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“Winning the War for Leadership Talent”

“Improving the Bottom-LINE”
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Do you have a plan for developing managers and leaders in your organizations? Or, will you do what so many other companies are doing -- just hire the best talent you can find? What ever you are doing it may be time to review your plan because the demand for leadership talent greatly exceeds the supply. Only a few organizations are prepared for what the McKinsey consulting firm has called the "war for talent." Executive and HR related surveys and studies indicate that the problem is real and the shortage is going to get a lot worse.

If economic growth continues at a modest 2 percent for the next 15 years, there will be a need for *one-third more* senior leaders than there are today. The supply of 35- to 44-year-old managers--who have traditionally been channeled into the executive ranks--is declining in the United States and will have dropped by 15 percent between 2000 and 2015.

Baby boomers have already started to retire. Therefore, most large companies will have to scramble to meet gaps in senior leadership talent. Not only are the numbers in the talent pool shrinking, but the quality of talent required to meet tomorrow's leadership demands is changing. Additionally, the values of individuals entering the workforce have evolved. A significant number of these individuals are looking for balance in their life and are not sure they want the pressure of becoming a leader.

The following topics are covered in this month's *“Improving the Bottom-Line”*. They were written to help you understand the issues related to the leadership shortage and what you can do to survive and win, *“the war for talent.”*

- ✦ *Leaders and Complexity*
- ✦ *Succession Planning in the 21st Century*
- ✦ *Distinct Leadership Levels*
- ✦ *The Leadership Pipeline*
- ✦ *Tapping Leadership Potential*
- ✦ *Defining Potential*
- ✦ *Pipeline Passages*
- ✦ *The Pipeline Perspective*
- ✦ *The Leadership Pipeline and Succession Planning*
- ✦ *Succession Planning to Fill the Pipeline*

Leaders and Complexity

The global and more dynamic economy of the 21st century requires executive talent with a more complex skill set than ever before. Leaders for the future will need:

- ✦ Greater technological literacy
- ✦ A sophisticated understanding of global marketplaces
- ✦ Multicultural fluency
- ✦ Relationship savvy, with extensive networks of alliances and stakeholders
- ✦ Leadership skills over a delayed, disaggregated and virtual organization

Every day, *The Wall Street Journal* reports news about major corporations recruiting executive talent from other companies. Executive search firms are flourishing because of the demand for strong talent.

The Internet has also facilitated company-hopping, making it easier for people to contact other organizations that may offer better positions. The average executive has worked in five organizations, and that number is expected to increase to seven by 2010.

There is a scramble to hire "stars," a phenomenon that offers enormous compensation to entice the best and brightest, but there is a longer learning curve when an outsider joins a company. These "stars" also tend to jump ship quickly when a better offer comes along.

Succession Planning in the 21st Century

In response to these challenges, organizations have a renewed interest in succession planning systems. The systems in the past functioned merely as replacement charts and were the function of HR executives. However, there are two critical differences today and the focus is on emphasizing:

1. Leadership development at all levels (not just senior executives)
2. Responsibility and involvement for leadership development within the work group, with the person's manager and team members (and no longer an HR function)

Internal training, mentoring and other developmental programs aren't keeping the talent pool adequately full. What's needed is an approach that develops people at all levels. Additionally, organizations must promote people from within the organization to successive levels of leadership responsibility.

"A common organizational mindset is to view jobs as 'work to be done' and not as developmental assignments."

Ram Charan, Stephen Drotter and James Noel
the Leadership Pipeline

Distinct Leadership Levels

Most development models fail to consider leadership requirements at all levels. As a person is promoted from line manager to business manager to functional manager, skills and requirements change. Contributors to success at

one level may be ineffective at another. A skilled leader has to unlearn and relearn at each succeeding level.

In most companies, a rather simplistic definition of leadership governs development. There is little acknowledgment that different leadership levels exist or that people need to make skill and value transitions as they're promoted. Without a change in values, people will not develop the attitudes and habits required to be truly successful in their role. Only a few organizations actually define the core competencies and experiences necessary to succeed at each level.

Instead, companies focus on leadership traits, styles and technical competence. Few programs recognize that the leadership development needs of a first-time manager are different from those of a functional manager. Companies commit a major error when promoting successful individuals without acknowledging required skill sets--and expecting them to perform well at the next level.

The Leadership Pipeline

It's not surprising that the leadership pipeline is dry, forcing companies to turn to outside sources to hire the brightest stars. Hiring gifted people makes sense as a tactic, but not a strategy. This approach fails because highly talented individuals are scarce, and everybody is after them. They won't stay in place long enough to learn from mistakes, master the right skills or gain the experience needed for sustainable performance.

Today's companies need effective leaders at every level and location. Because of the information technology revolution and globalization, leadership is a requirement up and down the line. This means we must find a method that ensures more managers will be prepared for, and placed at, the right leadership levels.

Tapping Leadership Potential

Companies need to build leaders, not buy them. Research and experience demonstrate that *potential is not fixed*.

"We believe in human beings' ability to grow; society cannot achieve economic as well as cultural progress without it," write Charan, Drotter and Noel in their book, *The Leadership Pipeline: How to Build the Leadership-Powered Company*. "Too often, however, executives view potential as an abstract concept that defies definition."

Defining Potential

Potential is the kind of work someone can perform in the future, and it's a dynamic concept. Future work potential is based on accumulated skills and experience, as evidenced

by past achievement, as well as the ability to learn new skills and the willingness to tackle bigger, more complex assignments.

The more people achieve, the more they learn. Their willingness to tackle new challenges increases.

"Fueled by the rapidly changing nature of work, global opportunities, and on-line learning via the Internet, people's potential changes several times over the course of a career. They can and do reinvent themselves."

Charan, Drotter and Noel, *The Leadership Pipeline*

To capitalize on potential, companies must define the true work requirements at each key leadership level. Succession planning systems must spell out what's needed to make a successful transition from one layer of leadership responsibility to the next. Matching an individual's potential with a series of requirements is how leadership pipelines are built.

Pipeline Passages

The starting point is understanding the natural hierarchy of work that exists in most organizations. This focus is on managerial-leadership work rather than technical or professional contributions. In most large, decentralized business organizations, this hierarchy consists of six career passages or pipeline turns. The model resembles a pipeline that bends in six places, with each passage representing increased complexity.

- + Starting Point: Managing self
- + Passage 1: Managing others
- + Passage 2: Managing managers
- + Passage 3: Functional manager
- + Passage 4: Business manager
- + Passage 5: Group manager
- + Passage 6: Enterprise manager

(Walter Mahler created this model, which he called the *Critical Career Crossroads*. It was expanded by Charan, Drotter and Noel.)

Recognizing the requirements and pitfalls associated with each leadership passage is crucial for both leaders and their bosses, who can then provide better coaching and differentiated accountability. This leads to a more supportive environment.

The Pipeline Perspective

As you become familiar with each leadership passage, you'll find yourself thinking about careers and succession planning development with a fresh perspective. This will provide insights into how to fill your leadership pipeline. Additionally, you can structure a process to develop leaders on all levels and ensure they're working at the right levels.

Each passage requires people to acquire a new way of managing and leading, which emphasizes:

1. **Skill requirements** – new capabilities required for execute responsibilities
2. **Time applications** – new time frames that govern how one works
3. **Work values** – what people believe is important; the focus of their efforts

Organizations are therefore challenged to place people in leadership positions that are appropriate to their skills, time applications and values.

In some companies, at least 50 percent of leaders are operating far below their assigned level. Either they've skipped a level and never learned what they need to know, or they're clinging to an old mode of managing that was successful for them in the past. They have the potential to be leaders, but it remains unfulfilled.

The Leadership Pipeline and Succession Planning

Replacement planning is still the norm in organizations, but it doesn't address the leadership issues these companies face. Most jobs must change to keep pace with newly evolving markets, products, business structures and leadership requirements.

Organizations that attempt to designate a replacement now for a job that may open in three years will end up basing decisions on obsolete specifications. Additionally, mergers, acquisitions, downsizing, delaying, globalization and the Internet have a profound impact, with some jobs disappearing altogether.

The concept of a talent inventory drives some succession planning, but it is a flawed concept from a pipeline perspective. Talent does not necessarily equate with performance. Charan, Drotter and Noel offer a new definition for succession planning: "perpetuating the enterprise by filling the pipeline with high-performing people to assure that every leadership level has an abundance of these performers to draw from, both now and in the future."

To increase your succession planning effectiveness, follow these guidelines:

- ✦ Does your success plan help you understand how an employee can move from an entry-level position to CEO?
- ✦ Does it enable you to focus on short- and long-term performance, skills, time applications and values?
 - Does it force you to continuously work at succession planning --not just once a year?

Succession Planning to Fill the Pipeline

The following five-step plan will facilitate succession planning:

1. **Tailor the leadership pipeline model** to fit your organization's succession needs. Substitute your company's titles for the leadership passage terms used here. The six leadership passages may accurately be only five (or more) at your company.
2. **Translate standards for performance and potential** into your own language. Clear, detailed, unambiguous standards greatly enhance succession and development planning, offering managers better ways to communicate with subordinates who under perform or believe they should be on a faster track.
3. **Document and communicate these standards** throughout the organization. When people understand the standards for judging potential and performance, they know what they must do to advance.
4. **Evaluate succession candidates** through a combined potential-performance matrix. This enables senior

managers to consider all direct reports during their succession planning--not just the supposed "high-potentials."

5. **Review plans and progress** of the entire pipeline frequently and seriously. Ideally, your organization will have at least one annual succession meeting that revolves around this performance-potential evaluation, as well as quarterly reviews and monthly action reporting.

Incorporating this plan will allow your organization to achieve its goal of placing the right people in the right jobs with the right preparation, while producing targeted results both now and in the future.

Closing

Many companies have failed to recognize the shortage of leadership talent and even more are refusing to believe that the problem will worsen. Since companies are typically tactical in achieving business objectives, it is not clear how a succession plan and the necessary investment will help guarantee the future of their company. To solve the problem, a few companies are taking a proactive role in developing future leaders. Some companies will continue to throw compensation and perks at the problem, and others will hope the issue goes away. The question is, what will you do?

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