



Leadership Development: Critical Assumptions for Creating a Leadership Development Culture

Richard E. Hasty, Jr.
W. Alan Love
Richard L. Osman

Conequity Resources, LLC
10612-D Providence Road Charlotte, NC 28277
704-543-8151



Leadership Development Approach

For growing companies, a robust product pipeline is essential for long-term viability. Successful biomedical and technology companies invest billions to develop a rich product pipeline – and Wall Street applauds their strategy. In the same way, building a strong “leadership pipeline” is an absolute requirement for growing and sustaining business success. If investing in research and development is the precursor to a strong product pipeline, is there an “R&D” equivalent that leads to a deep leadership bench? Must we rely upon “born leaders,” or can leadership capability be intentionally developed? As Peter Drucker has stated, “...there may be ‘born leaders,’ but there surely are far too few to depend on them. Leadership must be learned and can be learned.”¹ Gregory Kesler, in his article, “Why The Leadership Bench Never Gets Deeper,”² recognizes the challenge: “For many companies, leadership bench strength – the availability of strong and deep pools of talent...is a major business problem, which demands a breakthrough change in the status quo.” If leadership development requires a significant change in the way companies have developed leaders in the past, just what changes can make a difference? Based on extensive research, Leadership ThinkTank has identified important distinctives which, when combined, can produce a culture of leadership development.

The Leadership Project™, a unique approach for effective leadership development, is built on the foundation of three basic, yet critical, assumptions:

- Every person has the potential to significantly impact the organization, for better or worse.
- Hiring enough capable leaders to meet the unpredictable needs of an organization is impossible.
- Any sustainable leadership development effort must produce measurable results.

Leadership at Every Level

Leadership initiative is not restricted to the C-level: (CEO, COO, CFO, CIO, etc.) of the organization. Anyone can exhibit initiative and responsibility. No one questions the leadership impact of the strategic decision made by the CEO, but what are the consequences of the rude and uncaring actions of a CSR (customer service representative)? Every person has the potential to significantly impact the organization, for better or worse. This discovery was made too late for the survival of one regional technology company. While in the customer’s data center, a new employee of the technology service provider literally pushed the wrong button – the poorly labeled button controlled power to the main computers. This

¹ The Leader of the Future, The Drucker Foundation, F. Hesselbein, M. Goldsmith, and R. Beckhard, eds., “Your Leadership is Unique;” 1996.

² Gregory Kesler, HR Planning Society Journal 2002: Volume 25.1, “Why the Leadership Bench Never Gets Deeper: Ten Insights About Executive Talent Development.”

Leadership Development: Critical Assumptions for Creating a Leadership Development Culture



action shut down the major banking systems of their customer for over four hours! This mishap resulted in the customer completely severing their ties with a technology partner that had served them well for almost five years. Three years later, a fast growing \$70 million firm was out of business. One poor decision by a seemingly minor employee began a downward spiral that shuttered an entire company.

Equally true, employees have taken initiatives which resulted in substantial gains for their company. We know of operations personnel who through their diligence and example have been instrumental in acquiring multi-million dollar contracts. Many customer service employees have solidified important business relationships by treating customers in exemplary ways – outside the stated expectations of their job descriptions.

Recently, a client reported that their largest customer cited a single “insignificant” employee as the main reason they continued to do business with the company. Time and again this employee was available to resolve important issues. Less than one year after this outstanding employee left the firm, the customer dramatically reduced the number of products they were purchasing from this company. Though never considered for a management role in the firm or an expensive week-long leadership course, this exemplary individual demonstrated leadership initiative on numerous occasions, resulting in millions of dollars in revenue.

The retail baron James Cash Penney commented that a particular clerk would never amount to much in the retail world.³ Remarkably, he was speaking of Wal-Mart founder, Sam Walton. Based on J.C. Penny’s evaluation, Walton would have been overlooked when decisions were being made regarding who should be included in management development initiatives. How bizarre to imagine that Sam Walton would have been left out of their management training for “high potentials.” Four years after leaving J.C. Penny, he opened his first store. Clearly Sam Walton’s potential exceeded any of the “hi-po’s” that Penny predicted would be a part of their future management team. A leadership development culture creates an environment where even unrecognized leaders can distinguish themselves and emerge over time.

These anecdotes are all stories of leadership – undetected by normal management training filters. Recognizing the importance of this first assumption, no organization can afford to limit leadership development to a small number of so called “high potential” employees or managers. Effective leadership development organizations encourage learning and accountability among all employees. While every employee cannot be sent to Harvard for a costly course on Leadership (e.g. *Leadership Best Practices*, Harvard Executive Education, \$9,500), they can and should be coached and mentored in the context of a leadership development culture.

³ Pat Williams, *The Paradox of Power*, First Warner Books, 2002.



Predicting the Unpredictable

Many companies assume that highly effective managers can be recruited from the outside. Yet the overwhelming evidence indicates otherwise. Jim Collins, in his research for the best selling book, *Built to Last*, found that 90% of the time, great leaders come from within the company: “Simply put, our research leads us to conclude that it is extraordinarily difficult to become and remain a highly visionary company by hiring top management from outside the organization.”⁴

Executives regularly express disappointment in the hires they have made from the outside. Finding the right candidate externally is often a time consuming and frustrating experience. In *Topgrading*, Dr. Bradford Smart indicates that, even when using expensive search firms, one-third of the time adequate replacements are never found. When hires are made, 83% of the time they turn out to be “less than ‘A’ players.”⁵ If, as the research of Collins and Smart indicates, organizations experience such a poor success rate with external hires, why would a company go to the time, trouble and expense of seeking new management from outside of their company? The simple reason is that they have failed to develop their internal resources.

Internally promoted leaders understand and reflect the culture and values of the organization. Extraordinary companies make the necessary investment to grow leaders internally. An “every employee is a leader” attitude leads to a process for exposing employees to higher and higher levels of responsibility and leadership behavior so that they can be prepared when new positions become available.

When Anne Mulcahy took over the CEO position at Xerox, it came as a complete surprise to those who expected a high profile external candidate to fill the role. Xerox’s stock dropped fifteen percent on the announcement. Mulcahy remarked, “I certainly hadn’t been groomed to become a CEO. I didn’t have a very sophisticated financial background, and I had to make up for my lack of formal training. I had to make up for it with intense on-the-job learning.” In the midst of \$17 Billion in debt, Mulcahy led a radical reduction in costs and set the company on sound financial ground – without reducing the R&D budget.⁶ The efforts of the 24-year veteran of Xerox enabled the company to again claim a leadership role in their industry – and someone with limited financial experience set them back on solid financial grounds. All from a loyal employee who never expected to be, nor was identified to be, the primary leader of a multi-billion dollar enterprise.

Kenneth Freeman, former CIO of Quest Diagnostics,⁷ commenting on succession planning writes, “...if a CEO has accomplished what he set out to do, the needs of the company will

⁴ James C. Collins, Jerry I. Porras, *Built to Last*, Harper Business, 1994.

⁵ Bradford D. Smart, *Topgrading*, Prentice Hall Press, 1999.

⁶ View from the Top Speaker Series, December 2004, Stanford University Business School.

⁷ “The CEO’s Real Legacy,” *Harvard Business Review*, November 2004.



have changed, and the successor will require different skills and experiences, as well as a different personality.” Who can adequately predict the specific skills and personality that will be required for future leadership roles? The answer lies not in predicting needs, but in having a surplus of diverse talents and personalities available to fill those needs. If a leadership development culture is in place, then there will be a number of internal candidates from which to choose. Of course, having adequate candidates available will result only from a prolonged effort to grow leaders throughout the enterprise.

Having implemented **The Leadership Project™** approach to developing leaders, one client commented, “I no longer stay awake at night wondering how to hire people to replace my current management team. I can now spend my time on finding people to fill their previous roles. I can’t believe the difference in their leadership abilities.” The difference wasn’t so much in the abilities of the individuals, but in the environment in which they were allowed to gain experience, take on responsibilities, and show accountability for their actions. As a result, the most pressing needs for leaders within the firm were met in a few short months by creating a new culture with a new set of expectations driving effective leadership behavior. Now a culture of leadership development is being established that can meet virtually all of this fast-growing company’s future leadership needs.

Leadership Produces Measurable Results

In our research, CEO’s commonly remark that they have no way of knowing the value they receive from investing in leadership development. It is no wonder that the first budget item in most companies to “get the axe” is training and development. As Kesler notes, “When new practices unfold without a clear sense of what results must be delivered, they become mere activity generators.”⁸ We have heard far too many managers complain that they are merely contributing to an overload of voluminous reports and data that do nothing to change financial results, much less to build a leadership pipeline.

As we have observed planning and budgeting over the years, only the projects that have a clear business case receive the attention of the executive team. Executives appropriately attend to the bottom line and invest in the activities that yield the best financial results. Rarely will management undertake any significant and long-lasting effort without an understanding of the financial value it will deliver. Executives may occasionally and temporarily adopt a new initiative without a strong value proposition. However, they will just as quickly abandon it if they encounter even the slightest obstacle (especially the day-to-day demands of a busy schedule). Management should require a business case for undertaking something as significant as developing the current and future leadership of the company. Without it, leadership development will receive the same short span of attention that so many other projects receive.

⁸ Gregory Kesler, *HR Planning Society Journal* 2002: Volume 25.1, “Why the Leadership Bench Never Gets Deeper: Ten Insights About Executive Talent Development.”

Leadership Development: Critical Assumptions for Creating a Leadership Development Culture



What is the impact of effective leadership? Extensive research at Gallup has shown that leadership does make a measurable difference. Marcus Buckingham's work at Gallup Consulting, published in *First Break All the Rules*⁹, demonstrated unequivocally that leadership effectiveness precedes employee productivity and loyalty. These "engaged" workers, as he calls them, directly impact the financial results of the organization. Likewise, David Maister, a former Harvard professor, researched the impact of employee satisfaction on profitability. Maister's work (*Practice What You Preach*)¹⁰, using exhaustive research and advanced statistical methods, established causal links between profitability, customer satisfaction and employee satisfaction. Employee satisfaction, in turn, was clearly linked to leadership capability.

Employee turnover, customer retention, productivity, revenue growth, lost time and product lifecycles are all directly affected by leadership effectiveness. These measurable components should be included in an overall value proposition that can be projected and tracked over time – demonstrating the impact of growing leadership capability. When management can record the positive growth of corporate profits as a result of developing leaders, then creating a culture of leadership development will become a critical aspect of any strategic or tactical plan.

Our research indicates that by measuring the employee satisfaction of various departments, a company can also measure the effectiveness of the leadership team and identify specific areas of need. We have been able to demonstrate that focusing leaders on strategic developmental priorities can have an immediate impact on business results. As management observes the positive financial benefits, a higher priority is then placed on creating leaders throughout the organization. When results are identified and measured, management and employees alike will see their personal investment in leadership development well worth the effort.

Likewise, corporate executives may be concerned that if managers spend more time on leadership development, management and employees will take their eye off of profits. Certainly building leadership capability is not an end in itself. It must be pursued in the context of the challenges and opportunities that face the organization rather than in a classroom isolated from the real-world. As an employee develops greater leadership skills, they can assume increased levels of ownership and responsibility - making day-to-day decisions, adding value and protecting the future of the company - as if it were their own. They do not need a management title to assume the behavior of a "business owner." As they are given the mantle of leadership, they will treat customers in more effective ways, creating loyalty not only in the employee base, but among customers as well. They will pursue problem solving and generate more creative ideas that speed solutions and effectively meet

⁹ Marcus Buckingham, Curt Coffman, *First Break All The Rules*, Simon & Schuster Trade, 1999.

¹⁰ David Maister, *Practice What You Preach: What Managers Must Do to Create a High Achievement Culture*, The Free Press (Simon and Schuster, Inc.), 2001.



market needs. Again, while it may seem a paradox, time spent on developing leaders within the firm drives better bottom line results rather than diverting attention from them – results which can and should be measured.

Conclusion

Can virtually any company build a surplus of leadership talent? Can virtually any organization invest in employee development that will lead to greater leadership depth while improving bottom line results? Not only is it possible to build a leadership development culture throughout the organization, it is essential for maintaining growth, sustaining competitive advantage and improving financial results.

In Collins study of companies that make the transition from mediocrity to greatness, he concludes, “Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice.”¹¹ Companies can build a surplus of leadership capability, but it will not happen without a sustainable, consistent commitment to do so.

Growing GE from a sleepy industrial company into a dynamic corporate force was not an accident on the part of Jack Welch. He set the example throughout his company of placing leadership development above all else. He not only stated that GE would be committed to growing its leadership capability, but he personally demonstrated a dedication to the effort. Over his fifteen years at the helm of GE, he frequented the Crotonville Leadership Development Center and personally taught the principles of leadership to every level of employee. He mandated that all 300,000 employees of GE attend training programs designed to build leadership capability throughout the company.¹² The financial results have been legendary. And not only has GE benefited, but so too have numerous others companies who have desperately tapped into former GE alumni such as Glen Hiner (Owens Corning), Bob Nardelli (Home Depot) and Larry Bossidy (Allied Signal), because they lacked the leadership depth to meet critical and unpredictable needs.

Like GE, your organization can move from a leadership deficit to a leadership surplus. In order to do so, the three basic assumptions of **The Leadership Projecttm** are essential:

- Every person has the potential to significantly impact the organization, for better or worse.
- Hiring enough capable leaders to meet the unpredictable needs of an organization is impossible.
- Any sustainable leadership development effort must produce measurable results.

The resulting leadership development culture will position your enterprise for extraordinary growth, profitability, and a bright future.

¹¹ Jim Collins, Good To Great, Harper Collins Books, 2001.

¹² Noel M. Tichy, The Cycle of Leadership, Harper Business, 2002.