

Survey: Few Organizations Are Developing the Leadership Pipeline

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By 2010 to 2015, the baby boomer generation will begin retiring in large numbers, leaving many organizations short of leadership talent. A recent survey from RHR International shows that three-quarters of companies are not confident that their existing pool of talent will meet future needs, and half of the respondents indicated that they are anticipating the loss of 50 percent of their current senior management by the year 2010. In spite of this drain on leadership, the survey revealed that most organizations are not emphasizing succession planning and executive development—57 percent of organizations surveyed have been identifying and developing high-potential talent formally for less than three years.

“We’ve known for a long time that there is going to be a shortage of talent as the boomer generation starts to retire between 2010 and 2015, but we’ve found that 75 percent of the respondents in this survey were not confident in their ability to meet future growth needs with the current talent,” said Guy Beaudin, managing director of RHR International. He added that most organizations surveyed had been identifying and developing their bench strength for less than three years. “When you think about all the different steps you need to move someone through from the day they enter the organization to the time at which they’re ready to take on serious responsibilities, three years is really nothing—it’s just a drop in the bucket compared to the kind of time you need to really build a pipeline of talent in the organization,” Beaudin said.

Beaudin pointed out that in addition to anticipating a loss of 50 percent of their current leadership, many organizations are expecting to rely on external talent to replace lost leaders more than 25 percent of the time. “The vast majority of companies surveyed reported they’ll need to reach outside more than 25 percent of the time to replace the talent they’re going to lose, with almost 20 percent of organizations needing to find more than half of that talent from the outside,” he explained.

In combination, these factors—changing demographics within organizations, the loss of 50 percent of the leadership, the lack of attention being paid to developing the pipeline, the need to reach for external talent to replace lost leadership—present many repercussions, Beaudin said. “If you just think about it from a supply-and-demand perspective, you’ve got a dwindling supply of talent in the marketplace, and you’ve got more organizations looking to get that talent from outside the organization,” he said. “You’ve got a smaller pool and higher demand for them, so you know the price for this talent is going to go up.”

This lack of supply coupled with a high demand for talent will create retention problems for many organizations. “They’re going to be highly mobile because they’re going to be in such high demand, there’s going to be a lot of incentive for them to hop from job to job,” Beaudin said. “So it’ll be expensive talent, hard-to-retain talent, whereas we know that if you invest money today in developing your talent, that’s going to be a lot less expensive in the long run than having to buy this expensive talent from outside.”

In fact, Beaudin said, there is a high correlation between developing high-potential talent from within and the ability to retain that talent. In another survey, he said RHR surveyed high-potential talent, and the top two things they said they were looking for were the opportunity to develop and grow, and the opportunity to advance in their career. “Not only will it be less expensive if you invest internally to develop that talent versus hiring from the outside, but you’re also going to have a talent pool that’s much more locked into your organization, as opposed to this highly volatile, highly mobile talent pool that organizations are going to be looking to hire on the outside.”

And there are other problems with finding leaders externally: According to a survey from the American Management Association, 40 percent of senior talent hired from the outside fail to see

their second anniversary within the organization. “This again reiterates the fact that you’re much better off developing that talent from the inside when you can,” Beaudin said. “Of course, it’s always good to get a certain percentage from the outside for new ideas and change, but certainly not more than 50 percent.”

So what can organizations do now to address their future gaps in leadership capabilities? According to Beaudin, the first step is to determine the organization’s medium- to long-term strategy. “I know sometimes that’s difficult to do, but you do need to at least get a sense of where your organization is in terms of its life cycle, what the challenges are that it’s likely to experience in the foreseeable future. And therefore, given the strategy, given the challenges, what kind of leadership are you going to need to lead that organization successfully into the future? Once you have a profile of what that leadership should look like, you need to assess your talent in the organization to identify who are the individuals who either currently have that leadership profile or have the most potential to develop that profile,” Beaudin said.

Companies in the study identified the leadership traits that they felt were most important. Interestingly, personal leadership traits were considered more important than business-oriented capabilities. In fact, 70 percent of the companies in the survey prioritized the ability to build relationships internally and externally, openness to change and growth, the courage to make the “right” decisions, the ability to motivate and inspire others, and level of self-confidence as most necessary for future leaders. Lowest ranked in this poll were comprehensive knowledge of the business, decisiveness and superior intellect.

While organizations should not focus all of their development resources only on their high-potential talent, they should focus more on these individuals, Beaudin said. “You should have a culture where everybody has the potential to develop and grow, but certainly you want to focus on these individuals more particularly in terms of getting them stretch experiences that will allow them to develop the skills required to lead in the future,” he said. “You want to give them the right feedback, coaching and training to develop the right skills.”

Another piece of the high-potential development plan, which many organizations do not use, should be the opportunity to reflect on learning, Beaudin said. “A lot of organizations will give these individuals a lot of stretch experiences, but no time to really integrate that learning,” he said. Also of high importance is the ability to measure whether or not the learning experience is closing the gap between potential leaders’ existing skills and the leadership profile identified by the organization.

Interestingly, Beaudin said, when RHR asked respondents what they relied on to develop senior teams, the lowest answer was monitoring for progress against goals. “This is surprising because that’s when you know that your investment is paying off, but less than half of the organizations actually do this as part of their development program” Beaudin said. “They really rely mostly on the boss—84 percent of our respondents said they rely on the boss in terms of the development of their senior team, but that’s not enough, especially in the context of organizations that have downsized. We’ve eliminated layers in the organization, so everybody has a lot more on their plate, so to rely almost exclusively on one individual to ensure the development of the high-potential staff is not realistic.”

The best way to approach all of these steps to developing potential leaders is a learning portfolio, Beaudin said. “You need to have stretch developmental experiences; you need to have an actively involved boss who will monitor their development, give them feedback and identify what other experiences they need to develop their skill set,” he said. “Adding to that, they need mentoring relationships with other senior executives in the organization; executive education programs; the use of outside coaches, peer feedback or 360-degree feedback; and a way to really monitor their progress against development goals.”

Most of the work of developing future leaders falls in the realm of the chief learning officer or other developmental professionals within the organization. But one of the most difficult parts of the process is getting budgets for a long-term payoff approved in a world focused on short-term benefits from investments. "In this world of quarterly results, we're talking about a program that will really deliver within three to five years—sometimes even longer than that if you start lower down in the organization," Beaudin said. "So you really need to have a CEO who's got that kind of time horizon in order to make that case successfully."

Fundamentally, leadership development is all about learning, putting the chief learning officer in the key position. "Chief learning officers or those in charge of the development of individuals have really been the ones who have been the caretakers of the process, really moving the organization through all the steps from defining the strategy to developing the profile to the selection of the high-potential executives to developing the learning program that is going to be attached to them," Beaudin said. "They've really been a strong partner with HR and the CEO in developing the programs, especially on the back end. Once these people are identified, that's really where the chief learning officer has primary responsibility for both designing and executing the program."