



Breaking the Wasteful  
Leadership Development  
Spiral



# **S**top Throwing Good Money After Bad ~

## ***Breaking the wasteful leadership development spiral***

*Do you find yourself spending thousands on leadership programs designed to fulfill your employees' expectations, rather than bring strategy to fruition? In collaboration with its UK Affiliate, Square Peg International, The Berkeley Consulting Group has been taking a fresh perspective on the topic of investing in leaders and aligning them to strategic intent. Based on our research, global thought leadership forum, and input from our client review meetings we are exploring the consequences of leadership development investment being divorced from strategy. Utilizing the image of a spiral to outline five key stages where value can be eroded, we identify what is required to correct the erosion of investment in leadership, and start to challenge the paradigm of aligning leadership to strategy. The intent of this work is to challenge organizations to stop throwing good money after bad in their race to develop leadership talent.*



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## eadership development that builds value.

So why is more research on leadership development relevant now? The issue has been around for ages but with the baby-boomers about to retire, increasingly onerous demands on corporate leaders and a whole industry focused on it, the problem of how to ensure leadership quality as efficiently as possible remains a priority for many. Our focus is on preparing individuals to lead organizations and not on the development of technical leadership skills.

We believe that in this context people are needlessly looking for ever more complex solutions to the issue. The aim of this article is to cut through that complexity and to provide a frank, simple but, we believe, powerful foundation for leadership development that builds rather than erodes organizational value.

### Our Hypothesis - The Wasteful Leadership Development Spiral

Our work on this theme is based on a three-pronged hypothesis:

1. Firstly, a number of self-perpetuating factors can combine to make leadership development investment a wasteful spiral of activity – our research confirms the nature and extent of some of these factors.
2. However, the downward spiral can be broken – our findings suggest some ways to make that happen.
3. Finally, it is possible for the investment of resources in leadership development to positively drive value. We identify the means to create a virtual circle.

### Our Research

#### International

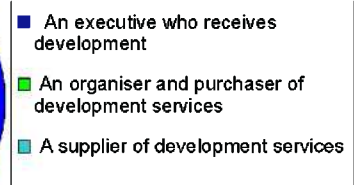
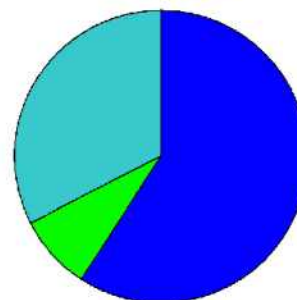
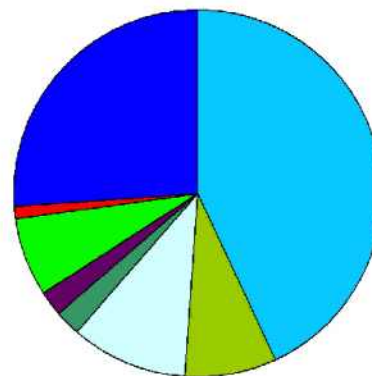
Participants in our online survey represent all five continents but importantly over a quarter described themselves as 'global multinational'. These are the growing ranks of executives who lead cross-border teams on their Blackberries from airport lounges.

#### Front Line Insight

The majority (60%) of our survey respondents were executives who have received leadership development, representing real insight into what is valued in the workplace, how current leadership development practice is perceived and what could be done better.

#### Industry Dynamics

Given the diversity of stakeholders in leadership quality, participants also included both the organizational gatekeepers and purchasers of leadership development services and the suppliers of those services – allowing us to examine and challenge some of the dynamics at work in the industry.



# Hypothesis:

*Self-perpetuating factors can combine to make leadership development investment a wasteful spiral of activity when...*

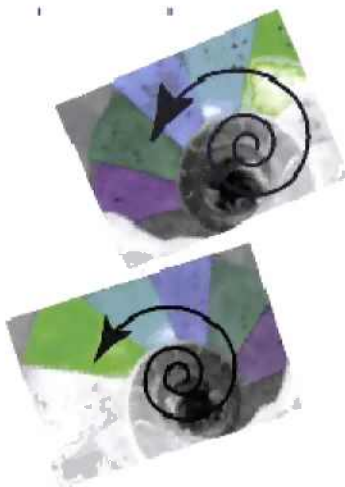
## Wasteful Step 1 — Leadership development becomes divorced from strategy.

Our research confirmed that strategy challenges are frequently not informing leadership development activity and causing investment to be misdirected. One example of this misalignment: about a third of our respondents felt that 'poor co-ordination across diverse functions, geographies and businesses' was the greatest threat to their business, yet more than half did not see leadership development addressing this critical issue.

There are many possible causes for a weak link to strategy:

### **Unclear or inadequately communicated strategy**

Earlier Square Peg and Berkeley research highlighted the huge communication and understanding gap that continues to surround strategy in organisations.<sup>1</sup>



### **Organizers and purchasers do not understand the strategy**

If the team responsible does not know what the strategy means in terms of the skills and behaviours required for success, then its hands are tied when it comes to building or commissioning something suitable.

### **The strategy itself might be shifting in response to external factors**

One organization we know for instance has been acquired, had production shut down, borne the brunt of new legislation, been a pawn in a political debate and embarked on the acquisition trail, all within a relatively short three year period. Strategy has had to shift so frequently to keep up, that its no wonder HR are left puzzling what skill sets may be required from future leaders.

### **No strategy or strategic paralysis**

Another organization we know has been part of a very lengthy takeover battle, in and out of the European competition authorities for well over a year now. In a situation like that there is a danger of a strategy vacuum and rabbit-in-the-headlights paralysis throughout the organization.

While there is a need to align leadership development activity with strategy the link is not always linear or simple.



<sup>1</sup>Beyond Lip Service. Square Peg 2004.



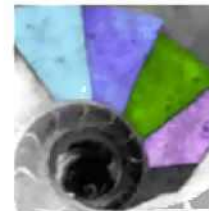
## Wasteful Step 2 — Leadership development becomes distorted by entitlement-demand.

In an environment where the link to strategy is weak or unclear, leadership development may be blown off course either by entitlement demand from individuals or by supplier push. If there is no clear direction guiding the effort then the organization will have no criteria by which to measure the appropriateness of potential activities. In these circumstances industry fads and individual whims may too easily prevail.

### **Entitlement Demand**

Whilst our survey found that organizations are clearly perceived to drive the leadership development effort, each group of respondents (including suppliers and purchasers) tended to overstate their own influence.

As far as individuals are concerned, it is future aspirations and prospects that make them seek development opportunities. The danger here lies in misalignment between the aspirations of the individual and the needs of the business. Key individuals can start to call the shots – for example, holding the organization to ransom for funding for personal development agendas.



### **Supplier Push**

When supplier push prevails, a powerful industry (recent estimates put it at a \$6 billion business in the US alone) can wield inappropriate influence over what is provided. Our findings suggest one example around the concept of qualification inflation. Only 3% of the executives believe individuals are motivated by gaining a leadership development qualification. Three times as many purchasers believe qualifications are a prime motivator — 10% — and that figure rises to a full 15% among the suppliers. There is a kind of Chinese Whispers game going on, where even with the best of intentions suppliers and purchasers form a skewed view of demand. Though the numbers here are relatively low, that skewed perception is already starting to distort supply and contributing to the wasteful spiral.

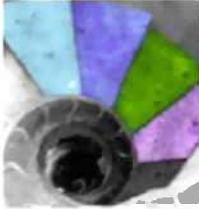
What is the result? If it is too hard to link to strategy, leadership development can be distorted and HR can get caught between individuals requesting the course they fancy and suppliers pushing the intervention they have built.

One senior executive we know told us about a program he had been dragooned onto 'to set a good example' and 'create demand for the program'. This course targets attendance by some 50 delegates over a twelve month period – an estimated annual cost of some ¼ million dollars – without even considering the opportunity costs of attendance. No doubt the course material was of excellent quality, but the appetite and need for it had not been tested – a clear case of leadership development getting blown off course.



## Wasteful Step 3 — Leadership development becomes short term and intervention-heavy.

Our research uncovered another disconnect in the timescales required for successful leadership development. Executive respondents tend to think about leadership development as a long-term activity; for them its objectives should be attracting and retaining talent and succession planning. However, for suppliers and purchasers the focus is very much on the short term; they tend to believe leadership development's objective is primarily to meet critical needs now. We also found that nearly two thirds of all the leadership development activity going on today is based in the classroom (including simulations).



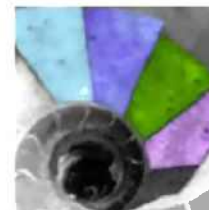
This highlights a fundamental misunderstanding of the nature of leadership. Unlike some, we do believe that leadership can be taught – it is a set of practices and behaviours that can be acquired over time. However, they take time to build and become authentic so a quick-hit course will never be enough. Developing leaders need to be given opportunities to practice without the protection of the classroom – otherwise, they will never become the true, seasoned leaders they aspire to be. Falling into this trap can be compared to trying to train gladiators without letting them pick up their swords and fight.

Another factor driving the tendency towards an intervention-heavy approach in the real world is budgets. In fact, half of all our respondents cited lack of budget as the major reason for *not* offering leadership development. Where budget does exist, of course, shorter courses that are quicker and easier to plan and implement more easily attract finance. Which brings us on to Step 4.

## Wasteful Step 4 — Leadership development is inappropriately evaluated.

The short term focus of many programs is reflected in the measurement trends we uncovered. 75% of measurement takes place only in the six months following an event. In addition there is an over-reliance on participant evaluation: in 54% of cases the most frequent means of evaluating a program was participant feedback immediately on completion. Of course feedback forms can be useful, but by their nature they are subjective, and used as a sole evaluation method, they will provide an inappropriately shallow measure of success. In this context it is not surprising that bottom line impact hardly got a look-in, only 5% of respondents mentioned it. That's because measuring bottom line impact is tough.

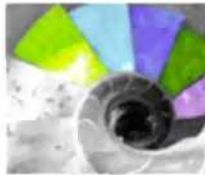
Even assuming you are clear about what your time horizon is, when you are talking about intangibles how do you put a value on the expected benefit to the organization over time – let alone start to discount it back to give a net present value? Faced with that kind of challenge a third of organizations will simply give up on developing their leaders if they believe it is too hard to measure the impact of their activity. At this stage of the downward spiral the focus can all too easily shift from measuring the value to the organization to the cost of a program's inputs.





## Wasteful Step 5 — Leadership development becomes focused on benefiting individuals more than the organization.

A final step on the downward spiral is a situation where leadership development efforts benefit the individual more than the organization. In the real world, of course, individuals will take all that they can get and we often hear tales of woe about the bright star who got her MBA then promptly left to work for the competition. It may be a challenge accurately to calculate the value of leadership development to an organization but when the recipients walk, it hurts. What can organizations do to retain staff they have developed? CIPD research this year suggests that as many as 70% of employers are still imposing some form of conditionality on financial support of learning. Yet 40% believe that to do so is ineffective.



So this raises the question of whether organizations should build leadership talent at all. We found a number of organizations (14%) that 'expect to hire leaders that can lead' already. During our thought leadership forum clients also demonstrated a sanguine approach to the war for talent, pointing out that 'what goes around comes around'. While they may lose some high performers to the market they can also hire leaders who have been developed to a high level at the expense of the competition.

If the leadership development effort is not clearly focused on the organization's requirements and dovetailing with its wider approach to selection and retention then the investment may well appear to benefit primarily the individual – with all the attendant risks. And if the investment in leadership is perceived as throwing good money after bad it will be pushed down the corporate agenda, further weakening the credibility of future activities.

## The findings support our hypothesis.

The five wasteful steps of the spiral almost never happen sequentially instead they are both mutually reinforcing and self-perpetuating, combining to make leadership development a continually wasteful endeavour. At rock-bottom the spiral is a depressing place to be and the impact is consistently negative:

- ▶ Where leadership development is not aligned to strategy the organization flounders over time.
- ▶ Where the organization lacks control its development needs are not met.
- ▶ Where there is a short term focus succession planning suffers.
- ▶ Where evaluation is inappropriate focus is diverted away from value.
- ▶ Where individuals are the main beneficiaries organizations waste time and money.



<sup>2</sup>CIPD Fact sheet July 2005. Employer Support for Learning Qualifications.

# Hypothesis:

*The spiral can be weakened and broken by...*

## Starting one step at a time —

All that is required to break this wasteful downward spiral is for leadership development to be done differently – and better – at *any one* of the five steps. A change at any level in the spiral is likely to reverberate as a positive effect into the other levels. For example, lengthening the time horizon of expected benefit alters the measures used in evaluation, shifting the focus from short term intervention to longer term programs. Such a change in thinking may support a stronger link to strategic intent as the business begins to clarify the leadership competencies it will require in its future state.

## Challenging the status quo —

Challenging the status quo typically provokes emotionally charged responses. These can range *from*: 'Leadership development is psycho-babble nonsense' — many people fail to see the value in leadership development and incline towards writing off further efforts *to*: 'Any leadership development activity is a good thing' — conversely many others believe that there can be no downside to leadership development, and if it keeps people happy there is scarcely a need for change

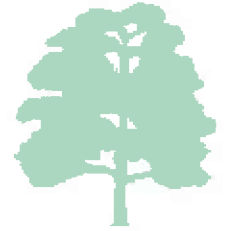
To successfully shake the spiral requires an acceptance that neither position is necessarily tenable, nor a justification for inaction.

## Building momentum —

But to create sustained improvement the objective is a change in *each one* of the five steps. The implication is a more holistic approach to leadership development, demanding a significant shift in thinking, activity and energy levels – climbing upstairs takes much more effort than tumbling down. The final prong of our hypothesis looked at how that can be achieved.



# Hypothesis:



*Investment in leadership development can drive value if...*

## Upward Step 1 — Leadership development is treated as a business strategy enabler.

Effective leadership development is about equipping the business to achieve its goals – current and future. But as we have seen, strategy itself is not fixed because the world doesn't stand still. Leadership development efforts need to have a built-in flexibility and future focus; looking ahead to define what is to be nurtured in the present.

### ***Battleship Diagnostics***

If the notion that leadership development should align with strategy is conceptually compelling and inarguable but simply not operationally relevant, what then?

New work from the Berkeley Consulting Group, goes some way to addressing this tough question. Still in its infancy, the concept has been nick-named Battleship Diagnostics after the board game of trial and error, premised on locating the opponent's battleships plotted on a grid. A player may correctly guess a grid reference of one ship and be rewarded by the call 'hit', however from his/her single reference point he/she has no way of knowing in what direction the rest of the craft lies or indeed what kind of vessel it is. Our developing approach is to adopt similar tactics in both identifying emergent strategy and inferring leadership development requirements. In this model a constant round of intelligence gathering, assessment, testing, refining and evaluation mean strategy is developed *in execution* – strategy and execution are no longer separate undertakings.

### ***Leadership Capacity***

In this context it swiftly becomes clear that organizations would do well to build broader leadership *capacity* in their chosen areas. Part of that capacity is itself the ability to develop strategy in real-time (or to play better battleships). For that the concept of Learning Quotient (LQ) — the ability to learn and to pass on learning — may be a key measure. When leadership capacity is the aim then this is best fostered in units throughout the organization; helping groups and teams to work and learn better rather than concentrating efforts on a handful of high potentials.





## Upward Step 2 — The organization is in the driving seat.

When the organization takes control of leadership development, strategy or strategic *capacity* becomes the touchstone for evaluating requests and offers from previously over-powerful individuals and suppliers.

### ***Tough Decisions***

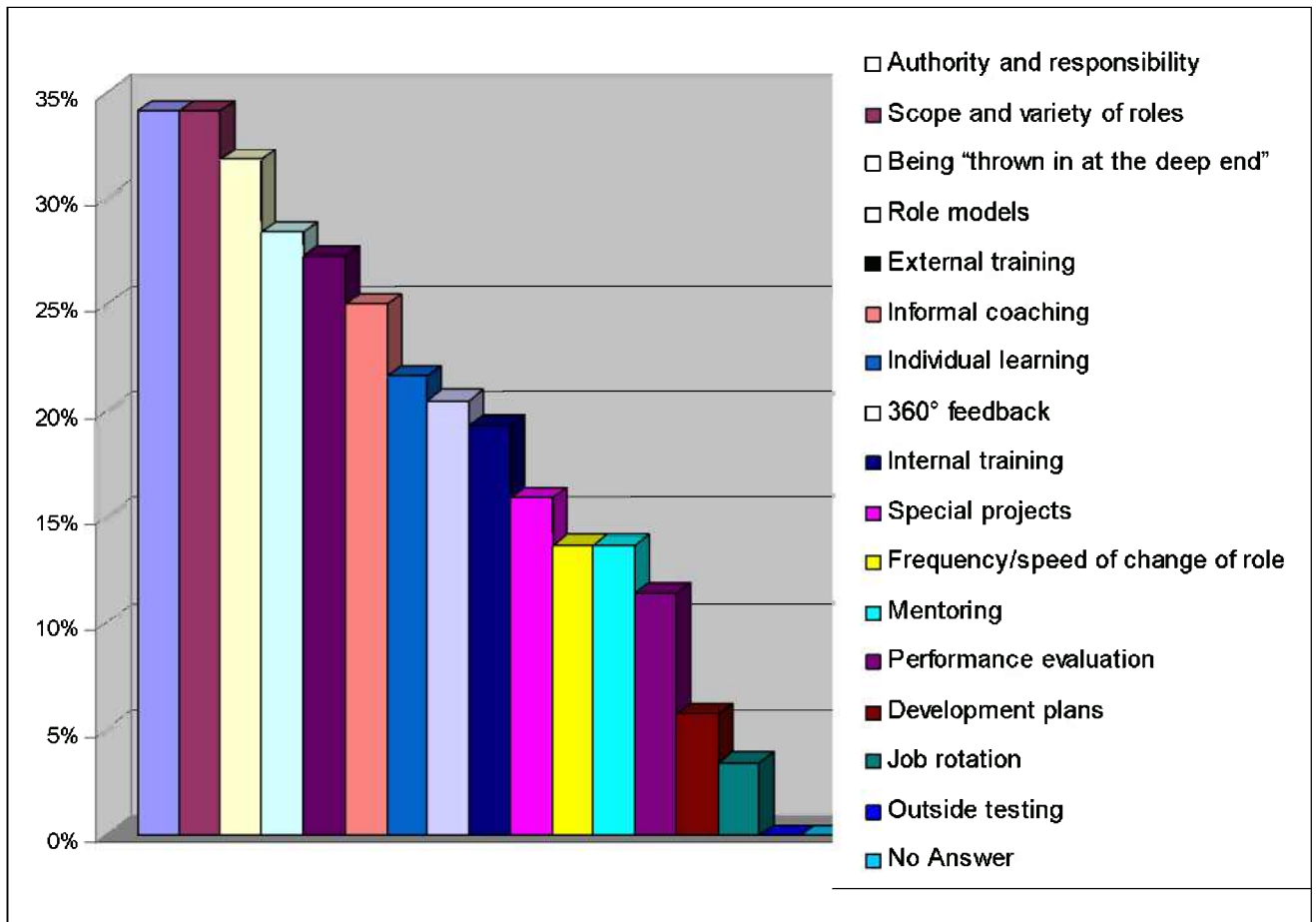
But if the organization is in the driving seat someone has to be at the wheel. Taking control of this area is painful and requires tough decisions. If leadership development is truly to support succession planning for instance, then it will need to include an element of streaming. That means that *not* all shall have prizes and some individuals will feel disappointed as a result. Likewise if sending people on courses in the past has been a way of avoiding tough conversations about performance, then when leadership development efforts are focused and those conversations start happening it's going to be tough.

To successfully take control of leadership development requires rigorous and regular reviews of talent (which may mean establishing a culture of confidential discussion and a process of impartial assessment). This in turn should be supported by a reward system that is aligned to encourage grooming and the development of leadership talent. A robust leadership development effort will resist the distractions of individuals and suppliers



## Upward Step 3 — The focus is on active learning.

Our belief that active learning is key to successful leadership development was strongly supported by our survey findings and client review team. Participants were asked what had been 'absolutely essential' in their own development and the overwhelming response was in favour of active learning factors such as 'authority and responsibility' and 'being thrown in at the deep-end'. It's no surprise that learning-by-doing is so highly rated, what is striking is that 63% of all leadership development continues to be classroom based.



The Centre for Creative Leadership refers to leadership development as a three stage process that provides a good framework for our thinking about active learning:

### 1. Assessment

Seeking a snapshot of current capability. Following the Battleships model this becomes a *series* of snapshots from differing angles producing a dynamic and multi-dimensional assessment.

### 2. Challenge

Providing the catalyst for individual development. The catalyst might be a one-off course, an event or a longer-term stretch role or project assignment.

Getting the challenge stage right means moving people out of their comfort zone – but not into panic mode. Active learning is uncomfortable, that's the whole point, and it should be a means of recreating the white-water rafting experience of all those outward bound courses within the context of the day-to-day work environment. Done well, the creation of a leadership cadre in-waiting will impact emerging strategy, grow LQ and strengthen the virtuous circle. It may also build some positive leadership tension and competition.

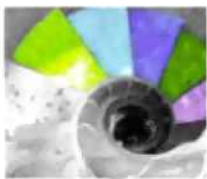
### 3. Support

Supporting leaders-in-training means giving them the tools, the resources and the latitude to take the risks they need to develop – all of which takes time. That support may take the form of an internal mentoring network or an external coach for example, but its aim is to allow the gladiator to flex his muscle.

When leadership development is viewed as a long-term undertaking the emphasis is on the *evolution* of individuals rather than on specific *events*. In light of this we prefer long-haul programs to 'interventions', particularly if those programs operate on a pick 'n' mix basis — allowing the organization and individuals to blend the right activities over time in support of long-term development goals.

Of course, there will be quick wins along the way, but developing true leaders takes time – a concept at odds with recent trends.

#### **Shifting the short-term mind-set**



Anecdotal evidence from head-hunters indicates that employers are simply not prepared to take a long-term view these days. The last few years have seen a fundamental mind shift away from stability and forward planning, resulting in an expectation that employees should be able to hit the ground running. Doug Ross, Square Peg International Managing Director and founding co-author of Watson Wyatt's Human Capital Index points out a shifting trend. "A few years back there was clearly higher value for employers in buying talent rather than building it.

These days the evidence points to a more balanced approach paying dividends". Firms that fill roughly half of their non-entry level positions internally had a three year total return to shareholders of 56%.

<sup>3</sup>The Centre For Creative Leadership: Handbook Of Leadership Development. McCauley, Moxley & Van Velsor.

<sup>4</sup>Human Capital Index 2005. Watson Wyatt Worldwide. The Human capital Index uses Total Returns to Shareholders as one of its measures. This is calculated as the change in a company's share price over a period of time plus dividends and is expressed as a plus or minus percentage of the share's opening value.



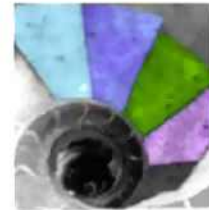


## Upward Step 4 — Appropriate evaluation.

Step 4 mirrors its opposite number on the wasteful spiral and concerns the appropriate use of evaluation. Here our watchword is 'pragmatics before mathematics'.

### ***Tracking performance***

Notwithstanding the popularity of participant feedback, our research encouragingly showed that the second most frequently used method of evaluating leadership development success was 'individual performance as tracked in personal development plans'. We were heartened to see this item take the number 2 slot but disappointed that it received only half as many votes as participant feedback.



### ***ROI red herring***

According to our participants, nominal and actual cost of leadership development activity is hardly ever used as a success measure. Nevertheless, any sophisticated calculation methodology for evaluating leadership development is likely to be premised on assumptions around cost. We are uncomfortable with this per se in that it undermines the concept of organizational value.

With that in mind, we wonder whether measuring the return on investment of leadership development really is the Holy Grail it is often made out to be. Might it be a red herring? Could we perhaps more usefully consider leadership development as risk management, a means of averting disaster?

Rather than complex monitoring and cost-based calculations we recommend asking some more fundamental and hard-hitting questions such as: how is this activity helping us to achieve our goals (increase revenues, decrease costs or manage risks)? How is this activity helping us to operationalize strategy? Are we clear what the time horizons of our expectations are? Are we recalibrating those expectations periodically?

