

# FUTURE LEADERSHIP DEVELOPMENT

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The mantra of the nineties has been: “Learning may be the only source of sustainable competitive advantage.” When it comes to developing leaders, smart chief executives are making strategic investments to ensure their executives can produce strong results. Companies spent an estimated US\$60.7 billion on training in 1998, according to the *Training Magazine*. *Business Week* estimates that companies spend US\$15 billion annually on executive education and leadership development alone. Budget isn’t the only commitment. Executives such as Roger Enrico of PepsiCo and Larry Bossidy of Allied Signal are spending significant portions of their business day personally teaching and mentoring future leaders within their organizations. It is becoming increasingly clear that developing executive talent is not a luxury, it is a necessity to remaining competitive.

The need for executive education is apparent. Key questions include: how can we learn from today’s best practitioners to understand the trends and challenges that will become the norm in the future? Are there “best” ways to develop current and future leaders? How will we pick our leaders? What process will transform managers into leaders ready for strategic action? Who will design, manage, and deliver world-class leadership programs?

## LEADERSHIP DEVELOPMENT: SCOPE AND PROCESS

### Focus on corporate strategy

Leadership development is becoming closely aligned with and used to support corporate strategy. Issues such as globalization, decentralization, and the rapid pace of today’s marketplace have forced companies to evaluate the way they operate. Paradigms that have worked for years are no longer effective when an organization’s largest customer is thousands of miles away. Realizing the need for change is important. Determining exactly how to turn these challenges into opportunities is, however, a task that keeps many CEOs awake at night. In some cases, bold strategic initiatives are under way to revamp the way organizations do business while re-creating the workforce undertaking these efforts.

Best-practice organizations view the leadership development process as an increasing source of competitive advantage. GE Crotonville is described as a “staging ground for corporate revolutions.” From 1981 to 1997 General Electric more than tripled its revenues

while decreasing its worldwide employment from 404,000 to around 240,000. Naturally, this type of growth caused an enormous cultural shift within GE, including Crotonville. The central education function even changed its name from Corporate Management & Development to Corporate Leadership Development (CLD).

With the need for change apparent, James Wolfensohn joined the World Bank as president in 1995. Acknowledging both the internal and external challenges, he also felt the World Bank offered a number of great opportunities. The fall of the Berlin Wall meant that many new clients and potential funders could join the organization. The information revolution enabled knowledge to be transferred at a much more rapid pace, both with the member countries and the clients of the World Bank. Wolfensohn saw new leadership development efforts as one of the tools he could use to reshape the culture of the organization.

### ***Aligning leadership development with corporate strategy***

If the leadership development process is to be an effective piece of the change process, it must be aligned with all of the strategic objectives of the organization. Leadership development initiatives have gone to great lengths to understand and help implement overall corporate strategy. Only by aligning their efforts will new leaders be able effectively to meet business challenges and global market constraints.

Arthur Andersen's Partner Development Program must link closely to the firm's business strategy to stay in sync with current objectives and therefore help meet the needs of a business that continues to diversify and globalize. PDP constantly reviews strategy documents from not only the business but also the four service categories when conducting needs analyses.

Johnson & Johnson believes it is critical to start any discussion about education and development with the business objectives of the company. The company has focused on three basic objectives:

- *top-line growth* — the company's history of double-digit, top-line growth requires innovation, whether it be through heavy R&D investment, new alliances, or mergers and acquisitions;
- *enhanced competitiveness* — Johnson & Johnson believes that enhanced competitiveness must come through aggressive cost reduction and not increased prices. The organization has had around 90,000 employees for the past five years but has still managed double-digit growth during this period;
- *organizational excellence* — Johnson & Johnson has to focus on finding great people and then developing them.

Meanwhile, Shell has long understood that developing leaders is a significant source of competitive advantage. Working within the context of its core business strategies and values — integrity, professionalism, respect for people, long-term focus, and pride without arrogance — became the foundation for planning these leaders' development. Shell admitted that it did not know exactly what its future leaders would look like. The company simply knew that a transformation must happen for it to remain competitive in the constantly changing global economy, and dedicated itself to the pursuit of breakthrough performance to realize the full potential of opportunities.

## Focus on core issues

Corporate leadership development will focus more on core issues such as values and strategic change that are vital to the entire organization, while business units focus on challenges specific to their operations. A corporate leadership development function focuses on leadership skills and often leaves the management skills and business-specific skill development to the businesses. Management skills tend to deal with the basics — skills and behaviors that enable employees to make their numbers. Leadership development builds on these core attributes. At GE the ability to influence peers is critical. With Johnson & Johnson, building leaders involves giving employees the tools to make tough ethical decisions. Corporate leadership development efforts seem to focus on applying corporate values to specific strategic initiatives. Teaching management and supervisory skills is usually handled at the business level.

This split of responsibility seemed to work well — corporate leadership efforts complement those within the business, as opposed to competing with them. Generally, the business operations are much better equipped to handle their own management/training needs. However, the corporate leadership programs are providing the decision-making framework to effectively use the tools provided by the businesses.

Johnson & Johnson feels that the expertise for management development in a particular operating company often resides within that business. As a result, it makes no sense for corporate level to have full responsibility for this activity. Leadership development, on the other hand, is consistent across the company and as a result it makes sense to have a central group take the lead on this issue.

## Focus on human resources development and business experience

Excellence in leadership development will involve teams that emphasize the importance of both human resources development and business experience. At Arthur Andersen, Johnson & Johnson, and Shell International, the heads of the leadership development process had senior-level business experience before assuming responsibility for this function. The use of business leaders in key human resources development positions does not imply a lack of respect for unique aspects of the discipline. Rather, it is based on a feeling that the presence of business leaders in the functions will help ensure buy-in from the businesses and the practicality of programs.

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Building on the concept of “hiring from the field,” a number of best-practice organizations found innovative ways of bringing additional business experience on board. General Electric and Shell International bring in high-potential individuals on two-year rotational assignments. Hewlett-Packard recruits key people from line positions to ensure that knowledge of the “HP Way” and the pragmatic needs of the business are addressed in an adequate manner. These assignments help the leadership development function in its attempts to ground its efforts in business realities and help those individuals who come in from the business. Often, a person will start an assignment with knowledge of only a particular line of business but leave with an understanding of the entire organization.

## **Focus on internal and external factors**

Leadership development efforts should be internally focused and externally aware. New business demands dictate the need for change but certainly do not provide a framework for how to create the change. Whether started by the CEO, or bubbling up throughout the organization, the focus on building the skills of current and future leaders surfaces as a potential enabler of change. Creating a process to build leadership skills, abilities, and techniques has pushed organizations to look internally and externally for answers.

Organizations should realize that for the leadership development process to enable change, it must fit the culture of their organization. A first step for those designing the leadership development process was to ensure this linkage by soliciting the direct input of their customers. Input from key customers has become an ongoing process for the organizations. To conduct a proper needs analysis, organizations rely on a number of tools, including:

- the use of line executives in key human resource development positions
- program steering committees
- formal links with strategic planning efforts
- extensive conversations with business leaders
- internal and external customer surveys.

These formal needs assessments may seem like an obvious step in creating a leadership development process, but they are by no means done universally.

## **IDENTIFYING THE LEADERSHIP POOL**

### **Competencies rather than past successes**

Confidence in identifying leadership competencies is more important than formal studies about past successes. Any discussion about competencies can easily become controversial. Many contend that the identification of competencies helps organizations to understand those qualities, characteristics, and skills that lead to outstanding performance and outcomes. Others question whether competencies can be defined at all.

The vast majority of organizations believe that once competencies are defined, the results should be consistent throughout the company — regardless of position, business unit, or geographic location. For example, Johnson & Johnson sent a team around the world to make sure that what made a successful leader in the United States, for instance, would translate to Europe or East Asia. Although the company found that some of the wording for its competency model had to change from location to location, the behaviors were, in fact, consistent.

General Electric is perhaps the most skeptical of the partner companies in its take on competencies. Consistent with the CEO's emphasis on "Speed, Simplicity, and Self Confidence," GE does not spend time on formally defining leadership competencies. This does not mean, however, that leaders at GE are working without a road map. The following GE value statement serves as a guide to the traits being assessed and developed.

GE leaders. . . Always and with unyielding integrity:

- have a passion for excellence and hate bureaucracy
- are open to ideas from anywhere
- live quality, and drive cost and speed for competitive advantage
- have the self-confidence to involve everyone and behave in a boundaryless fashion
- create a clear, simple, reality-based vision, and communicate it to all constituencies
- have enormous energy and the ability to energize others
- stretch, set aggressive goals, reward progress, yet understand accountability and commitment
- see change as opportunity, not threat
- have global brains, and build diverse and global teams.

GE's values play a key role in determining each person's performance. All employees discuss with their managers their performance and career goals during a review meeting. The organization has a famous chart for rating people: their performance (i.e. the "numbers") is rated on one axis, and their adherence to GE values is rated on the other. Those who make the numbers and have demonstrated GE values are the most highly prized (those who do neither are the least prized). Those who don't make the numbers but adhere to the values are given a second chance. In fact, they are valued more than those who make the numbers but do not demonstrate the values.

### **Growing Leaders rather than buying them**

Growing leaders will be more effective than buying them. Aspiring companies want to know the secret of making "leaders their most important product." Organizations must emphasize that their top leadership came from within the company. Senior executives tend to be products of the leadership development system, groomed from the beginning to take on increasing responsibilities. In stark contrast to the situation at many companies today, buying top-level talent is done occasionally but not emphasized. The best-practice organizations lean toward internal leaders because of the powerful and distinct cultures in which they work. The best-practice organizations see their strong culture as critical to their continued success but realize that not everyone can thrive in these unique situations. Executives who are brought in from other organizations may have all the right experience and skills, but they may not be a good fit with Johnson & Johnson's credo or Hewlett-Packard's decentralized structure. Leaders who have come up through the organization are a proven fit — they have demonstrated the ability to successfully accomplish assignments in the way the organization has determined for its leaders.

Organizations should also realize that some executive positions must be filled externally to avoid stagnation and "inbreeding." In some cases, buying talent is a competitive must. As organizations transform themselves to deal with new markets, technology, or customers, hiring externally is often the fastest way to expand competencies and skills. When organizations hire from outside, they must rely on the development function to fill the role of cultural assimilator by exposing learners to the organization's culture and values.

## Getting the right people into the right program

Tomorrow's organizations will emphasize getting the right people into the right program. Organizations should have a good idea of both the type of individual and the type of program they want as part of their leadership development process. Organizations must look to the goals of their leadership development process to determine who would be selected as a participant. At Shell International, the goal of the program is to create leaders at all levels, therefore LEAP programs are open to anyone within the organization (even though certain programs are aimed at individuals with the highest potential). The World Bank's Executive development program and Arthur Andersen's partner development program focus only on those at the leadership level. Others, like General Electric and Hewlett-Packard, are more selective with entrance into their key leadership programs as they want to focus only on the "A players," those individuals who have the potential to move quickly through the ranks.

Whatever the specific criteria may be, organizations should spend a great deal of time deciding who needs to be involved in leadership development. It is very important for an organization to bring a diverse population into the leadership development process. In future each successful organization will operate in the marketplace and consequently must look to the leadership development process to help its organization build a more diverse workforce. Moreover, the diversity of the classes adds different perspectives that improve learning. Most top organizations say they try to get a mix of different countries, cultures, and business skills into their corporate development efforts.

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GE Crotonville's leadership development opportunities are for high-potential individuals (the organization's "A players" who are identified through the succession planning process). The organization feels it should spend most of its time developing its best and brightest. The company employs approximately 240000 people worldwide, and each year Crotonville trains about 10000 of them.

At Arthur Andersen, each program team is responsible for managing vendors and working with them to modify existing courses. Johnson & Johnson prefers to partner with a fewer number of suppliers whom they respect and know. The company looks for suppliers who fit in well with its culture and seeks to develop long-term relationships with them. Besides the external consultants and universities used in the development of Shell's programs, there simply weren't enough staff members to handle delivery.

At the World Bank, all the modules of the executive development program are delivered by the university consortium (Harvard Business School, John F. Kennedy School of Government, Stanford Business School, INSEAD, and IESE). These programs have been tailored to meet the specific needs of the bank's managers, but all are influenced by the universities that deliver them. This was precisely what the bank had in mind when it decided on these universities. Since the World Bank operates in a culture in which many employees hold advanced degrees, the organization needed to provide a program delivered by highly regarded faculty.

## ENGAGING LEADERS IN THE PROCESS

### Action rather than knowledge

The primary purpose of corporate education and leadership development is action, not knowledge. In preparing leaders to make critical decisions, leadership development functions have realized a need to do more than simply provide their leaders with knowledge and information. Disseminating the right knowledge can build a strong foundation, but the leadership development process must equip participants with the skills, qualities, and techniques necessary to apply that knowledge in ambiguous situations.

Organization should focus on using action learning, and take advantage of real-time business issues as the basis for learning and development. Content is not sacrificed for simplistic solutions, but in this new model, the answers to tough questions are not in the instructor's head but must be developed on the spot by learners.

Arthur Andersen uses a great deal of small problem-solving groups in its program activities. Each course has prescribed content, and other learning techniques include:

- case methods
- simulations
- action learning
- experiential learning
- executive coaching.

GE chairman and CEO Jack Welch chooses the action learning topics for each business management course (three per year) and executive development course (one per year). As a result, when individuals/employees hear that a certain initiative was a recommendation from the BMC or EDC, they go the extra mile to make sure it becomes a reality. In most instances, recommendations made by participants have been implemented.

## **Technology and interaction**

Technology is growing in importance but will not replace the importance of bringing leaders together to deepen the learning experience. Companies across the globe acknowledge that technology has enormous potential in creating a learning organization. Top companies use technology to:

- disseminate knowledge
- keep people connected throughout the organization
- expedite and facilitate team learning
- allow access to the knowledge capital of the organization.

On the other hand, the experience of getting leaders away from their jobs and providing face-to-face exposure to colleagues from across the world is an essential part of the best programs. William James once said: "Genius is simply the ability to see the world from a different perspective." Corporate programs can provide learners with this capacity.

Best-practice organizations feel they cannot fully achieve the benefits of networking via technology. Their favorite method of delivery is face to face. At present technology is often seen as a plug to fill gaps in the learning process. For instance, part of Johnson & Johnson's strategy is to create an organization of 90,000 leaders. The company realizes, however, that it

cannot put 90,000 people through its top development programs. But it can provide the technology for employees across the world to interact and learn from each other. In this case, technology is seen as a potential bridge to touch leaders at all levels within the organization.

As Johnson & Johnson moves towards using technology more in leadership offerings, it has created a four-point strategy for implementation:

- 1 *100 percent access* — every employee worldwide should have access to what he or she needs to know to be effective on the job;
- 2 *experiment* — since it is not clear what the best educational technologies are, it must experiment with various design and delivery modes;
- 3 *benchmark and partner* — internally, CED links up with the information technology function and the advanced communication group to leverage resources and determine the best strategies for using educational technology. Externally, the organization does a significant amount of benchmarking to keep up to date;
- 4 *business value* — learning and experience have to focus on compelling and critical performance issues.

Realizing constraints such as cost and time, Shell has begun to use existing technologies. Laptop computers, e-mail, and Internet forums are all used by the various teams, but no efforts have been made to replace the face-to-face workshops with distance learning.

## **Succession planning**

The leadership development process is becoming closely linked to succession planning. As part of the alignment between leadership development and other corporate systems, organizations should tie educational efforts and the formal succession process. Top development functions should discuss the usage of 360-degree evaluations as a part of their leadership development process, whether it be simply for development or for actual selection purposes. Coaching and developmental plans growing out of this feedback are encouraged as part of the executive conference progress, but the results of the assessment are not fed directly into the succession planning process.

Organizations should tie assessment, development, feedback, coaching, and succession planning into one aligned, integrated system. In this new model, leadership development becomes an important part of maintaining a steady flow of information throughout the organization to ensure that top talent is tracked and continues to grow. General Electric ties the leadership development process directly to succession planning and is open in making that distinction. All GE managers participate in a mandatory annual performance review with all their employees. The review includes discussion about performance and adherence to GE values and is later interpreted by someone at a higher management level to ensure fairness and accuracy. As part of GE's human resources planning process, all employees are rated in a nine-block system. This system incorporates the high (or low) potential of the employee and the quality of his/her yearly performance. The chairman believes that "corporate owns the top 500 people in the company and just rents them out to the businesses." To encourage the sharing of business talent, GE includes a negative value variable in its performance appraisals for managers who hold back talent. Outstanding business performance and leadership development go hand in hand.

## ASSESSING THE IMPACT

The leadership development process is increasingly recognized as a symbiotic tool of effective leaders. Top-level support is a consistent key to developing leaders and sustaining the process. Without that support the processes would flounder. Yet the success of leadership development engenders even more high-level support. As top leadership development functions help their organizations meet current and future competitive demands, they win further support from the organization's leaders. Corporate executives are more likely to support leadership efforts that are clearly helping them get the results they seek. Through a strategy of monitoring the effectiveness of the leadership development processes, capitalizing on quick wins, and communicating their successes throughout the organization, the best-practice organizations keep this "virtuous cycle" going.

Groups such as Arthur Andersen's PDP and GE Crotonville remain successful with a customer-focused strategy where careful listening, diligent crafting of programs, constant monitoring, and communications all play a role in creating senior management buy-in. This makes it much easier for senior executives to understand how the leadership development process has helped to shape and disseminate their organization's culture, overcome resistance to change, and achieve strategic goals.

General Electric's leadership development process is an effective tool for keeping GE at the top of its competitive game. Reasons for this include:

- culture
- top-level support
- operational-level support.

To maintain a high level of buy-in, the corporate leadership development center surveys GE's leaders around the world to ascertain future business needs and the requirements of future leaders. Additionally, the center identifies and uses "early adopters" of the leadership process. Throughout GE, certain developmental initiatives excite some business leaders sooner than others. By identifying these champions and leveraging their support, the company has been able to attain a critical mass of support for its efforts. This early identification and rallying was used with both the Work-Out™ program and the Change Acceleration Process (CAP).

Hewlett-Packard has garnered support for its leadership development process by involving both the CEO and senior management as participants in its programs. These executives serve as mentors, faculty, and sponsors in the process's design and programs. For example, HP's CEO Lew Platt opens and closes every accelerated development program with a dialog session about the HP way and the expectations of those participating in the process. The chief financial officer Bob Waynan is the sponsor of a planned worldwide broadcast and will facilitate a panel discussion. Executives also serve as teachers during the programs and as mentors to program participants.

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The World Bank's executive development program was initiated after president Jim Wolfensohn created the strategic compact with the board of directors. In the compact, he outlined a number of integrated initiatives, including increased focus on executive and management talent. This compact began the movement toward the present-day EDP, so

Wolfensohn's support was evident from the beginning. As initial positive results have been attained, this support continues, even though the program is costly. Senior-level support for the executive development program is further engendered by executives' participation as champions and coaches of the EDP's project teams.

### **Focus on assessment and measurement**

Assessment and measurement is becoming increasingly important. All organizations should be concerned with the perceived value of their efforts. Shell International reported that members of the LEAP staff do not feel their program is adding value unless the team projects generate revenues of at least 25 times the project costs, and even that goal may be too low. Johnson & Johnson does follow-up research to determine whether subordinates and peers could see significant improvement in key performance areas after an executive conference. Arthur Andersen has found that graduates of its partner development program have higher levels of client satisfaction and higher per-hour supervised net fees than partners who have not attended the program.

Assessment should also be seen as a means of generating buy-in and keeping efforts focused on the right objectives. The type and intensity of assessment depend on the objectives of the leadership development process and the culture of the firm. To collect this vital information, the best-practice organizations use a number of tools and techniques. While the Four Level Model of Evaluation (participant reaction, knowledge acquired, behavioral change, business results) is but one of the means that organizations use to determine the impact of leadership development efforts, it is nonetheless common and important.

For instance, Arthur Andersen has found self-assessment to be very accurate:

- *impact research* — the firm has compared partners who have attended the partner development program with those who have not (on a course-by-course basis). The results show a link between PDP and both increased client satisfaction and higher per-hour supervised net fees. Impact research is done in a two-year cycle; information is gathered on partners a year before the program and extends to a year after the program is completed;
- the use of both participant satisfaction and impact research helps provide a balanced set of results. For instance, Arthur Andersen found that one of its programs was not getting a high participant satisfaction rating, but impact analysis showed that the program was having a greater impact than any of the other courses.

GE's leadership development process is not driven by typical measures such as cost and ROI. Steve Kerr, chief learning officer, suggests that "Crotonville may be the only unmeasured and uncontrolled cost center in GE." Instead of traditional attempts to measure impact, the organization relies on feedback from a number of sources to make sure it is staying on the right track. For example, more than half the senior executive development courses at the company are run by the leaders of the corporation. They are a great source of feedback about the effectiveness of course design. The organization also relies heavily on student feedback.

In terms of measurement, Shell has a unique situation in that all the LEAP programs have goals and real deliverables. During the initial contracting process, a member of the LEAP staff and the leader within the business determine project outcomes. As a part of this discussion, the business leader expresses his/her objectives in sending the candidate to the

program, and in many cases that defines the program and the problem the team or candidate will address. These specific goals are tracked by the LEAP staff, and the results are reported by the teams to the business leader. In addition to this, LEAP looks at the financials at the start and the end of the program to identify any changes, as well as scanning for factors that may have played a role in any changes.

### **Focus on value rather than cost**

Leadership development is becoming more costly — and a better investment. The old adage, “you get what you pay for,” seems to apply to the leadership development processes within the best-practice organizations. If organizations encounter change, they should see value in investing in their future leaders. Costs must be considered in the process, but the larger focus must be on the value that the program could provide. For example, when we have been asked to rank the importance of certain criteria while selecting an outside partner or vendor for the leadership development process, “fees” tended to be ranked as one of the least important factors.

Leadership development must be viewed as a long-term investment. The payoffs take time. In 1997 Arthur Andersen invested \$306,726,651 in education, approximately 6 percent of total revenue. The firm spends this amount because it believes that if you want to deliver a “best-practice” program, you must focus on value and not cost (cost is important, but it is not the driving factor). General Electric has an extremely high level of buy-in for corporate leadership development. Crotonville has proved its worth time and time again, so the company has few qualms about investing in corporate training efforts. The World Bank realized that to foster a strategic cultural change and re-create a new language for leaders, the price would not be low. As Jim Wolfensohn laid out the strategic compact to the board, he stated that creating real change would take a large investment.

*Leadership development must be viewed as a long-term investment. The payoffs take time.*

## **CONCLUSION**

Leadership development will be an important tool for organizations in future. Each organization should require a unique commitment and should build a superb program (and process) upon the solid foundation. This excellence must be based on two key pillars. First, the overall tone of quality must be anchored with the commitment; second-best should simply not be acceptable. At the same time, good value for money is important. Second, the leadership development process is created to fit the specific organization. This chapter combines our experience with the methods of some of the world’s best practitioners of leadership development. None of them will be a perfect fit with the needs of your organization, but they may suggest alternatives or stimulate ideas that might fit your specific challenges. Read, reflect, and use the parts that are applicable to your situation. Above all, keep listening and learning.<sup>1</sup>

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