Building a Leadership Pipeline

"Companies are successful to the extent that they have leaders at all levels of the organization. Any institution that invests in the development of leaders at all levels is going to get ahead of its competition"

– Noel Tichy, Director of the Global Leadership Program at the University of Michigan Business School

Introduction

A leadership pipeline strengthens the leadership function of a company by cultivating emerging talent while enhancing organisational capability (Dilworth et al. 2011). Developing a leadership pipeline starts with identifying and then nurturing talent by exposing high-potential individuals to a variety of developmental opportunities and experiences. This leads to a more wide-ranging and holistic knowledge of the business and its inner workings. Put simply, this process is done to ensure that important leadership positions in the most prominent functions can be filled very easily by internal candidates. In this white paper, we explore the factors to consider when building a successful leadership pipeline.

What goes into a leadership pipeline?

It is best when leaders are grown, not imported, and the leadership function as a whole will never grow stronger and deeper if an organisation only invests in replacement as opposed to development (Charan, Drotter & Noel, 2001). So a leadership pipeline should combine succession planning with leadership development well before a replacement is needed. One of the best examples of integrating succession planning and development of emerging leaders is that of Sir Alex Ferguson.

Ferguson enjoyed a 26 year tenure as manager of Manchester United, during which time he successfully guided the club towards 38 domestic and international trophies and augmented Manchester United's financial position as the second richest sports team in the world with a value of $3.165 billion (Forbes). In a recent Harvard Business Review article, Ferguson reflects on the state of the team, and the entire club, upon his arrival to Manchester and how he predicted that future success would be entirely dependent on how they developed emerging talent at the club.

"From the moment I got to Manchester United, I thought of only one thing: building a football club. I wanted to build right from the bottom. That was in order to create fluency and a continuity of supply to the first team… When I arrived, only one player on the first team was under 24. Can you imagine that, for a club like Manchester United? I knew that a focus on youth would fit the club's history…Building a club brings stability and consistency. You don't ever want to take your eyes off the first team, but our youth development efforts ended up leading to our many successes in the

1990s and early 2000s. The young players really became the spirit of the club… If you give young people your attention and an opportunity to succeed, it is amazing how much they will surprise you"

– Ferguson's Formula, October 2013

The combination of succession planning and leadership is of course just one aspect of a successful leadership pipeline, albeit a very important aspect. But with the ever-increasing requirement to develop a strong internal 'leadership bench', what are the steps you as an organisation should be taking to ensure you are maximising the future strength of your leadership function?

What's blocking leadership pipelines?

Leadership development is a fairly simple concept at its core: the younger employees within an organisation will develop, be exposed to different environments on their way up through the professional ladder and eventually become the leaders of tomorrow.

The strong young leaders, millennials born between 1980 and 1995, emerging today often bring with them a different style of leadership that relies on heightened social needs and a stronger team orientation than previous generations (Borges, Manuel, Elam, and Jones, 2010). Being a part of the generation they are now leading means they have a greater understanding of how their staff prefer to communicate and they know that this generation, more than previous ones, tends to seek frequent, positive, and open communication in the workplace (e.g., Gursoy, Maier, & Chi, 2008).

However, Zenger (2013) asserts that the global recession of 2008 to 2012 has led to two major outcomes which are impacting the potential success of the leadership pipeline: one being that senior executives are staying in their positions longer in order to gain more financial security; the other blocker being that organisations are experiencing a reduction in hiring due to budget constraints. Both of these outcomes have led to a lack of millennial leadership opportunities and as such, have somewhat diminished the opportunities of internal hiring that an effective pipeline brings.

This changing demographic poses a very significant challenge for all organisations. Roughly one in five senior executives from Fortune 500 companies are eligible for retirement right now and in the US alone it is estimated that 30 percent of the population will be over the age of 55 by 2020 (Yost & Plunkett, 2009).

This means that the leaders of tomorrow within an organisation may be leaving due to the short sightedness of their employers. They are not being afforded appropriate developmental opportunities and are essentially being stifled in terms of the empowerment and accountability that they seek. As their more experienced colleagues remain in leadership positions for longer, these younger potential leaders are not able to gain the valuable managerial experience that could help progress their careers. This can result in potential future leaders being acquired by competitors who are willing to give them such opportunities.

Are leaders born or made?

Many organisations tend to assume that people simply either have leadership potential or they don't. In a review of the current leadership literature which considered competing leadership theories and models, Yukl (2006) concluded that there are 'serious weaknesses in much of the behavioural research conducted during the past two decades,' noting 'a tendency to look for simple answers to complex questions' (p. 75). What Yukl actually found was that there was no blueprint for successful leadership, but there appeared to be a pattern of behaviour which reflected a high concern for both task- and relationship-related criteria.

The best leaders always seemed to get the right balance appropriate for the specific situations they were in, and found it was a capability that got better with experience. Leaders can progress upwards in their own function, move laterally to another function or another role, and even take a few backward steps in getting where they

want to be (with failures and mistakes consistently being ranked as one of the critical experiences in the development of leaders). Thus, judging leadership potential too early and on fairly unsubstantiated assumptions should be avoided wherever possible. Yost & Plunkett (2009) assert that the best leaders ultimately develop in the continuous stretch, tumble, and bump of the real world, and need to be afforded the opportunities to do so.

Components of a good leadership pipeline

The first thing a leadership pipeline should be is simple and transparent. If the path towards senior leadership appears ambiguous or if the scope appears too broad, it will likely fail (Zenger, 2013). Managers will be significantly more engaged when they know exactly where they stand on the leadership ladder, and what they need to address in order to progress. Many companies have taken steps to ensure this kind of information is readily available. For example, at the global pharmaceutical company Eli Lilly, managers can track a battery of metrics that give an immediate measure of the readiness certain employees have to fill its top 500 positions. At Dow, they measure the success of their leadership development program by looking at the number of internal hires that fill prominent positions within the organisation. They consider it a success when this number runs between 75-80%, with a parallel train of thought being that at least some new blood needs to be brought into to maintain a stream of new ideas, innovation, new methods of working and to fill any unanticipated positions that may occur in the future (Conger & Fulmer, 2003). This allows the business to build up a bank of talent where it is needed most and when the time comes to fill these positions, they can be filled sequentially by internal candidates who have gained the necessary experience and capability to hit the ground running. Typical metrics associated with assessing current strength of organisational talent are recruitment and staffing metrics (time taken to fill key positions), performance management metrics (goals, development plans, performance, etc.) and staff turnover metrics (employee engagement, attrition, etc.).

There also needs to be a strong focus on development within the organisation, otherwise, where will the talent come from to fill positions internally? A common method adopted in the past decade is to get current managers immersed into developing the people in their own teams, empowering them to become better coaches. By empowering managers to develop potential leaders, constructive feedback is delivered on a regular basis

and ensures development is a constant rather than a commodity that is only acted upon after performance reviews, or quickly forgotten. Groves (2007) writes about several industry examples where this internal development has been made common practice, with resounding success.

"There is also growing evidence that organizations are increasingly engaging managerial personnel in the leadership development process, and that managers add unique value to building the leadership pipeline beyond that of management development specialists, consultants, academics, or other professionals (Tichy, 2004; Allio, 2003). The most prominent example of this approach is General Electric's (GE) John F. Welch Leadership Center at Crotonville, a comprehensive development program in which executives and managers at all levels are largely responsible for teaching the curriculum and delivering a range of leadership development activities (Tichy, 1989)…Not surprisingly, many CEOs at leading companies have adopted the executive-led approach to leadership development, including 3M's Jim McNerny, Yum!Brands' David Novak, Home Depot's Bob Nardelli, and Nokia's Jorma Ollila"

The focus on development also needs to be targeted on the skills that the organisation knows it will need in the future. In order to do this effectively, potential leaders must go through a blended approach to their learning. This might consist of a mixture of web-based and classroom based learning, ideally having access to online and offline support as and when needed and perhaps most importantly, 'on the job' learning where potential leaders are exposed to different areas of the business. Again, this experiential based development should not be arbitrary and tying this into overall business strategy is a very good way of keeping the experiences relevant. It also provides the context for what is considered important and unique to that particular organisation. Typical experiences which organisations have found beneficial for emerging leaders include: experience of first supervisory position, managing a project of larger scope, key business unit experience, secondments to different regions and many others.

There are many other components of an effective leadership pipeline that could be identified in this paper. Just as Northouse (2004) concluded that 'there are almost as many different definitions of leadership as there are people who have tried to define it' (p. 2), there are probably as many successful individual components of a leadership pipeline as there are companies trying to achieve one. However, in the interest of conciseness, there are not too many better examples that Yost & Plunkett's (2009) 7 point plan:

1. Start with the business strategy. Leverage the business strategy by identifying developmental experiences that are critical to achieving it

2. Build a rigorous performance management system and use it. Separate performance and developmental, but ensure a heavy focus on both

3. Create a learning culture. Constantly ask the difficult questions of your organisation that enables growth and the development of new skills

4. Create a feedback-rich environment. Ensure constructive conversations that speak to current strengths and weaknesses, but also to one's potential

5. Focus on transitions. Create opportunities for transition within your business, and that these are set up for success as opposed to letting people merely sink or swim

6. Build a principle-based organisation. Reinforce leadership as the living embodiment of your company values, at all levels of the organisation

7. Remember to focus on significance. Focus on the outcomes that will make the process sustainable

Benefits of a leadership pipeline approach

Organisations are increasingly finding a lack of capable leaders at executive, functional and general management levels. This trend is predicted only to get worse; McKinsey Global Institute (2012) forecasts that employers in advanced economies will have a shortage of 16 to 18 million workers in skilled positions requiring tertiary education compared to what will be available in the external labour market.

To contend with this reality, Byham, Smith, & Paese (2002) outline the three options available to organisations:

1. Intensify efforts to hire hard-to-find, increasingly expensive people from outside their organisation;

2. Do nothing and likely experience a competitive decline, which could lead to being acquired or going out of business; or

3. Tap into the quality people already in their organisation, thus growing and keeping their own leaders
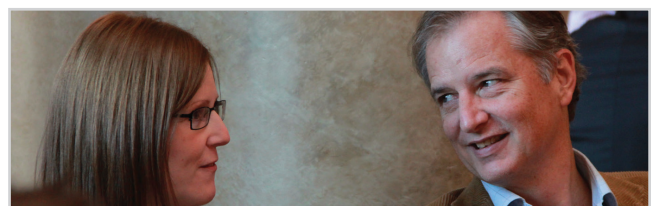
By building a successful leadership pipeline that ensures strength and depth in lynchpin functions, organisations are effectively exercising the third option and growing their own leaders. This is a major benefit in itself but it encourages several by-products that are also advantageous, these benefits include:

- A significant reduction of resources required to attract outside talent

- Retention of the organisation's best talent as they are engaged by the different opportunities becoming available to them and so do not need to seek these opportunities within competitors or alternate industries

- Opportunity for personal growth through valuable on the job experiences for emerging talent. This benefits not only the individuals as they find out more about how they learn best so that this can be replicated, but the organisation benefits as these experiences are being tailored toward important aspects of its future success

This combination of building strength and depth in the functions and positions that are pivotal to the future success of the organisation is where the effective integration of succession planning and leadership development is so important.

Conclusion

"What could be more crucial to your organization's performance than the choice and cultivation of its future leaders? Why, then, do traditional succession plans so often fail? Because great leadership at the top of your organization actually begins in the middle"
– Conger & Fulmer, 2003

Despite all the informed perspectives within this paper, the success of a leadership pipeline can be fairly crudely boiled down to two pertinent criteria: being able to identify what the key leadership roles in your organisation will be going forward and the number of internal candidates who are capable of assuming those roles when needed. It sounds easy when boiled down to this simple concept, but the extent to which an organisation is successful depends on several factors that we have explored throughout this paper – both in terms of talent management and how that lends itself to future organisational capacity.

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