



Worth Noting

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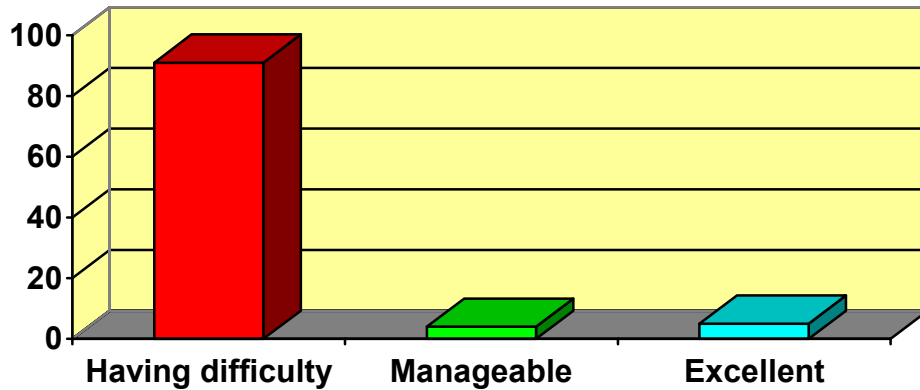
Worth Noting is the weekly management journal of research and conferences company L21. It is focused on management strategy issues of relevance to senior executives.

Leadership and Talent Development

Finding leaders is never easy. Every senior CV touts its leadership abilities and provides the usual platitudes about the author's expertise in managing teams and so on. But as we all know, managers who also know how to lead are rare. Because of its intangible nature, it can be hard to quickly identify leadership ability within a candidate. Often, a flashy personal manner is mistaken for vision. Rarely do leaders emerge, and when they do, the market becomes aware of them very quickly. Accessing the talents of leaders is an issue which is never far from the minds of senior executives in major corporations.

A recent report by DDI Consultants and endorsed by the Australian Human Resources Institute found Australia lagged behind in the global race to develop corporate leaders. According to the report, the talent pool of future corporate leaders is shrinking and in a decade, an increasing number of companies will face a significant shortage in managerial talent.

Australian Company Experiences in Finding Executive Talent (%), 2001



Source: DDI Consultants

The chart above suggests that even now, 9 in 10 firms are having difficulty in finding the right talent. This 'crisis in executive leadership' is, according to many reports, a global trend.

To some extent, Australia is a victim of population trends that cannot be blamed on poor management practices. Critical causes include the impact of our aging population and decreasing retirement age. For instance, a study by Crown Executive Solutions suggests that by 2012, the supply of executives aged 35-44 is expected to decline by 15%. And executives in their 50s and 60s are retiring earlier than ever before.

Australia also faces its own peculiar difficulties of relevance to the drain of management talent. The country is too small to compete with bigger international markets that offer bigger salaries; the breadth of experiences available overseas cannot be matched by Australia; there are opportunities in rapidly developing countries such as China that cannot be matched by the relatively modest growth rates we see locally; and so on. There is no shortage of defeatist thinking when it comes to explaining Australia's difficulties in maintaining management talent. But there are also positive steps that can be taken by Australian employers to stem the tide.

Executive Development: More than Just a Nice Idea

A 2001 study by KPMG in the UK found that the average share price growth of companies in the FTSE index which were regarded by their staff as good development work places was six times higher than the growth in the average index in a five year period from 1996 onwards. While there is a degree of chicken-and-egg to this study (booming share prices might cause staff to appreciate the development environment, after all) an underlying truth remains.

Conversely, the impact of a company losing executive talent or not realising potential talent through poor development is manifold.

There is the obvious impact from the loss of skills. This amounts to an unrealised investment in the sense that resources put into an employee have not born fruit within the company. For example, in a survey by DDI, the average first-year cost of a new senior executive was calculated at US\$750,000. This includes compensation, recruitment, selection, relocation, training and development. In the UK, KPMG estimates that each staff turnover costs the company 150% of that exiting staff's annual salary when rehiring from outside.

A senior departure also has the effect of leading to a loss of morale which can contribute to further staff losses down the track. Moreover, the loss of key talent and the inability to quickly locate top talent makes it more difficult to attract additional quality executives. The revolving door of executive employment and the resulting atmosphere of uncertainty also make it difficult for existing executives to expect to have long-term plans with their current firm. As is the case with most things, momentum matters.

Poor Practices in Executive Development

In Australia, there is a tendency to blame the macro factors we discussed above for the difficulties in attracting and retaining executive talent. In our view, these factors are less significant than simple execution errors committed by local corporations.

According to a comprehensive research study by DDI, almost 70% of international companies surveyed did not believe that they were well prepared to deal with issues of identifying and developing leadership and managerial talent within their companies. Australia almost certainly lags the international standard in this area.

Australia's weaknesses in this area include:

- Succession planning
- A lack of emphasis on leadership skills as opposed to technical skills
- Short-sighted retrenchment practices

It is worth making one comparison to hammer the point. Companies in Australia and worldwide spent billions in guarding against computer glitches with the Y2K scare. That is understandable since such glitches, had they occurred, would have had a dramatic impact on corporate performance.

But what about the impact of a loss of executive talent? Few drivers of shareholder value exceed that of the company's ability to attract and retain top leadership. It is remarkable, then, that such minute investments are made in

strategies to develop and retain leaders. Because matters such as succession planning, leadership development and so on are intangible, they tend to get less emphasis than other less important (but more measurable) factors affecting corporate performance. This is particularly the case in Australia.

The point is that talent has to be conscientiously developed. In some ways, this has been one of the clear lessons of leading global management consulting firms – there is an emphasis on clear methods of employee development at the highest level of the firm. Hence, new talent within many of these firms generally do not feel like ‘they will hit a brick wall’ at a certain level if they want to continue within the firm.

To emphasise the point, the DDI survey suggested that only 8% of companies were ‘very confident’ that they could cope with an impending crisis due to the lack of executive leadership. Of these 8% of firms, the vast majority gave explicit focus to leadership development.

Developing Corporate Talent

Obviously there is no magic bullet: developing talent is hard work, and varies with the circumstances of the company. However, there are some clear principles which, in our view, are important in improving executive development processes within companies.

(i) CEOs must lead

Some CEOs give the impression of thinking that talent development programs are soft, have a minimal impact on profitability, and are better confined to HR text books. When this is the case, consider leaving the company.

We generally know that a company’s top management emphasises executive development when there are a significant number of senior promotions from within over a period of time. Woolworths is a shining example of this and it is no surprise that the supermarket chain constantly boasts about the unprecedented resources it commits to training at all levels. Another example is Wesfarmers who generally replace top executives from within given the priority the company has given to executive development. The reverse also applies: companies that chronically search outside for executive talent are neglecting their own internal talent pool. How often have you heard an executive say “I am worth more to the guys down the road than I am to my current employer”.

Nine times out of ten this makes no economic sense, and yet is factually true. An executive who has spent ten years at Company X will generally be more valuable to Company X than another employer, given their depth of knowledge of the X business and so on. But, fascinated by the jewels owned by competitors, CEOs often reward an import from X more than a comparable internal candidate. Such

an attitude shows a lack of a clear talent development strategy, and sends a message to internal leaders that their skills might be better valued elsewhere.

Personal mentoring can often be seen as an airy fairy indulgence or dismissed as a trendy new age development. Quite often it is, because companies from the top down do not fully commit to it and the whole process lacks substance. But strong evidence shows that the firms that do commit to it properly are the ones that have strong executive resources from within to promote.

(ii) Internal processes need to be sharp

Of course, it is not much use having a CEO gung ho about executive development when there is a systematic inability to identify talent and potential. From our analysis of systems in place in firms that do well in this area, a few common factors emerge.

First of all, the skills which differentiate leaders are rarely hard skills – analytical, numerical abilities etc. Studies have shown that in developed countries such as Australia, there is no shortage of employees with good levels of analytical skills. The differentiating qualities are therefore softer ones – adaptability, strategic conceptual thinking, receptivity to change and new ideas as well as those ‘people skills’ that EI (Emotional Intelligence) analysts always speak about.

Second, in locating and developing these skills, the problem is that most companies have a very ad hoc approach. For example, what generally happens is that a potential leader is given any assignment which may arise. From this assignment, it may or may not become clearer as to the capabilities of that employee. Rarely will the assignment be designed in such a way as to test the leadership abilities of the executive.

A recent study by a US personnel intelligence firm, Schiemann & Associates, looked at a cross section of well over 100 firms with revenues between \$27 million and \$50 billion. They found that a high percentage of measurement-intense firms were identified as industry leaders and that the biggest measurement area separating successful from less successful firms was employee measurement. The survey also found that 93% of the measurement-intense firms reported agreement among top management on strategy, versus only 37% of the non-measurement-intense firms.

We often make the point that measurement is at the heart of all great companies, and this extends into the area of executive development.

(iii) Focus on building generalists

Developing executive talent to a large extent means developing good generalists. The problem is that in most work places those who could become top shelf talent

get stuck in their functional straitjackets and develop only within this straitjacket. Of course, specialisation is a key economic principle and a company that discards it won't be around for very long. But at the top, generalists are required to be able to analyse and act upon new opportunities, understand new threats, lead change when it is required, and so on. Technicians don't build empires, generalists do. Every serious company needs at least a handful of generalists of high quality.

(iv) An old-fashioned idea: manage people well

Potential talent is lost through bad management by senior executives – this seems an obvious point not really worth making. However, what makes it so crucial for us is that multiple surveys show that by far the main reason why people leave their jobs for another is not because of better salaries or more prestigious promotion opportunities – it is because of conflict with senior management and complaints about poor leadership and development opportunities from above. Talent leaves when it isn't properly respected, and CEOs and other senior executives who don't manage relationships well are a liability to companies trying to develop leaders.