a bigger future and motivate them to greater performance. Leadership at the manager level makes a difference in the bottom-line.

Targeting the right people and supporting their development is a win for the organization. When leader development is linked to the strategic direction of the company the result is a 33% increase in execution and productivity. As well, when succession and promotion follows a proactive and strategic plan, overall employee morale improves by 22% as new leaders are better prepared for their roles.

High-performing managers increase both top-line revenues and bottom-line profits by 15%.

Studies show that companies with the best financial results are also those that invest in the leadership development of their top talent. Training and development is shown to be second only to stock options as being important for talent retention.

Investing in the leadership development of managers that is linked to the strategy of the organization creates a win on two levels – individually and organizationally.

Organizations need to make leader development a core business strategy – or fail to translate potential to performance and achieve desired results.



Leadership: Making the Critical Investment

The Solution – Investing in Leadership Development Part Three

The situation is clear – almost half of promotions fail. It costs organizations money, time, and energy. Yet, little is being done about it.



The problem rests in the lack of effective investment in leadership development – particularly at the manager level. Succession planning rarely exists – the right criteria for promotions are not clear and the right people are not promoted. Human resources and executives do not work together to create the right strategy. Managers are not supported by development programs – and the training that is provided is poorly executed and ad hoc.

The world is changing and organizations are demanding a shift in leadership skills. Organizations have not answered yet. Despite people being the greatest organizational asset, strategic planning and people development are not connected.

Where are we?

Confidence in organizational leadership is declining – mostly at the manager level. Employees are disengaged and turnover is increasing. The hit to the bottom line is frightening – organizations are missing 33% of their potential financial performance.

What is needed?

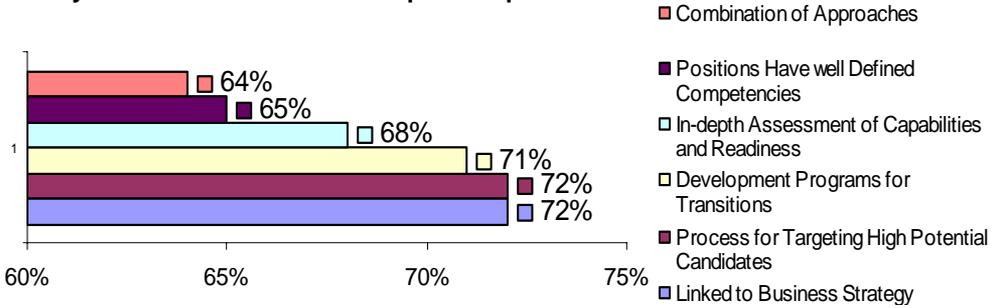
Leadership development at the manager level done right provides a 22% increase in shareholder return!

Even better, 60% of managers that are not performing well can be developed to be more effective.

What are the right steps?

Rather than reinventing the wheel, organizations should follow the approach of “best practices” organizations.

Survey of Most Effective Leadership Development Practices



To make leadership development strategic, best practice firms have instituted development programs that:

- Build awareness of external challenges, emerging strategies, organizational needs, and what leading firms do to meet these needs
- Employ anticipatory learning tools to recognize potential external events, envision the future, and focus actions their organization can take to create its own future
- Tie leadership development to solving important and challenging business issues
- Align leadership development with performance assessment, feedback, coaching, and succession planning
- Assess impact of the leadership development process on individual behavioral changes and organizational success

The Solution:

Organizations need to break free of the one-shot, short-term training model. Development is a process not an event - programs of development occur as a result of many interlocking steps and events over time each building on what has gone before.

Organizations need to:

- Map and link business strategy with people development

- Develop a proactive assessment model to identify high potential talent
- Clarify the unique leadership success competencies for the organization
- Provide a proactive leadership development program customized to the organization building individual leaders and supporting business growth

Step One:

Linking strategy and people means organizations have the right people in the right places at the right time without interruption or delay in performance. Senior leaders identify the competencies and capabilities needed to deliver future results.

In practical terms, begin with the end in mind:

- What are the strategic results the organization will achieve?
- What is driving the organization's business today and what is critical for the organization to do well?
- What are the best opportunities to achieve the strategic results and what are the challenges to be resolved to realize the strategic plan?
- What are the capabilities and competencies the organization needs from their people to make the plan happen?

Human resources professionals need to be at the strategic planning table to contribute to the definition of who is needed, what skills are needed, and where people are today.

Assess leadership development needs by using questions like:

- What three changes in individual or group leadership would address the organizational challenges and why?
- What are individuals or groups doing, or not doing, that prevents the organization from overcoming these challenges?
- What are the consequences of not addressing these leadership needs?

Effective leadership development aligns leader competencies with business strategies and beginning with the end in mind can make a dramatic difference in the return on investment – the end result being leaders prepared for today and tomorrow and not yesterday.

Step Two:

Defining the criteria for leadership success in the organization defines the business values, highlights the factors for decision-making and leadership and explains and supports the culture. The organization defines and builds a unique leadership brand.

Is there a list of core competencies? – Yes, there is an 85% solution.

There are 12 competencies that appear frequently and are significant with performance and potential.

The critical roles for leaders in the new society and followership requires are; a master strategist, a change manager, a relationship builder and a talent developer. There is a high need for a participative and consultative approach as well as knowing how to communicate and deal with people.

The key skills for leaders for 2010 and beyond are:

- Collaboration to build effective teams
- Change leadership
- Analytical and strategic thinking to see systems and connections
- Decision making in ambiguous situations
- Influence and persuasion
- Self awareness and confidence in being genuine

Step Three:

Organizations can no longer be happy – no longer afford – to simply develop technically competent people. Leaders need to combine tactical expertise with the ability to influence, manage and lead others. There is no shortage of capacity for leadership yet less than 20% of people tap their natural strengths for leading. Organizational leaders need to define selection criteria to develop the right people the right way.

In assessing talent in the organization, senior leaders should consider:

- Ability – the degree of success in the intellectual, functional and interpersonal dimensions
- Engagement – the degree of effort and personal commitment shown
- Aspiration – the degree of ambition and responsibility for advancement

- Performance – the degree of results actually shown in current responsibilities and assignments

A simple and clear matrix approach will help evaluate current and potential managers on their performance, learning agility, and their potential to develop the specific leadership competencies to realize the strategic vision of the organization.

Managers are selected on a proactive and focused approach that sets individuals and the organization up for success.

A leadership pipeline is a critical business process that provides organizations with a sustainable supply of quality leaders at all levels to meet current and future challenges. Define success profiles, identify and develop high potentials, promote based on readiness to advance, and help leaders master transitions.

Step Four:

Focus less on what and more on how.

The Millennial generation of young professionals is looking for organizations to invest in their development – with companies not making the investment, valuable talent leaves and organizations become reactive.

The mystery of effective leadership is the paradigm shift from the individual performer to unlocking the performance potential of others. High potential professionals should work through an ongoing process of developing and applying their leadership skills using a combination of proven developmental approaches.

The leadership development program should be applied to support real work situations – projects, problems and opportunities. Participants should be supported with an interactive community focused on combining several forms of experience to build the most impacting results. Best practice organizations combine several – or all – of the following proven methods to develop leadership skills.

- Analytical assessments, both self-assessment and multi-rater formats, provide clarity of where each participant is currently and a proactive development plan to take action gaining self-awareness, benchmarking current performance and approach, and identifying

strengths and areas of challenge.

- Actual work projects and job assignments to incorporate learning concepts with real-time performance for experiential learning and immediate benefit to the organization
- Feedback from supervisors and reports focus learning and support growth that directly benefits the organization and the participant
- Case studies provide for discussion of real-life situations and develop strategic thinking, questioning and problem-solving skills coupled with exposure to other perspectives and put participants in broader experiences

Programs that span six months or longer have a greater impact than short term or sporadic sessions.

“Measure what you move”, as British scientist Lord Kelvin said, “if you cannot measure it, you cannot improve it.” Effective development programs measure their results.

The Benefits:

One-time events and do-it-yourself approaches don't work - ongoing programs increase the potential to create lasting impact.

- Following a learning experience (workshop, etc), the likelihood of application falls to 89% only one week after the event – and then falls to only 9% one month after the event
- Providing ongoing coaching brings the likelihood of application to 86% one month after the event.

The results to the organization from investing in the development of high-potential managers to be effective leaders are an average performance improvement of 40% to 50% - as measured by their reports and colleagues.

The payoff of leadership development done well is the greater confidence people expressed in the long-term success of the organization.

 Perceptions – no development and leadership development

○ Quality of leadership	23%	61%
○ Employee engagement	22%	53%
○ Employee satisfaction	21%	48%
○ Retention of qualified employees	28%	51%
○ Productivity	44%	66%
○ Customer satisfaction	50%	67%
○ Quality of products and services	59%	74%
○ Financial performance	60%	73%

Why now?

The ten most common themes for leadership development programs:

1. Building strategic advantage
2. Aligning and engaging the workforce
3. Integrating the organization
4. Articulating and enhancing shared values
5. Increasing speed to market
6. Achieving strategic cost leadership
7. Innovating products and services
8. Developing customer relationships
9. Creating shareholder value
10. Forging a competitive mindset

To make leadership development strategic, best practice firms have instituted development programs that:

- Build awareness of external challenges, emerging strategies, organizational needs, and what leading firms do to meet these needs
- Employ anticipatory learning tools to recognize potential external events, envision the future, and focus actions their organization can take to create its own future
- Tie leadership development to solving important and challenging business issues

- Align leadership development with performance assessment, feedback, coaching, and succession planning
- Assess impact of the leadership development process on individual behavioral changes and organizational success

There has never been greater opportunity for taking leadership roles. The complex and changing business environment has pushed the traditional model of leadership by just the senior positions to a broader leadership at all levels model. Organizations have the opportunity to make significant and immediate impacts in building sustainable success.

There is no shortage of capacity for developing leaders.

By deepening the talent pool, retaining the right people and making succession planning proactive rather than reactive, organizations realize clear benefits:

- Turnover reduces by 50% when high-potential talent works and leads with their natural strengths and follows a path of development
- Linking leadership development and business strategy provides a 33% improvement in execution and productivity
- Proactive succession planning develops new leaders who are prepared and increases overall organization morale by 22% - reducing turnover further and increasing productivity and profitability

When the time comes, will your organization be ready?



Leadership: Making the Critical Investment

Questions for Reflection

Part Four

Leadership is the true competitive advantage of an organization. Right now, organizations are facing a “leader readiness gap”.

- Almost 75% of current managers and executives will be retiring in the next seven to ten years as the Baby Boom python constricts
- Only 3% of executives feel their organizations are developing new leaders effectively



The vise is tightening and most organizations are not prepared. There is no sense of urgency. Both the organization and individuals do not equate the impact of leadership development with higher performance and better bottom-line financial results.

So, organizations put off the critical investment in leadership development and take an ad hoc, transactional approach with hope as the primary strategy.

The world has changed, people have changed – organizations need to change and develop leaders who can translate potential to performance today and tomorrow.

Organizations need to be smarter.

As a leader, you can gain clarity of how the leadership development investment (even in times of economic downturns and market turbulence) can provide an increasing return for your organization by asking yourself – and your leadership team members – the following five questions.

For support in putting the recommendations in place for your organization, please consider the following:

- Investigate the **Strategic Planning Suite of Services** as facilitated by Bluteau DeVenney and Company by emailing in confidence to our Vice-President, Claude O’Hara at Claude@bluteauevenney.com. Customized one- and two-day sessions will walk your organization through practical and innovative exercises to clarify your strategic positioning and the plan to follow through on building your sustainable competitive advantage and the leaders you need to win going forward.
- **Strategic Leadership Program**: Our program provides your organization with a proactive, planned, and customized approach to having the right people in the right places doing the right things at the right time. We help you align strategy and leaders for business success through:
 - Assessment – accurate analysis to predict performance
 - Selection – reliable criteria for promotion decisions
 - Development – proactive and customized training for managers
- **Manager Transition Program**: Our program provides your organization with a concentrated and customized approach to supporting your managers to develop the necessary leadership, strategic thinking, and performance skills to succeed as a leader in their new role. The program provides specific application to your organization’s work.
- **Succession Planning Program**: To bring an accurate, reliable, and analytical method of selecting and promoting the right people based on criteria that matter to the business success of your organization.

For More information on the above programs, please visit our website www.bluteauevenney.com or call us at 902-425-0467.

We would welcome the opportunity provide support in achieving your best return on leadership development.

Leadership: Making the Critical Investment

First Actions

Part Five

What's going to be your legacy? If you are short on the bench today, it is the fault of your predecessors. If you are short on the bench in the future, the responsibility is yours.

Fortune magazine's annual listing of the 100 Best Places to work always places a high value on educational opportunities – second only to stock options as a primary means of attracting and keeping talented workers.

A better question than ROI would be what would be the consequences of not having a formal process for developing leaders for the future?

Like most companies, you may be a bit spotty on selection, struggling on development, making a pass at succession planning, and your systems are weak. Where do you start? Start with a target – a competency model or a success profile. Why? Because the model will drive everything from selection and development to succession and performance.

What doesn't change much?

- The competencies that matter for leading in new and different situations
- How these skills are learned and developed
- Who is equipped to learn these skills
- What it takes to make skill development work

The competencies listed for leadership were 85% the same – all models end up measuring the same underlying competencies – don't reinvent the wheel.

Leadership development impact assessment process

- Step 1 – Analyzing the business need
- Step 2 – Identifying leadership needs and structural and systems needs

- Step 3 – Setting critical leadership priorities
- Step 4 – Identifying research based leader competencies
- Step 5 – Determining levels of mastery
- Step 6 – Conceptualizing the delivery framework
- Step 7 – Conceptualizing the evaluation process

What is the business case for development?

Do top companies (based on the 10-year annual return to shareholders) manage talent differently than average or low-performing companies? YES

Do top companies develop people differently? YES

Does this contribute to the bottom line? YES

However, the general rule of thumb of this kind of research is that top performers outperform the average by 40% to 50%.

Leadership development in the age of the knowledge worker requires continual learning, especially learning about people.

Top organizations invest approximately 6% of revenues in education.

What will be your investment? What will be your legacy? What will be your performance?

Notes

6. Background and Research Mechanics

The foundation for our white paper is personal opinion based on a combination of experience with organizations, education, and reading.

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Vision:

Our vision is to support leaders at all levels find and grow their natural and true leadership advantage to accomplish their best results.

Mission:

Our mission is to provide an innovative learning forum for established leaders to sharpen their edge and for developing leaders to find their path through practical and actionable coaching and training.

Through workshops, retreats, conferences, analytics and newsletters we help leaders define their compass for natural leadership and stay on track for their best results.

Please visit our website at www.bluteaudevenney.com for further information.



Notes

Leadership: Making the Critical Investment

Why don't we get it?

Leadership is about performance and results. It is a bottom-line skill for success. Yet, most promotions to positions of supervising others are based on individual performance and productivity – not in dealing effectively with others. We promote for individual performance when what we need is the ability to perform through others. The transition to coaching the performance of others is not automatic – a recent study showed that 45% of people newly promoted to a leadership position fail within the first 18 months.

Ambitious, strategic, career-driven people want to get to the top. Yet, they focus on technical training and building functional expertise. These are not the skills that separate high-performing leaders from those that fall short. Results-oriented people drift into leadership positions because the promotion is the next logical step. Now, rather than making things happen independently, former high performers have to deal with teams and motivate other people to take action. These people are not prepared and fail to engage their teams – organizations are losing 33% of their potential financial performance due to disconnection at the manager level.

What is missing is the ability to lead.

The good news is that leadership skills can be learned and studies show that 60% of the managers who failed could have succeeded with the right development.

Should organizations and individuals be investing in leadership development?

The answer is clear. Organizations that invest in the development of leadership competencies for their people provide a return of 22% more than the average for the shareholder.

Leadership is about performance and results – both for the individual and the organization. We can't wait – we need to invest.



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