



WORKING RESOURCES

Helping Companies Assess, Select, Coach
& Retain Emotionally Intelligent People

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Volume V, No. 6

Newsletter

The Leadership Void: The Problem That Isn't Going Away

Most executives and HR specialists know a large percentage of baby boomers will retire over the next five to 10 years—and with them, 50% of the CEOs of major companies. But as with Hurricane Katrina, we see it coming and aren't doing enough: We remain woefully unprepared.

Some 75 million U.S. workers will retire soon. The talent to replace them will be chosen from the next generation of only 45 million available workers. Globally, with economies growing rapidly, the demand for leaders is outstripping the supply.

A huge leadership void is looming, and major companies are unprepared to meet this challenge. This problem isn't going away. With a shrinking pool of talent to choose from, the stakes and costs will be daunting.

Most organizations are not yet facing the problem because it hasn't hit them. Luckily, it's not too late to develop a healthy supply of leaders. Time, however, is running out, as CEO and top-level talent requires development.

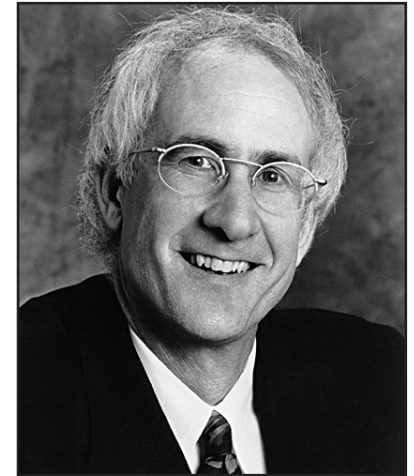
A few organizations have invested heavily in leadership development, and they're already seeing a handsome return on investment. In fact, the top 20 companies for leadership development show significant bottom-line advantages.

Top 20 Companies for Leaders

To answer questions about who's doing it right and the leadership development practices that should be implemented, the Hay Group, in partnership with Chief Executive magazine, surveyed 1,279 top companies worldwide. Of these, 564 completed the survey.

The top 20 companies for leaders in 2006 were:

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Dr. Brusman is a highly sought-after speaker and workshop leader. He facilitates mission, values, and vision retreats.

"Maynard Brusman is one of the foremost coaches in the United States. He utilizes a wide variety of assessments in his work with senior executives and upper level managers, and is adept at helping his clients both develop higher levels of emotional intelligence and achieve breakthrough business results. As a senior leader in the executive coaching field, Dr. Brusman brings an exceptional level of wisdom, energy, and creativity to his work." – Jeffrey E. Auerbach, Ph.D., President, College of Executive Coaching

He has been chosen as an expert to appear on radio and TV, and in the *Wall Street Journal* and *Fast Company*.

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1	General Electric	11	Dell
2	Procter & Gamble	12	Microsoft
3	Pepsico	13	Novartis
4	Citigroup	14	Verizon Comm.
5	Johnson & Johnson	15	Nestle
6	HSBC Holdings	16	Lockheed Martin
7	BASF	17	GlaxoSmithkline
8	Home Depot	18	Amgen
9	IBM	19	Hewlett-Packard
10	Coca-Cola	20	BAE Systems

Here's how the list was derived:

1. Companies were asked how well they rated the effectiveness of leadership development in their organizations and whether they believed they had enough of the right kind of leaders to move their business forward.
2. Leaders in a variety of roles were also asked to rate their peer companies on the quality of talent management.
3. A number of leading executives from global search firms, as well as academics specializing in leadership, were asked a variety of questions about the best companies for leadership development.

Shrinking Pools Everywhere

Does it matter that there will be 30 million fewer workers in the United States (and a similar drop in Europe)? If we're talking about only a handful of CEOs, surely there must be enough quality people within those millions.

But unfortunately, the talent pool is shrinking proportionately to the overall loss of workforce numbers, meaning it's harder to find qualified people for the top jobs.

The Corporate Leadership Council reports 97% of organizations can identify significant leadership gaps; 40% say these gaps are acute.

The National College of School Leaders in the United Kingdom has announced it's running out of head teachers. And the American Medical Association is concerned because 60% of the CEOs of the largest healthcare systems are retiring in five years.

In the United States, 50%-75% of senior management is eligible for retirement by 2010, including 50% of CEOs.

According to The Economist, "Senior managers in India and China are particularly scarce." Several Indian companies have been forced to recruit Western CEOs.

Populations may be rising in developing countries, but the demand for leaders is escalating, too.

Why Good Leaders Matter

A massive body of research conducted over the last 60 years shows good leadership is reflected in bottom-line results. One study noted that general managers who created high-performing, energizing climates outperformed those who created neutral or demotivating climates, delivering margins double their size.

In the top 20 companies cited, each had more leaders than the average, were happier with their quality and were more committed to leadership development.

Astonishingly, the five-year shareholder return for the top 20 versus their peer groups showed the best companies for leaders outperformed the S&P significantly. The companies that excelled at leadership development showed a return of 4.07% versus the peer group at 0.54%.

Leadership itself has risen in value, too. The value of "intangible assets," including everything from skilled workers to patents and branding, has ballooned from 20% of companies' value in the S&P 500 to 79% today.

According to the Corporate Leadership Council Survey (2006), 60% of employers see high-potential employees as 50% more valuable than the average worker, and 15% regard them as 100% more valuable.

Home Grown Versus External Imports

The Hay Group's research shows the most successful companies develop their own leaders. Recruiting from the outside is a risky strategy.

The Harvard Business Review states "top performers who join new companies...are unusually slow to adopt fresh approaches to work, primarily because of their past successes, and they are unwilling to fit easily into organizations..."

Furthermore, a recent study of 1,000 U.S. companies showed annual turnover among senior managers jumps dramatically when a new CEO takes the helm, especially when he or she comes from the outside. There's a 17% turnover with a new CEO appointed from within the firm, as opposed to a 25% turnover among all executives with a new CEO from outside the organization.

Organizations that identify and invest in their own supply of leaders can look forward to more loyal executives who are a better cultural fit and more likely to deliver results.

Leadership Incubation: Time Is Running Out

Hay Group research shows it takes around 10 years to develop the skills needed for a senior leadership role. If your CEO is one of the 50% set to retire in 5 years, you don't have much time, especially if your organization lacks an effective leadership development program.

In a survey of some 4,000 hiring managers, Washington's Corporate Executive Board was told candidate quality had declined by 10% since 2004, and the average time to fill a vacancy had increased from 37 to 51 days.

More than one-third of these managers said they had hired below-average candidates "just to fill a position quickly."

Best Practices

Here are some questions worth examining:

1. What are the top 20 companies doing to ensure more and better leaders, ready to step up quickly?
2. Which practices set them apart from their competitors?
3. What steps can companies take to prepare for the leadership void?

The top 20 companies were more likely to have a formal process for identifying high potentials. They don't necessarily rely on line manager nominations; rather, they collect and debate benchmarking data, which enables them to select according to best in class.

The top organizations are also likely to have separate career tracks for high-potential professionals and formal programs designed to accelerate their development.

Three proven leadership development practices help ensure success for high potentials:

1. Coaching by a trained internal coach
2. Mentoring by another senior manager/executive
3. Rotational job assignments

The research also highlighted two specific activities focused on mid-level managers:

1. Web-based self-study programs
2. Executive MBA programs

According to Mary Fontaine of the Hay Group, "A motivating work climate, a commitment to leadership development and training for teams account for over 60% of what predicts a company is going to have the right number and the right quality of leaders."

A Motivating Work Climate

A climate conducive to leadership development requires interventions at the individual, team and organizational levels. You can't expect individuals to make a difference if there's no support for them throughout the organization.

At the CEO level, this means a considerable amount of time and energy devoted to making leadership work.

- A.G. Lafley of Procter & Gamble spends one-third to one-half of his time on leadership development.
- Wayne Calloway of PepsiCo reported spending two-thirds of his time identifying leadership talent for the future.
- Sam Palmisano of IBM spends at least two solid weeks doing nothing but reviewing high-potential leaders.

Growth Factors versus Derailers

Organizations should take into consideration growth factors and derailers to identify high-potential talent. Certain deep-seated traits can affect a person's ability to learn and develop over time. Here are four identified by the Hay Group:

1. Beyond-the-boundaries thinking: the ability to address issues conceptually, think strategically and creatively, and translate complex concepts into reality.
2. Curiosity and eagerness to lead: the desire to take on different and challenging assignments, thus gaining new skills and knowledge to apply in other areas.
3. Social understanding and empathy: the desire and ability to understand others—not just what they say, but the meaning and feelings behind the words, so as to motivate and influence.
4. Emotional balance: a sense of emotional resilience and realistic optimism. Top managers and executives bounce back from adversity, are not overwhelmed by difficult situations, and keep others positive and motivated.

In contrast, derailers deter a person from growth and performance. Here are a few examples:

1. An inability to listen
2. Lack of self-control
3. Pessimism
4. Self-centeredness
5. Know-it-all
6. Not a team player

Other derailers are created when organizations move people around ineffectively. When a high potential moves too quickly from role to role, learning from experience diminishes.

Job Rotations

The top 20 companies believe it's more effective to expose high-potential candidates to a broad range of hands-on experiences with real responsibility. Stretch assignments provide a breadth of experience and greater perspective.

In and of themselves, however, job rotations are not developmental experiences, unless the individual is provided the framework for what he or she is supposed to learn. There must be some kind of mentoring or coaching to provide this framework.

How People Grow

Many leaders don't understand how managers grow. Training is not the key to development; it is job experiences, coupled with coaching, feedback and mentoring.

Many managers feel uneasy with the emotional and personal involvement effective talent development requires. Being a good coach or mentor requires knowing and discussing people's talents and potential in ways that may seem intrusive. Many managers are uncomfortable doing this. As such, external executive coaches are often used to help with leadership development issues.

Companies that are successfully developing their high potentials are stretching them in new job assignments, but with mentoring, coaching and continual review to help them swim instead of sink.

Great leaders exist in every generation. It's just a matter of finding – and keeping – them.

A joint survey by the Hay Group and Human Resources magazine revealed only 20% of CEOs are confident their talent management processes can deliver the executives needed to win in the future.

Preparation is the key to filling the leadership void. Time may be slipping away, but the steps organizations can take to implement effective leadership development programs are clearly defined. Implementing them will yield results quickly.



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