EXECUTIVE SUMMARY

LEADERSHIP FORECAST: 2003-2004

AN EXECUTIVE SUMMARY BY

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INTRODUCTION

The Leadership Forecast first appeared in 1999 and has been updated in 2001 and with this 2003 study. This study outlines the results from the previous studies and draws conclusions about trends and changes over time. The full report contains additional findings and conclusions beyond the scope of this executive summary.

Respondents to the survey included 1,572 leaders, 1,461 associates, and 117 HR representatives from 14 countries around the world. The sample involved both public and private organizations (31 percent were manufacturing organizations), with the large majority (81 percent) having more than 1,000 employees. The leader and associate samples represented a wide range of levels and responsibilities.

Study Objectives

1. Determine current perceptions of leader strengths and capabilities.
2. Document the processes used to recruit, select, and retain leaders.
3. Identify the most prevalent and useful leader development practices.
4. Identify differences in perceptions of leadership based on perspective: human resources, leaders, and associates.
5. Link leadership to productivity and employee engagement.

CONFIDENCE IN LEADERSHIP

The majority of organizations still do not have high confidence in their leaders' abilities; however, confidence has increased slightly in the past two years.

Perceptions of leader confidence were collected from three sources in each participating organization: leaders, line employees or associates, and one HR professional. For all three sources, less than half (38 to 46 percent) had high confidence in leaders' abilities.

Organizations have the least confidence in their first- and mid-level leadership.

HR professionals, leaders, and associates all were asked to provide confidence ratings for first-, middle-, and senior-level leaders. Results revealed that organizations have the least confidence in their first-level leaders and the most confidence in their senior-level leaders. In confirmation of the 1999 and 2001 findings, the lowest ratings of confidence in leaders came from associates.

CRITICAL LEADER COMPETENCIES

The current study assesses the strength of leadership across a broad set of competencies. Leaders, HR professionals, and associates rated the strength of each competency and the importance of the competency for overall job effectiveness. Across all levels, leaders were most likely to indicate that they needed to be strong in a range of competencies, across multiple domains of skills.

DDI COMPETITIVE ADVANTAGE. REALIZED.

Most critical leader competencies across all levels:

- Adaptability—Being flexible and open to change.
- Communication—Explaining ideas clearly.
- Decision Making—Making logical, well-informed decisions.
- Building a Successful Team—Pulling people together toward a common goal.
- Managing the Job—Prioritizing tasks and managing time effectively.
- Continuous Learning—Picking up new skills or capabilities.
- Building Customer Loyalty—Being responsive to others' needs or requests.
- Stress Tolerance—Handling crises or stressful situations.
- Building Strategic Working Relationships—Networking or building relationships with others.
- Problem Assessment—Analyzing and understanding problems.

Compared to four years ago, leaders report lower competence and more weaknesses relative to their job demands.

Leaders indicate that they are strong in only 32 percent of all competencies rated in the survey. This distribution represents a significant shift from ratings four years ago in the 1999 Leadership Forecast Survey. In 1999, leaders rated 45 percent of the competencies as strengths. Although leaders have become much more critical of their own skill levels, associates' ratings of leader skills have remained stable. Overall, the percentage of leader compe tencies rated as strengths by associates remains at about 40 percent (41 percent in 2003; 40 percent in 1999).

Leaders feel increased pressure to perform and are being judged more stringently.

In support of the previous finding, the work environment has become more demanding and performance expectations have increased. In the past four years, most organizations have faced tougher financial times and asked leaders to take on more and different tasks, often with fewer resources at hand. A large majority of leaders agree that there is more pressure to perform (74 percent), and that their performance is being judged more stringently (64 percent).

IDENTIFYING AND RETAINING LEADERS

Most organizations (78 percent) continue to have difficulty finding qualified leader candidates.

While economic conditions in 2003 may be tough and many people are looking for jobs, scarcity of leadership talent still remains a critical issue. The organizations in this study don't have a large bank of qualified candidates to fill vacant leader positions. A large majority (78 percent) said that it is still somewhat or very difficult to find qualified candidates. In the 2001 study, 82 percent of respondents indicated it was somewhat or very difficult; in 1999, the figure was 74 percent. Half (50 percent) of the organizations also indicated that it will become either more difficult or much more difficult to find qualified candidates in the future.

Almost half (46 percent) of organizations do not have a systematic process for identifying and developing candidates for leadership or management positions (i.e., a succession plan).

Even though a good succession management process can increase the chances of leader success, about 46 percent of the organizations do not have a succession plan in place for their leaders. This figure is notably higher than the 2001 study, which indicated that 37 percent of organizations did not have a succession plan. It is unclear why there are fewer organizations with succession plans today. It's possible that the changing economic conditions have led organizations to focus more on cutting costs and improving the bottom line and less on promoting succession planning.

More than one-third (37 percent) of organizations feel that their ability to identify people early on with leadership potential is a weakness.

The low frequency of use for succession planning is surprising given that it is difficult for organizations to find qualified candidates. More than one-third of organizations feel that they have a weakness in the area of identifying leadership potential early on. In addition, few organizations cover lower-level positions (e.g., individual contributors, first-level functional supervisors) with a succession plan. The coverage for leaders overall appears to be quite low. On average, organizations cover only 35 percent of management and leadership positions with succession plans.

When a succession management system is not in place, half of internally sourced top management positions fail.

Succession management plans ensure that that the individuals filling those leadership positions have the right level of potential and experience for long-term success (i.e., staying in the position and being considered successful). When asked to estimate success rates of top management positions filled internally, organizations with succession management plans had a 70-percent success rate. Organizations without a plan achieved success with only 49 percent of their internal promotions. Internally sourcing without a good succession plan can cost the organization large amounts of money, especially when considering costs associated with poor performance and finding replacements.

LEADER DEVELOPMENT

Although satisfaction is still low, leaders have become more satisfied with the quality of leadership development offerings. HR perceptions of quality have remained stable.

Slightly more than half (54 percent) of leaders are satisfied with the development opportunities they are offered. This rating is a notable improvement over the 2001 study rating of 41 percent. While many HR professionals felt that their programs were of moderate quality (48 percent), the remaining 52 percent were almost equally divided between high- and low-quality ratings. Only 25 percent of programs are meeting with success, but just as many (27 percent) are floundering and failing to meet leaders' needs.

Funding for leadership development will continue to increase in the future. Most of the increase in funding will go to middle-level leaders first.

In the upcoming year, most organizations (63 percent) will increase the amount of money spent on training and development activity for leaders. For a large proportion (44 percent) this increase will go beyond the adjustments made to cover inflation. Compared to the 2001 study, organizations are investing more money in leadership development. Today, the pattern in funding seems to be increasing. Organizations indicated that middle-level leaders would receive the greatest increase, followed by first-level and senior-level leaders.

The most effective leader development programs involve use of special projects or assignments.

HR professionals provided ratings of how frequently they used different leader development programs and their effectiveness (1 = Not effective; 4 = Very effective). Overall, few of these development activities have changed in frequency when compared to the practices cited in 2001. Organizations continue to provide most of their learning resources through traditional, in-house, classroom delivery methods. Special projects and assignments are the second most common method for development. Traditional in-house workshops also are one of the more highly rated programs in terms of effectiveness; however, when examining effectiveness ratings, special projects and assignments are clearly the most valuable.

The number of organizations offering Internet- or intranet-based learning options has increased dramatically.

In 2001, only 37 percent of organizations offered online learning. Today, about 59 percent of organizations support online learning in their leadership development initiatives. Unfortunately, with an average effectiveness rating of 2.20 (on a 4-point scale), online learning is one of the lowest-rated methods of leader development. Nevertheless, more leaders are open to the idea of online learning. In 2001, 54 percent of leaders found the idea of learning on their own using the Internet/intranet to be appealing. In the current study, 63 percent of leaders find it appealing. While online learning is becoming more appealing to leaders, the percentage of programs delivered in the classroom has remained steady over the past two years.

IMPACT ON THE BOTTOM LINE

Employees with strong leaders are significantly more productive than associates with weak leaders. In an organization with 10,000 employees, this can equate to more than $28 million in productivity dollars.

Employees with the strongest leaders outperformed employees with weaker leaders. In other words, employees were better able to achieve their goals when they worked with strong leaders. When converting this performance into dollar values based on employee salary, the difference in productivity can add up quickly. For example, if an employee is paid $35,000 per year, one percentage point of productivity equals at least $350. Across multiple employees, a modest improvement in productivity can yield sizeable returns. Leaders play a critical role in guiding and maximizing the outputs of their direct reports. Without strong leaders, employees will not be able to achieve as many of their goals.

Work groups with strong leaders are about 37 percent more likely to outperform work groups with weak leaders.

In addition to individual productivity, leaders also have a strong impact on work group productivity. Leaders must coordinate work, run meetings, mediate conflicts, remove barriers, and perform many activities associated with the effective functioning of a team.

When asked to indicate how their work group compared to other work groups, employees with strong leaders were much more likely to indicate superior performance levels. Interestingly, work groups with weak versus acceptable leader strength were not strongly differentiated. The real benefits appeared when strong leaders brought their work groups to exceptionally high levels of performance.

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Employees with strong leaders are more satisfied, engaged, and loyal than employees with weak leaders.

The study also compared non-financial success measures related to the strength of leadership. Employees and work groups can have high productivity and yet still decide to leave the organization. Leaders also must pay attention to the needs and motivations of highly desirable employees to ensure their continued employment. Employees with strong leaders were significantly more satisfied (17 percent higher), engaged (12 percent higher), and loyal (20 percent higher) than those with weak leaders.

CONCLUSIONS & RECOMMENDATIONS

It's harder to be a leader today and the pressure is building. Good people are hard to find so it's important to invest in a high-quality selection system and succession management plan. Development and support of first-level leaders is one of the most critical things you can do to promote organizational success. In particular, leaders should develop skills for coaching, delegating, and guiding the development of others.

Additional conclusions are described in the full report.

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