

# Leadership Development Practices of Top-Performing Organizations

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## Executive Summary

Developing leaders is a formidable challenge for today's global business. Fact: the deficit of available leadership talent is widely cited as the greatest limiter of growth. Cracking the code on developing effective leadership has the potential of conferring incredible advantages—competitive and organizational.

This research project was specifically designed to engage the Fortune 500 and explore three key leadership development areas:

1. Trends in leader development practices in high-performing organizations
2. Leader traits and behaviors essential to success in competitive industries
3. The business impacts of leader development

In-depth interviews were completed with business unit leaders, leadership development practitioners and human resource professionals with findings that reveal clearly that flexibility and adaptability are the keys to sustaining leadership development success. Many organizations are moving away from standardized, set-piece leadership development super structures. All companies surveyed deployed a wide array of leader development platforms, but most identified best practices centered on leadership development techniques that are real-time and real-life. Real-time practices emphasizing specialized and customized learning interventions targeted to individual leader development needs; and real-life in the emphasis on experiential and action learning practices linking leader development to actual business challenges.

Driving the need for responsive leader development systems is the focus companies place on strategy articulation and execution. In this fast-paced era—marked by churning business strategies—two leadership development imperatives have emerged. First, executive management, as the voice of strategy, must play an increasingly visible and active role in leadership development. And second, leadership behaviors must be aligned with these new strategies to keep both the employees and the organization focused on the end-game of success. Competency models for leaders are becoming more focused, with fewer competencies, and are more easily prioritized to fit the changing needs of the business.

It is also noted that leader development, as a discipline, is increasingly becoming interwoven with other talent management systems, particularly succession planning and performance management. Building leadership bench strength is a ubiquitous challenge that requires that organizations move away from treating leader development as a stand-alone endeavor. The more readily leader development can be aligned and integrated with other talent management tools the stronger the capability for business growth.

Finally, organizations still lag in their ability to evaluate the return on their leadership development investments. Most organizations assess their leader development outcomes informally and anecdotally, with little emphasis on connecting leader development to bottom line business outcomes. But this may be changing. A subset of companies sampled has groups established to link leader development efforts to organizational outcomes. These efforts could portend an even greater awareness of the importance, as defined by expected results, in developing leaders at all levels of the organization.

## Introduction

The Ninth House 2006 Leadership Development Practices white paper is driven by a simple question: How do organizations, in highly competitive industries, develop leaders to achieve business results? To pursue this question, let us focus on three key areas:

1. Leadership development practices resident and effective in high-performing organizations
2. Leadership behaviors most important for success in highly competitive industries
3. Specific indications organizations utilize to test whether investments in leadership development are paying off.

During the course of this research, the methodology deployed was a series of in-depth interviews with human resource leaders, leadership development practitioners and business unit leaders. These interviews included both fixed-choice questions and open-ended questions to better understand the challenges and practices of the organizations in question. All of the organizations in the sample were high-profile Fortune 500 companies selected for their year-over-year total shareholder returns and leadership development success.

## Leadership Development Best Practices for 2006

A primary focus of the research was to distinguish the leadership development practices that make marked and measurable differences for organizations. The practices reviewed were varied and idiosyncratic and through the course of this study it became clear that different organizations have different experiences and preferences with respect to growing their current and future leaders.

In analyzing the data, some important central tendencies become readily apparent. In general, leadership development systems are becoming more “real-time” rather than “just-in-time”. There is an emerging emphasis on “experience” over classroom training. And there is a greater willingness to individualize development for leaders by bringing in the right skill sets at the right time.

### Driven by Business Strategy

Leadership development practices do not exist in a vacuum. The best leadership development systems are anchored in—and driven by—business strategy. 70% of respondent companies linked leadership development efforts to business strategy.

Why is the leadership development connection to business strategy so critical? For one, the half-life of a business strategy is not what it once was. Business strategies change and churn more rapidly, putting a premium on strategy execution skills. Leadership traits must mirror and keep pace with the strategic challenges of the business. The skill sets of leaders must correlate with the business

**// 70% of companies linked leadership development efforts to business strategy. //**

challenges and exigencies of the enterprise. A quote from one respondent illuminates the linkage between strategy and leadership skills:

*“Our leadership skill needs have changed as the organization has evolved. We have seen a dramatic shift in the last few years. The company has been through two phases and is now moving into a third.”*

Organizational leaders must possess the right skills and orientations to launch, test and revise business strategies as necessary. This requires an ongoing analysis and alignment of leadership skills to strategy.

### **Leadership Development Purpose**

Aligning leadership behaviors to strategy creates a core purpose for leadership development endeavors. Without this central focus, leadership development practices tend to become ends in themselves. As discussed in the segments below, organizations integrate leadership development and strategy in multiple ways. The mechanisms include classroom-based programs, action learning projects, rotational assignments, and the prioritization and emphasis on specific leadership competencies.

### **Active Senior Leadership Involvement**

Another critical success factor for effective leadership development is executive management sponsorship and visibility. In the open-ended segment of the research, active support by senior leaders was referenced frequently as a *most effective* factor in leadership development practices. 85% of the organizations cited executive management commitment and sponsorship as cornerstones of their approach to developing leaders.

Executive endorsement lends credibility to leadership development efforts and elevates the criticality of the experience of those being developed. But active participation by senior leaders in development programs and initiatives may have an even greater payback potential. A strong majority—slightly more than 85%—indicated that senior leaders are actively involved in the development of other leaders as

**// 85% cite executive sponsorship as a leadership development cornerstone. //**

teachers, mentors and coaches. Many respondents reported the impact and excitement of attending programs with senior leaders as teachers.

Another venue for involving senior leaders in learning is through action learning applications. Experiential learning or action learning was another tool frequently volunteered as *most effective* in developing leaders. By defining core challenges, or sitting in on panels reviewing action-learning outcomes, senior leaders play a huge role in crafting leadership development success.

## **Leadership Competencies as the Development Core**

If business strategy sets the core purpose for leadership development, then competencies stand as the primary clusters of knowledge, behavior and motivations organizations strive to instill in leaders. 100% of the organizations reported having had a defined set of leadership competencies guiding their development efforts.

The leadership competencies tended to be highly differentiated and very specific to individual organizations. However, further analysis proved that leadership behaviors most likely to impact business performance, could be clustered into four primary domains: Setting Strategy, Running the Business Efficiently, Generating Revenue, and Engaging Talent. (These are discussed later in the Leadership Model section.)

Having a defined leadership model in the form of critical knowledge, skills and motivations is a frequently cited leadership development best practice. The advantage of a core competency framework is that it can be aligned and integrated throughout the talent management cycle – from recruiting to selection to development to promoting and compensation.

**// 100% of top-performing organizations have a defined set of leadership competencies. //**

## **A Focused and Prioritized Few**

A formal and focused leadership competency model establishes behavioral expectations for leaders at all levels of the organization. This allows the virtual “collection” of leadership experience by generating guidelines on how leaders should think, act and interact with others. In this way, a leadership competency framework becomes a powerful force for defining, or redefining, an organization’s culture.

One obvious trend is a conscious move by top-performing organizations to a much smaller and more focused set of competencies for each unit of business. Rather than a laundry list of leadership competencies, organizations are identifying a focused few—three, four or five competencies—that become the focal point for developing their current and future leaders.

As the strategic demands of the business change, leadership development priorities also shift. As one respondent identified:

*“The top leadership competencies have not changed, but their priority has. Thinking strategically is more critical because of the more competitive business market. Building teams and relationships is certainly more critical than it used to be because of technology, the need for virtual teaming, and working across geographies.”*

Many respondents had similar stories on how their set of leadership competencies migrated as the demands of the business evolved.

### **Multi-Dimensional Learning Platforms**

One size does not fit all leadership development challenges. Organizations take a multi-dimensional approach to leadership development utilizing a variety of learning techniques. 85% of the respondents incorporated a multitude of learning platforms in the development of leaders. These included classroom, Web-based and experiential learning activities.

Research further identified that leadership development tools are stratified by level of management. Classroom and e-learning tools are much more prevalent for front-line and mid-level managers. Upper-middle and senior-level leadership development are much more likely to incorporate experiential and action-learning techniques.

Other key findings on the diversity of leadership development techniques are described below.

### **Leadership Curriculum Designs**

Most companies (70%) have a defined leadership curriculum established. Although a majority of respondents indicated that the curriculum was more voluntary than mandatory in character.

Only a few organizations referenced having specialized, highly customized, mandatory leadership development programs in place. For those that did, however, there was a tendency to identify the program as being distinctive and highly effective in elevating the leader potential of their organizations.

For the most part, “adaptability” seems to be the watchword influencing leadership curriculum development. Not many organizations are creating set-piece leadership development systems. Most organizations are creating fluid designs incorporating just-in-time response elements supporting the business imperative of keeping pace in rapidly changing competitive environment. This includes a greater reliance on eLearning and blended learning solutions, particularly targeted to entry-level and mid-management positions.

### **Experiential Development Linked to Strategic Priorities**

One important finding is the linkage of leadership development to real-time organizational experiences. As one respondent stated:

*“Seventy percent of knowledge is experience, and we do not do enough of that. We need to find a way to make everyday business experiences more leverageable from a learning and development perspective.”*

In open-ended comments, some form of experiential or action-learning program was mentioned as a preferred practice by 1/3 of the respondents. Examples of experiential learning included moving leaders onto special projects, task forces or organizational initiatives. It also included embedding real-world business problems into leadership

development programs. As a development tool, experienced-based initiatives were primarily referenced for promoting the leadership skills of upper-middle and senior level leaders.

The advantages of experiential development for leaders are many. First, leaders are challenged to take on real problems with immediate feedback and payback. This “mainstreaming” of leadership development connects managers to projects with that have both educational and business consequences.

Another benefit is the cohesion or bonding that occurs as individuals work intensively together. Taking on and solving significant organizational challenges establishes a crucible that forges relationships with lasting impact. These experiences establish interpersonal networks that grow and strengthen as leaders mature and move into more senior levels of management.

Finally, experiential learning can bring together leaders from different disciplines to work on special projects. This co-mingling of participants tends to break down barriers and promote the ability of organizations to pursue problems synergistically.

### **Rotational Assignments**

Another experience-based leadership development tool is the rotation of managers across disciplines, divisions and geographies. Despite a large percentage wanting or requesting rotation as part of their leadership development efforts, less than half (45%) of the organizations are utilizing rotational or developmental assignments as a regular component of their total leadership development package.

However, many leadership development practitioners would like to see their organizations take greater advantage of rotational assignments. One respondent advocated for a multi-functional organizational rotation because “you cannot develop a CEO with a single discipline background.” Organizational complexity and specialization tended to be cited as barriers to job rotational assignments as a leadership development tool.

In most organizations, rotational assignments are reserved for high potential leader candidates. Organizations use these assignments to “round out” the leadership package in a way that positions individuals for executive management slots.

### **360° Feedback and the Individualization of Leadership Development**

There are clear signs for the ongoing “individualization” of leadership development. This is particularly true for upper-middle and senior-level leaders. Virtually all respondents (95%) utilize external executive coaches as part of their leadership development program. And 85% deploy 360-degree feedback tools. This suggests that organizations are willing to invest the time and resources necessary to create uniquely suited development initiatives for high-potential leaders.

One caveat to 360° assessment tools is cited. For best effects these assessments should be developmental in origination and intent. The power of a multi-rater system as a leader-learning tool dissipates as it gets linked to the performance appraisal process

### **Integration with Talent Management Systems**

We found that leadership development is tightly coupled to other talent management systems – recruiting, selecting, promoting and compensating leaders. For example, 90% of the organizations integrate leadership development with performance management and succession planning. Ninety percent of respondents also report having specific programs for identifying and developing high-potential leaders, while 85% actively track the turnover of those leaders.

### **The Imperative of Succession Planning**

One respondent represented the view of many when he said: “the greatest rate limiting growth factor we have is how quickly we can develop leaders.” Building leadership bench strength is a ubiquitous challenge for virtually all organizations.

Creating an integrated talent management framework requires a multi-faceted perspective on organization development. This suggests that developing leaders is not a stand-alone endeavor. Special linkages must be created, particularly between succession planning and leadership development. The more these disciplines become aligned and integrated the stronger the capability for business growth.



## Leadership Competencies for 2006

The second topic of this study was to identify the Leadership Competencies that truly drive business results, rather than simply what leaders do. The desire is to identify the core competencies from which the specific "prioritized few" are selected for targeted development.

The interview results identified four domains of leadership competencies including setting the strategy and direction for the business; engaging and maximizing the employee productivity and talent; operating the business, product and processes effectively; and generating revenue through a market focus.

### Core Competencies

<p><b><u>Setting Strategy</u></b></p> <ul style="list-style-type: none"> <li>▪ Setting Strategy</li> <li>▪ Strategy Communication</li> <li>▪ Strategy Execution</li> <li>▪ Strategy Integration</li> </ul>	<p><b><u>Engaging Talent</u></b></p> <ul style="list-style-type: none"> <li>▪ Coaching</li> <li>▪ Delegating</li> <li>▪ Influencing</li> <li>▪ Holding People Accountable</li> <li>▪ Attracting Talent</li> </ul>
<p><b><u>Operating Efficiently</u></b></p> <ul style="list-style-type: none"> <li>▪ Driving Efficient Processes</li> <li>▪ Maintaining Product Quality</li> <li>▪ Effective Resource Allocation</li> <li>▪ Functional Knowledge</li> <li>▪ Risk Analysis</li> </ul>	<p><b><u>Generating Revenue</u></b></p> <ul style="list-style-type: none"> <li>▪ Business Acumen</li> <li>▪ Driving for Results</li> <li>▪ Customer Focus</li> <li>▪ Market Positioning</li> <li>▪ Exploiting Existing Markets</li> <li>▪ Exploiting New Markets</li> </ul>

## ***Leadership Competencies Behavioral Definitions***

### **Setting Strategy**

Forging, communicating and executing a business strategy in pursuit of an organization's vision is at the core of leadership. Establishing a strategic direction, with the ability to get people on board, ensuring the strategy is followed, making course corrections if needed, and ensuring integration among business units are dominant leadership traits. As businesses become more complex and change demanding, it is the work of leadership to set and steady the course.

#### *Priority Behaviors*

- Setting Strategy – Defining business direction, markets, products, goals, expectations, and priorities
- Strategy Communication – Discussing the strategic plan consistently and widely throughout the organization so all employees understand their role in it (external?)
- Strategy Execution – Ensuring effective implementation of the strategy via ongoing monitoring, follow-up and modification as necessary
- Strategy Integration – Ensuring alignment of strategy across business entities

### **Engaging Talent**

The best leaders attract and energize others in pursuit of common goals. The greatest growth-limiting factor for organizations today is the lack of sufficient leadership potential. Being actively involved in identifying high potential individuals and coaching people to excel are the key responsibilities of every leader.

#### *Priority Behaviors*

- Coaching – Providing visible feedback and support to maximize performance
- Delegating – Identifying and tapping into the strengths of others inside and outside the organization
- Influencing – Using personal influence to align and motivate people's energy towards the strategy
- Holding People Accountable – Applying appropriate consequences for performance
- Attracting Talent – Bringing in and developing the best people; driving a culture that instills commitment

### **Operating Efficiently**

Leadership skills do not fall far from core business pursuits. Functional and tactical skill sets are necessary ingredients for practical leadership in organizations. Key to exceptional leadership is the effective display of practical process oriented leadership skills of managing the business efficiently and cost-effectively day-to-day.

### *Priority Behaviors*

- Driving Efficient Processes – Ensuring systems and processes are efficient and effective
- Maintaining Product Quality – Unyielding commitment to making the best product and providing the best service
- Effective Resource Allocation – Money is budgeted to maximize business effectiveness
- Functional Knowledge – People are highly skilled in their area of expertise
- Risk Analysis – Timely cost benefit analyses are conducted to determine when risks are likely to provide a good financial return

### **Driving Revenue**

Business savvy is a necessary leadership trait. Driving financial results, focusing on short-term growth, exploiting and creating favorable market conditions all relate to the fact that leaders are first gauged by immediate financial results.

### *Priority Behaviors*

- Business Acumen – Using the knowledge of the factors that impact the business to maximize return.
- Driving for Results – Keeping a close watch on revenue and actively managing it to ensure financial goals are met
- Customer Focus – Awareness of customer needs and ensuring continually high customer satisfaction
- Exploiting Existing Markets – Leverage existing markets to increase sales
- Exploiting New Markets – Identifying, leveraging and selling into new markets

### The ROI of Leadership Development

One of the conundrums of leadership development is that it is so difficult to gauge return on investment. Our research provides insight on the nature of the challenge. less than half (40%) of the organizations have metrics in place to evaluate the overall effectiveness of their leadership development practices. And only a slim majority (55%) monitors objective, quantifiable indicators of individual leadership effectiveness on an ongoing basis.

#### Gap Between Ideal vs. Current Leadership Effectiveness Measures

Effectiveness Measure	Ideal	Current
Retention of leadership talent	46%	31%
Financial results (revenues, profits, growth, market share)	46	12
Employee engagement/satisfaction	38	8
Organization culture/morale	12	8
Customer satisfaction/service	12	0
360° feedback of Individual Development Plans	8	8
High potential leader identification	4	0
Staff readiness	4	0
Executive endorsement	4	0
Participant satisfaction with programs/offerings	0	19
Leader knowledge/competency increase	0	15
Hours of training delivered	0	8
Wait list for elective courses/offerings	0	8
Executive committee ratings	0	4
Diversity mix	0	4

Among the measures of leadership development that are tracked, most relate to succession planning patterns – leader turnover and rates of leader promotion. A subset of organizations also tallies participant satisfaction with leadership programs and evidence of leadership knowledge and competency development. What is noteworthy is how few organizations attempt to draw linkages between leadership development and organizational outcomes.

### **Measurement Ambivalence**

Not everyone agrees that leadership development effectiveness can be measured. One respondent articulated a general finding:

*“[Ideally] leader development should be linked to measurable impacts on the bottom line. But I am not sure the effects are always so direct. Leader development is more of an influencing factor than a direct driver of the bottom line.”*

For most organizations, it seems, the evidence for leadership development is more anecdotal than statistical. And in many cases, respondents were comfortable relying on indirect, rather than direct, indicators of leadership development impacts.

The absence of a consensus on what and how to assess leadership development is not surprising. Yet, an ability to quantify return on leadership development efforts is gaining momentum in some quarters. An emerging number of organizations have working groups established that are actively seeking ways to measure the results of leadership development.

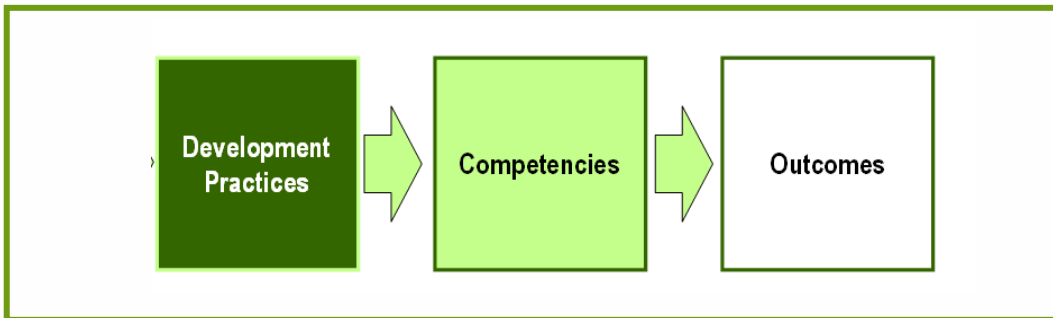
This trend will likely continue and accelerate. Establishing measurable and repeatable ROI for leadership development is the wave of the future.

### **Successful Leadership Development Models for 2006**

So how do organizations develop leaders to achieve true business results: profit, revenue, and earnings per share growth, profit per employee, customer retention and satisfaction, employee satisfaction, reduced turnover and the like?

The interview results advocate that investments in certain types of development such as sponsorship, action learning, blended learning, etc. lead to better leadership skills. Yet these development best practices are valuable only to the extent that they lead to desirable business outcomes.

The path to results is indirect. Development practices by themselves do not lead to improved business results, but rather lead to the improvement in execution of competencies or skills that influence business outcomes.



At a high level, this study outlines a component model that is based on the idea that the competencies of the leaders within the organization are developed through the development practices used by the organization. These demonstrated competencies, Setting Strategy, Engaging Talent, Operating Efficiency, and Generating Revenue, ultimately are what lead to business outcomes.

## Conclusion

Leadership development produces higher performing organizations through improving leader effectiveness. Today there is no simple or single template for developing leaders. Organizations have the most success when they tailor leader development systems to the realities of the business, recognizing that strategies for growing leaders shift with the changing demands of the enterprise.

There are, however, a number of specific summations to be drawn from the research. The best leadership development systems seem to comprise the following components:

**Action Orientation.** The best tools for leadership development tend to be actionable and leveraged to real business solutions. That is why experiential learning and action learning was so frequently cited as a “best” leadership development practice by the companies in the sample.

**Strategic Focus.** Business strategy and leadership development are tightly interwoven. This is the reason that executive involvement and sponsorship is so critically important to leadership development success. The best leadership development systems foster an ability to execute business strategy.

**Integrated with Organizational Systems.** Leadership development should not be perceived as a stand-alone endeavor. Growing leaders works best when the development of leaders is interlocked with other talent management components – recruiting, selecting and succession planning.

**Multi-Dimensional Learning Designs.** The most effective leadership development curriculums tend to incorporate a wide range of learning techniques and delivery mechanisms. These curriculums incorporate fluid design elements allowing organizations to target learning interventions – be they e-learning, experiential, classroom or blended – that are real-time and real-life.

To this point the true value of leadership development is difficult to assess due to the gap between desired and actual practice in measuring development effectiveness. Predictably, as leadership development is more integrated with strategic activities, it will become more measurable and its value more readily apparent to the enterprise.

Founded in 1996 and headquartered in San Francisco, California, Ninth House, Inc. provides a unique blended learning solution, integrating content from leading business experts with self-paced online courses and practical simulations to more effectively develop leaders at all levels of an organization. With instructors that include industry luminaries like Ken Blanchard, Tom Peters and Peter Senge, the Ninth House curriculum addresses the most relevant issues an organization faces-from leadership and innovation, to building community in the workplace, to managing change.

Ninth House has trained hundreds of thousands of learners and is depended on by leading global enterprises such as The United States Navy, U.S. Department of Justice, Empire Blue Cross Blue Shield, Amazon, Sony, Wachovia, American Express, and Pfizer among others.

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