



BY WILLIAM PASMORE

Who Will Run Your Company?

Aligning leadership development with long-term strategy.

Businesses depend on leadership talent to guide them through change, solve complex problems, and build for the future. Yet countless organizations are failing—failing to adapt to change, failing to implement strategy, failing to innovate or reinvent themselves for the future—and the reason comes back to the issue of leadership talent.

Consider these sobering facts: At least two-thirds of organizational change initiatives fail; 90 percent of strategies are not carried out successfully; 95 percent of employees are unaware of or do not understand their organization's strategy. For all our management expertise, planning, and strategizing, we're too often unable to successfully implement strategic change.

And really, we should not be shocked. What outcomes can you expect if you have the plan but not the people, the vision without the talent, the business strategy without the leadership strategy?

Strategic changes in the business require strategic changes in leadership, and executives cannot assume that the leadership talent they have is the leadership talent they need. It's time to radically change how executives think about leadership capacity and how organizations develop leadership talent.

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LAST YEAR'S MODEL

Of course, executives in line for C-level jobs are well aware that leadership is absolutely critical to the success of an organization. But that rarely translates into a leadership strategy. Typically, executives focus on their own leadership effectiveness and career trajectory. They may endorse a set of leadership competencies or initiatives, mentor potential successors, or talk about the importance of leadership. But few executives invest in leadership capacity as a key component of the business strategy, and as a result, they don't really know what kind of leaders the organization needs for the future or how to develop them.

Longtime GM chairman Alfred P. Sloan was among the first executives to understand the importance of having a leadership strategy that was aligned with his business strategy. Sloan was certain that with the right kind of leadership, a complex organization could be run successfully in a decentralized fashion, and he feared that GM's growth would be constrained by the quality of its leadership. Like many CEOs since, he became convinced that his company lacked the talent needed to execute crucial new strategies; even if his existing leaders gained more experience, they would never develop the capabilities needed to think and act differently. So in 1931, he created the first university-based executive-education program, MIT's Sloan Fellows program, in an effort to educate and develop a new type of leader—one capable of doing the things Sloan knew would need to be done to achieve his vision for GM.

Working for an organization that focuses exclusively on leadership development, I meet many CEOs and executives whose organizations are seeking best practices and programs for developing leaders. Many have compiled lists of competencies that leaders should possess at different levels of leadership, but this isn't the same as having a leadership strategy. First, most competency models are based on historic, backward-looking requirements rather than being aligned with future business strategies. Second, past experience does not automatically prepare leaders to deal with a new plan or set of circumstances. Adopting a new strategy to deal with poor performance in the marketplace seems logical but may only make matters worse if leaders are unprepared to execute the new strategy. Flat sales? Expand into China. Not enough capital? Find a new partner. Circulation dropping? Go digital.

There's nothing wrong with adopting bold strategies such as these—in fact, that's exactly what many organizations need to do. But if the leadership struggles to meet their current goals, how do they expect to succeed with more challenging ones?

BP CEO Tony Hayward said in the wake of the Deepwater Horizon spill that BP simply wasn't prepared to deal with a catastrophe of that magnitude. This seems especially odd for an

organization that runs complex, high-risk oil and chemical processing facilities around the world and has adopted a conspicuous sustainability strategy around its brand. Clearly, BP didn't do the work to develop leaders who could execute the strategy the company advertised to itself and the market. The Chrysler-Daimler and Time Warner-AOL mergers unwound after it became apparent that the combined organizations lacked the leadership capabilities required to successfully meld the companies. Hundreds of Web startups fail each year because their entrepreneurial founders surround themselves with too few other capable leaders to see them through the inevitable first-year crises.

In retrospect, it's easy to identify strategic overreaching and ask, *What made you think that your leaders were up to this challenge?* As Peter Drucker famously quipped, "Hope is not a strategy." Many failures at strategic change could be avoided by recognizing the mismatch between existing leadership capabilities and those required to implement new strategies.

Whenever a company adopts a bold new strategy, pursues aggressive goals, or faces extremely difficult challenges, alarm bells should be going off in the executive suite, with lights flashing a warning: "Your leadership may not have the capabilities required to deal with what's coming next." The same applies to companies in turnaround situations, countries facing bankruptcy, organizations in which the founder is about to retire, military units operating in a new theater, venture-capital firms investing in emerging markets, organizations facing new competition, NASA adopting a new mission, companies acquiring new entities or being acquired, those fortunate enough to have a blockbuster new product to bring to market, those looking for improved synergies through global integration, organizations caught up in an environmental or PR disaster, and even those who simply want to do a little better each year.

Another problem with the typical approach to developing leadership talent is that measurement of individual competencies doesn't begin to tell the story of what an organization's leadership can or can't do. Individual competencies are essential, but they are not enough to drive change, steer organizations through uncertainty, help them adapt and innovate, or solve complex problems. Organizations facing significant change miss the mark when they invest only in individual leader development.

Learning must take place in the collective, not just on the part of individuals. Formal and informal leaders acting and working together determine whether organizations will succeed in implementing strategies and adapting to change. Breakthroughs require attention to leadership cultures and collective leadership capabilities.

CULTURAL TRANSFORMATION

So how do top executives and companies overcome stale mindsets and develop the leadership talent needed to accomplish their business strategies? Developing that talent throughout organizations requires four elements.

Strategy. To develop a leadership strategy, senior executives first must be clear about their business strategy—what they are trying to get the organization to do or become. When I ask senior teams whether they understand and agree upon the business strategy, the answer is often “no” or “not completely.” Despite the time and effort many organizations put into crafting strategies, the output remains unclear. In part, this is because what we aspire to do and what we actually do are often different, and people are confused by the difference between the espoused strategy and the strategy being practiced.

Then, understanding full well that the strategy will continue to change over time, the organization must assess its current leadership capabilities against those needed in the future. What kind of leadership is needed to deliver on the business strategy?

Once you have assessed where the organization is and where it is going, the next step is to find ways to align or trans-

form the people, culture, and organizational design so that it creates the leadership that is needed.

People. A leadership strategy addresses talent in a comprehensive way: Who are the people available to become leaders and fill key roles, and what processes influence their development? How will new leaders with different characteristics and skills be attracted, developed, and retained? Do existing leaders need to be replaced? How strong are your systems and processes for selecting, developing, promoting, and compensating the right people in your leadership pipeline? Often, talent-management and leadership-development efforts are disconnected or fractured, and key talent walks out the door.

Culture. Leadership development always occurs within an organizational context. When we ignore that context, we overlook powerful forces that shape how individuals are selected to become leaders, the influence of others around them in their development, the kinds of challenges they are facing, what happens when they attempt to work with other leaders, and the behaviors that are reinforced and discouraged. A leadership strategy must therefore address the cultural factors at play in the organization.

Senior leaders must look deeply at their own leadership beliefs and behaviors, as well as at those that establish the organization’s culture. They must explore and understand the organization’s leadership culture and then ask, *How must this culture change to allow a new way of operating that is aligned with the new strategy?*

For instance, if the culture is top-down/command-and-control but you are driving change that requires agility, speed, and innovation, you have a leadership culture that is undermining your strategy. To transform into a highly collaborative organization—what we at the Center for Creative Leadership call an interdependent culture—you must first get clear about your core leadership beliefs, ensure that your senior leaders embody them, and be personally committed to developing a new leadership culture. Are you willing to step up to change your own leadership style, push for a leadership culture that is capable of working in new ways to solve complex challenges, and tackle the business strategy?

Organizational design. Leaders do most of their learning on the job. If organizations are not deliberate about shaping those experiences, people at all levels learn less than they should or may focus on skills less essential to the organization. Senior executives must examine the organization’s policies, practices, and support for leadership development. What



elements constrain the organization and prevent it from developing necessary leadership talent?

Resources for learning, organizational structure, and specific development processes and practices should all be factored in. For example, do you rotate emerging leaders through roles in different divisions, or are they stuck in operational silos? Do you sponsor cross-functional teams that give your people exposure to different work and different ideas? How do local and global groups interact and learn?

Once a leadership strategy is conceived and the requirements for future leaders spelled out, organizations can then focus on integration—creating systems that bring together the strategy, talent, culture, and organizational design into a focused plan. From there, management can identify and design specific leadership-development processes.

DELIVERING LEADERSHIP

Many corporations are still in their infancy in tying meaningful performance management to succession planning, but this is something the military has done of necessity from the beginning. When U.S. military leaders realized they needed to “professionalize” military leadership, they created a leadership delivery system that included recruiting the right caliber of candidates, founding military academies building on the traditions of the French and Prussians, putting in place a system of on-the-job career-development experiences involving rotation among assignments, and creating a promotion system that gradually assigned increased responsibilities over time. The military established various boards to assess candidates’ qualifications for advancement, and followed strict procedures to ensure that only those fit to lead were elevated to the highest levels of authority.

Another early example of an organization creating a leadership delivery system was Motorola. During its boom years, the company recognized that its growth would necessitate placing many new leaders into critical positions in a short period of time. Without the proper training and acculturation, the result of so many new leaders moving in and up so quickly could have been disastrous, so Motorola set out to create one of the first “corporate universities,” shaping the company’s culture and capabilities by providing common leadership and business training for different levels of management. Using a different approach, Volvo, Ericsson, and other Swedish companies collaborated with the FENIX program set up by the Stockholm School of Economics, Chalmers University of Technology, Ecole des Mines de Paris, and IMIT to train some of their leaders in research skills—giving them greater internal capacity to ask and answer questions critical to their continued success.

Of course, building a corporate university or working with a partner to design a customized program for leadership de-

velopment is not a panacea. Every organization must constantly renew its leadership strategy and leadership delivery system to address its current challenges. Moreover, the organization’s culture, talent processes, and organizational design must be realigned with its leadership strategy—otherwise, more of the same type of leadership will continue to emerge regardless of how innovative the approach to leadership development might be. In a true catch-22, an organization must change fundamentally before it can build the leadership it needs to undertake fundamental change.

We believe that the way to manage this quandary is to engage leaders in strategic change, organizational development, and leadership development at the same time. To separate these three will result only in frustration and slower progress. Cardo AB, a Swedish door manufacturer and wastewater treatment company, undertook an ambitious program of assigning key leaders to undertake strategic projects combined with real-time leadership-development training. Cardo was able to measure the returns of its efforts financially and found that the projects consistently returned up to twenty-five times their cost in savings or enhanced revenues while advancing the company’s strategic agenda and building stronger shared leadership capabilities.

The leadership challenge of the North American division of KONE, an elevator and escalator company, was to work across multiple systems simultaneously and provide long-term strategic direction for the company. KONE executives and employees were very good problem-solvers and highly analytical tacticians, but their “bias-for-action competency” kept leaders in a reactive, short-term mode, operating in one system at a time, solving one problem at a time. A clear leadership strategy surfaced this issue and pushed leaders to tolerate more ambiguity and address strategic issues. KONE saw dramatic improvements in revenues and safety as it engaged leaders in learning about changing the company’s culture and processes.

Both KONE and Cardo took a radical and strategic approach to developing the leadership needed to address their business needs and challenges. They sought to bridge the gap between current and future needs, individual and organizational leadership capacity, outdated structures and new mindsets—all linked expressly to overall leadership strategy.

When leaders are unprepared for change, we shouldn’t be surprised if they struggle to implement new business strategies. When organizations do what it takes to create a thoughtful leadership strategy and an effective leadership delivery system, and make the changes necessary to allow new leadership capabilities to emerge and be applied, good things happen. ■