



EXECUTIVE SUMMARY

LEADERSHIP FORECAST 2005–2006

AN EXECUTIVE SUMMARY BY

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BEST PRACTICES FOR TOMORROW'S GLOBAL LEADERS

STUDY OVERVIEW

Over the past 35 years, DDI has conducted ongoing research on the competencies that define effective leadership, monitored the evolution of leaders' various roles, and studied the practices that characterize strong approaches to leadership development. It's clear that building a strong supply of leaders is a function of many systems, including selection, development, succession management, and performance management. No single approach to building strong leaders is right for every organization, but some approaches have proven effective in many organizations.

By repeatedly assessing and reporting on practices related to effective leadership, DDI hopes to provide insights that will benefit our clients and other readers. Our first Leadership Forecast covered 1999–2000; two more studies followed (for 2001–2002 and 2003–2004); and now this 2005–2006 study. While some of the questions and topics have changed, we are able to show comparisons over time in the current study. This study differs from previous

Leadership Forecast studies by including a broader global sample, a larger number of participants, and a new section on leaders' feelings about their roles (e.g., pressures, motivations). By far, it is the most comprehensive and global study of leadership practices in the world.

About the Sample

To date, survey respondents included 4,559 leaders and 944 HR representatives from 42 countries. The sample involved both public and private organizations from 36 industries; a large majority (63 percent) of the organizations employ more than 1,000 people. The leader and HR samples represented a wide range of levels and responsibilities. Other countries continue to participate in the study and their data will be added to the database over time.

Study Objectives

The 2005–2006 study has five main objectives:

1. Determine current perceptions of leader strengths and capabilities.
2. Identify what it means to be a leader (i.e., motivations, pressures, work/life balance).
3. Identify the most prevalent and useful leader development practices.
4. Identify differences in perceptions about leadership from various viewpoints (i.e., human resources, leaders, international, various leadership levels).
5. Determine which leadership practices lead to improved organizational performance.

HOW EFFECTIVE ARE LEADERS?

Leaders think “ability to bring in the numbers” is the most respected leadership behavior.

We asked leaders to select the one action that garnered the most respect for leaders in their organization. The winner was “ability to bring in the numbers.” Clearly, leaders earn the most recognition for achieving their financial and organizational goals, and this is their top priority. Ranked second and third were “ability to take a stand and make tough decisions” and “ability to create a strategy or vision for success.” The “people side” of leadership, including the use of interpersonal skills and the ability to mobilize a team, ranked lower in importance. Interesting, leaders’ ethical behavior was one of the qualities least likely to garner a lot of respect.

About one-third of internally sourced leaders fail, usually because of poor people skills or interpersonal skills.

What organizations respect in leaders does not appear to be the same as what causes their failure. HR professionals report that 65 percent of leaders selected internally stay in their positions and are successful. Of the 35 percent who are not successful, most fail because they have poor people skills or exhibit inappropriate personal qualities. In other words, bringing in the numbers and making tough decisions get respect, but it’s the interpersonal issues that cause leaders to fail. These findings are consistent across geographic regions, with the same three to four reasons appearing at the top of every list.

Over the past six years, HR lost confidence in leadership, while leaders gained confidence. Both groups, however, continue to lack confidence in leadership.

In all our Leadership Forecast studies, we asked leaders and HR professionals to indicate their

level of confidence in leaders’ ability to guide their organization over the next five years. Over time, HR professionals have become less confident in leaders, while the leaders themselves have become more confident. Yet only 39 percent of HR professionals and 53 percent of leaders have high confidence in their organization’s leadership.

Strong leadership can increase successful execution of business strategies by at least 22 percent.

We divided leaders into three groups—weak, average, and strong—based on their ratings of the 10 leadership qualities. We then measured the percentage of business strategies that were successfully executed for each group of leaders. Results showed that strong leadership can increase the percentage of successful execution by at least 22 percentage points.

LEADER DEVELOPMENT

Only half of all leaders are satisfied with their organization’s leadership development opportunities.

Only 53 percent of the leaders we surveyed are satisfied with the development opportunities currently available in their organization. What is worse is that this percentage is little changed from two years ago (i.e., 54 percent satisfied). In addition, less than half of all leaders (47 percent) believe that their organization provides them with all they need to develop. This implies that either crucial skills are not being addressed or leaders are perceiving a lack of organizational support.

HR professionals have seen an improvement in the quality of leader development programs over the past four years.

Compared to previous years, HR professionals are more likely to indicate that their leader development programs are of high or very

high quality. Only one-quarter (24 percent) of HR professionals believe that their leader development programs are of low or very low quality. Of course, this finding contradicts the previous finding. While HR feels that they are improving the quality of development, their customers—leaders—do not.

Formal training is the most common leader development practice, but special projects or assignments are the most effective.

We asked HR professionals to indicate the degree to which they made use of a variety of leader development programs. It is interesting to note that formal training—the most widely used development activity—was not deemed the most valuable activity. Special projects within and outside of normal job responsibilities were perceived as most valuable. Expatriate assignments, another form of special project, also emerged as a highly valuable learning experience.

Leaders benefit greatly from using mentors or personal coaches.

In our study 51 percent of leaders report that they have used a personal coach or mentor. The specialized attention of a coach provides leaders with an individualized diagnosis of needs, feedback, development planning, one-on-one training, and tracking of results. With such close attention, it's no wonder that the leaders who have used a coach or mentor find it valuable. Most leaders with a coach or mentor (91 percent) find that the experience is moderately or greatly beneficial to their careers.

Organizations with high-quality leader development programs and formal succession management programs have superior business performance (e.g., return on equity, profit margin).

To test the relationship between leader development and financial performance, we created a composite leadership development

strength index based on two factors: presence of a succession management program and leader development system quality (high or very high). We then isolated the organizations into two groups: one group was strong in both factors; the other was weak in both factors.

A group of 127 U.S. and Canadian organizations in our sample were submitted to a regression analysis using their business performance data drawn from the 2004 Compustat® database.¹ These business metrics were compared to the leadership development strength index. Analyses reveal that top leadership organizations had significantly better performance outcomes in all of the following performance measures:

ROE	Return on Equity [= net income/total equity]
ROA	Return on Assets [= net income/total assets]
PM	Profit Margin [= net income/net sales]
MVA/BVA	Market-to-Book Ratio [= market value of assets/total assets]
OCF/NS	Operating Cash Flow/Net Sales
OCF/TA	Operating Cash Flow/Total Assets

LEADER TURNOVER

Current leaders are loyal and more motivated than ever to lead.

Today's leaders have weathered the challenges of greater performance demands, increased scrutiny, and organizational restructuring. Although being a leader can be challenging, most leaders (90 percent) feel a sense of loyalty to their organizations, with those at the senior levels recording the highest degree of loyalty. When asked, many leaders indicated that their motivation has increased during the past two years. About 54 percent of leaders today are more motivated to lead than before.

¹ www.compustat.com: For more than 43 years, Standard & Poor's Compustat® data has delivered high-quality, standardized fundamental and market data to investment professionals worldwide.

Internationally, most regions show a similar increase; also, changes in motivation to lead do not differ significantly by leader level.

One in four leaders has considered giving up a leadership position, mostly because of a desire to pursue personal or career goals.

While leaders seem more motivated than ever, a substantial percentage wonder if their jobs are worth it. When asked if they have ever thought about giving up their leadership positions for a non-leadership role, about one-quarter (24 percent) indicated that they have. We also asked leaders to tell us why they considered giving up their positions. The most common reason for thinking about dropping out was a desire to redirect efforts toward other goals, either personal or career-related.

GROWING LEADERS

In the future it will be more difficult to fill senior leadership positions.

HR professionals in our survey are seeing evidence of a labor shortage as they peer into the future, especially at the senior leadership levels. Most (66 percent) believe that it will be more difficult to find senior leaders in the future. The same trend is consistent in all the geographic regions in our study.

While about half of organizations have a succession plan, there's no evidence of increased use of such plans over the past two years.

A little more than half (55 percent) of the organizations in our sample have a succession plan, although they expect an increase in internally filled leadership positions—a real

contradiction given the previous finding. There has been virtually no change in the percentage of organizations with succession plans in place since 2003 (54 percent). Internationally, some regions appear to be doing a better job, with Europe leading the way.

Organizations predict an increase in their use of internal promotions to fill leadership positions.

While organizations are considering several new, creative ways to fill senior leader positions, many are looking within their own ranks to identify future leaders, and see that approach continuing. A little more than one-third (37 percent) of HR professionals foresee an increase in the number of leadership positions filled by internal candidates. Although the increase is not as strong as in past years, the trend toward internal promotions continues.

THE PRESSURES ON LEADERS

Between one-quarter and one-half of leaders at all levels think too much is expected of senior leaders today. This finding varies greatly by region.

We asked both leaders and HR professionals if they thought people are expecting too much of senior leaders today in terms of personal attributes, skills, and expertise. Nearly half of leaders (45 percent) and about two-fifths (38 percent) of HR professionals agreed or strongly agreed. Leaders in Asia are much more likely to believe that expectations are too high (72 percent). In other regions, such as the United States and Canada, Europe, and Australia and New Zealand, leaders are much less likely to think that expectations of leaders are too high (22, 27, and 28 percent, respectively).

Three out of ten leaders have problems with work/life balance.

The average leader works 51 hours per week. When one adds the pressures of a family and other personal obligations to that weekly schedule, it's easy to see why leaders can become overwhelmed while trying to balance all their obligations. Some leaders can manage these pressures; but at least 3 in 10 (30 percent) are finding it much tougher to strike a balance. Even so, we found that the majority of leaders is willing to give up even more of their personal time if it means that they can rise to higher levels of leadership.

Personal ambition and need for achievement drive many leaders to work/life imbalance.

Of the leaders who do not have a good work/life balance, 72 percent indicate that their problems stem from the excessive amount of work they are expected to handle. Less than half of all those we surveyed—39 percent—say that they have control over their work/life balance. True, some leaders are overloaded with work and have little control over how much work they are able to complete. At the same time, certain positions and industries thrive on a fast-paced work environment where leaders are expected to manage many projects and responsibilities.

THE DRIVE TO BE A LEADER

Three-quarters of leaders want to be promoted, mostly because they want to broaden their skills and make an even greater contribution to the company.

Many first-time leaders have high ambition and want to climb the corporate ladder. In some cases they are driven by ambition, but many indicate that their drive to lead is fueled by a desire to grow and contribute to the organization. We found that a little more than

three-quarters (77 percent) of leaders want to be promoted to higher levels of leadership (39 percent are highly motivated). When asked about their motivations for advancement, by far the most common reasons were the desire to grow and the desire to make a greater contribution to the company.

Most leaders arrived in their positions by working their way up the ladder, though other routes are possible.

In our study, most leaders believe that leadership is an acquired skill. When asked about their skill level when they first took on a leadership position, 64 percent indicated that they had to develop their leadership skills. In addition, we asked leaders how they arrived in their current leadership positions. Results of a statistical cluster analysis revealed four primary paths to leadership:

- > Born to lead
- > Rewarded for success
- > Groomed
- > Self-made

While these paths are not mutually exclusive, they do illustrate that the road to leadership can be driven by a mix of experiences and influences. The most common path was to work up the ladder (i.e., self-made). The second most common path entailed being seen by others as a leader from the outset (i.e., born to lead).

CONCLUSIONS AND RECOMMENDATIONS

Align leader success profiles with business needs—Development programs are most valuable when they develop leaders in a way that helps the organization address its business needs. To accomplish this goal, organizations should focus their HR programs on leader success profiles (e.g., competency models) that support the business model.

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Base selection and promotion decisions on skills and motivation to lead—To ensure the success of internal promotions, organizations need to assess skills relative to the job in question. Additionally, an assessment of the candidate's personality and motivation to lead can help the organization understand if the person will be successful in his or her new role.

Accurately diagnose leader skills—After defining leader success profiles, organizations need to objectively measure leadership capacity. Doing so will produce an assessment of organizational and individual strengths and development needs. Methods such as 360-degree assessments, role plays, and in-basket exercises provide a wealth of information for development.

Identify leader potential early on—To be successful, an organization needs an effective identification process that focuses on the hard-to-acquire skills, traits, and abilities that characterize people who will grow into strategic leaders capable of driving business performance.

Win the support of senior management—Our results show that retaining talent is one of the key concerns faced by senior leaders today. When senior management is involved in the development of the organization's leaders, those leaders feel valued, and the development program receives an extra boost of energy.

Ramp up the role of coaches and mentors—The individualized direction of coaches or mentors help leaders identify their needs, focus their behavior, and overcome obstacles that might otherwise seem overwhelming. Leaders in our study find coaching and mentoring to be very valuable, and it's clear that this approach plays a critical role in development.

Include "learning by doing" options in a mix of development offerings—The most effective development efforts include real-life experiences and targeted coaching from experienced mentors. There is no substitute for trying out new approaches and skills in the workplace and receiving immediate feedback. The best leadership development programs should still include traditional methods such as classroom training but should better integrate training with the daily demands faced by leaders.