

# Time for a Leadership Revolution



## Global Leadership Forecast 2011

Jazmine Boatman, Ph.D., and Richard S. Wellins, Ph.D.

The Talent Management Expert



Revolutionize  
leadership,  
revolutionize  
your business.

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## ABOUT DEVELOPMENT DIMENSIONS INTERNATIONAL (DDI)

For more than 40 years, DDI has helped the most successful companies around the world close the gap between where their businesses need to go and the talent required to take them there. Our areas of expertise span every level, from individual contributors to the executive suite:

1. **Success Profile Management**—Our process will identify quickly and accurately what success looks like for all of your critical roles.
2. **Selection and Assessment**—DDI offers the most comprehensive range of assessment, testing, and behavioral interviewing tools in the world.
3. **Leadership and Workforce Development**—We provide relevant and challenging learning experiences for all levels, from individual contributors and front-line leaders to mid-level and senior leaders.
4. **Succession Management**—Our consulting services and tools will ensure a steady supply of ready-now leaders who will meet your business needs today and tomorrow.
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## ABOUT DDI'S CENTER FOR APPLIED BEHAVIORAL RESEARCH

The *Global Leadership Forecast 2011* is part of the continuing series of trend research conducted by DDI's Center for Applied Behavioral Research (CABER). CABER's publications cover a wide range of talent management issues and are designed to keep HR professionals in touch with best practices and trends.

CABER also conducts dozens of evidence-based research studies with DDI's clients that show the relationship between their talent management practices and changes in workforce and organizational performance. CABER's research, including this report, is available at [www.ddiworld.com](http://www.ddiworld.com).

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## INTRODUCTION

We completed our research for the previous *Global Leadership Forecast* in late 2007. What a difference three years makes. Back then, stock markets were reaching all-time highs, new products and services were being introduced at record rates, and job prospects were promising. Then, the market collapsed. Organizations flew into damage-control mode and focused on streamlining their businesses and executing only the bare minimum strategies. R&D spending came to a halt as did the investment in growing talent. Undeniably, the past few years have been some of the worst for many organizations.

Data collection for *Global Leadership Forecast 2011* began in what can best be labeled as a period of cautious optimism. Today, as organizations recover and try to get back on track, they face a new set of trials. According to The Conference Board's 2010 study on CEO challenges, areas such as business growth, talent, and innovation have risen to the top, replacing sustainability, corporate reputation, and investor relationships. Many organizations around the world are positioning themselves for future success by ramping up their R&D expenditures (Andrew, et al, 2010). And the war for talent—barely a consideration during the worst of the economic crisis—is back on. It is within the context of this new, more optimistic business environment that organizations worldwide shared their insights about the present and future state of leadership.

We heard one overarching theme from thousands of leaders while conducting this research: **The only thing constant is change itself.** Change may not be new news; however, what has been particularly astounding in recent years isn't that change is occurring, but how fast it is happening. In today's business environment, change is occurring at a blistering speed. Technology, for one, is evolving at an amazing pace—some posit that by 2045 artificial intelligence will exceed the collective knowledge of the entire human race (Grossman, 2011). The focus of power is shifting dramatically too. Over the next decade the world as we know it will be turned upside down, with emerging economies like those in China and India accounting for more than 60 percent of the world's wealth (van Ark, 2010). This will be the fastest economic shift in modern history, with these two countries becoming both the biggest exporters and biggest consumers of

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*“The rate of change in business has never been faster, and I expect it to become even more rapid.”*

—EXECUTIVE,  
CHEMICAL INDUSTRY

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products and services. Web 2.0 continues to transform the way we communicate, collaborate, and innovate. Consider Starbucks' new crowd-sourcing site for customer innovation: Within 18 months of its launch, the site has generated more than 100,000 new ideas, many of which have already been turned into products.

The big question we wanted to answer in the *Global Leadership Forecast 2011* is whether leaders are prepared and equipped for the rapid speed of today's business. Are they keeping up or falling behind? If it is the latter, what can we do about it? This report will uncover the answers to these critical questions:

- What is the overall quality of leadership in organizations today? How does it compare to previous years?
- Do organizations have a sufficient supply of capable leaders to meet tomorrow's business challenges?
- What can HR professionals do to revolutionize the development of their leaders?
- Is it time to radically innovate not only products and business models, but also the very way we manage?
- What impact can we have by moving the needle on leadership quality?

In the following pages these questions are answered by HR professionals and virtually every level of leader across all generations and industries in every major region of the world.



## ABOUT THE STUDY

DDI's *Global Leadership Forecast 2011* is the largest and most comprehensive study of its kind. More than 2,600 organizations provided perspectives on their current state of leadership and their future talent-related needs. This is the sixth biennial *Leadership Forecast* DDI has conducted since 1999, and the largest: 1,897 HR professionals and 12,423 leaders from 74 countries responded.

DDI created and distributed surveys to both HR professionals and leaders between June and November 2010. Organizations were encouraged to have 30 leaders complete a survey to allow a comparison of HR and leader perspectives. A leader was defined as someone who manages the performance or responsibilities of individuals in an organization. In this report, survey data was supplemented with open-ended comments as well as interviews.

● ● ● ● **TABLE 1 SAMPLE SIZE**

HR Professionals	1,897
Leaders	12,423
<b>TOTAL</b>	<b>14,320</b>

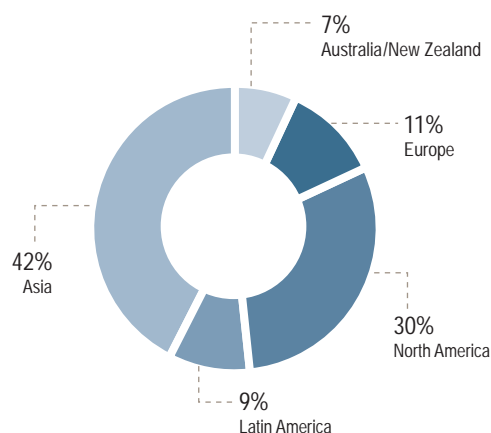
To represent global results fairly, we used a combination of weighting and sampling techniques:

- **Organizational representation**—The number of participating leaders exceeded 500 for some organizations. To ensure that no individual organization dominated the overall results, a random sample of leaders was selected from any organization that exceeded 100 responses.
- **Global representation**—Adjustments were made to ensure that the leaders in this study were representative of the world population of leaders; in other words, leaders from smaller countries would not outnumber leaders from larger countries. If the percentage of leaders from each country in our sample differed by more than 5 percent from each country's actual percentage of leaders (according to data from the International Labor Organization), we weighted responses to bring them within 5 percent. Using this standard, we weighted responses from two countries for leaders and two countries for HR professionals.

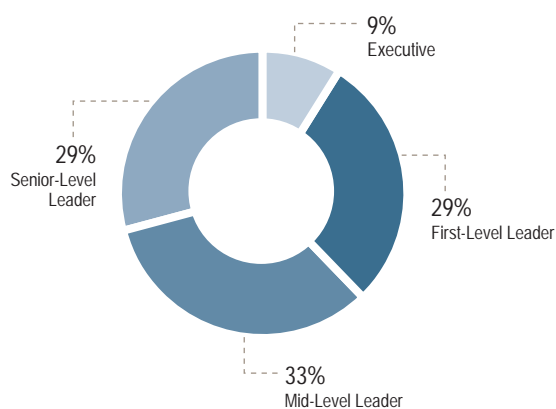


Organizations from around the world participated (see **Figure 1** for HR responses by region). The leaders who took part in the study ranged from first level to executive level (see **Figure 2**). Organizations of all sizes participated, with the majority being multinational, for-profit organizations spanning 35 different industries. (See **Appendix**.)

● ● ● ● **FIGURE 1 PARTICIPATING ORGANIZATIONS BY MAJOR WORLD REGION**



● ● ● ● **FIGURE 2 LEADER LEVELS OF PARTICIPANTS**



With such a rich database, it was impossible to include all findings and comparisons in this report. Special topical reports and separate country reports are available at [www.ddiworld.com](http://www.ddiworld.com).

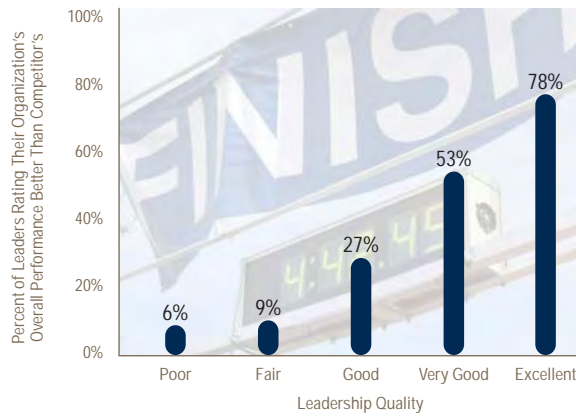
*Organizations  
with the highest  
quality leaders  
were **13** times  
more likely  
to outperform  
their competition in  
key bottom-line  
metrics such  
as financial  
performance.*

## DOES THE QUALITY OF LEADERSHIP MATTER?

Put 10 people in a room and ask them how they define leadership. Chances are, you'll get a lively debate but not a lot of agreement. The word "leadership" can mean very different things to different people. Some believe that a leader's key responsibility is to nourish and cultivate team members, while others believe that it is to drive growth and innovation. The reality, of course, is that both perspectives are true. Still, no matter how they define leadership, those 10 people will probably agree on one thing: Leadership makes a difference.

Today's leaders make decisions in an increasingly unpredictable business environment. In a recent IBM study of 1,500 CEOs worldwide, more than 60 percent believed that their businesses today were more volatile, uncertain, and complex (IBM Global Business Services, 2010). It's no wonder that the quality of leadership can make or break the sustainability of any organization. The difference between the impact that a top-performing leader and an average leader has on an organization is at least 50 percent, according to leaders participating in *Global Leadership Forecast 2011*. This degree of difference is staggering, considering the hundreds (or possibly thousands) of leaders employed at any given organization. In fact, this research demonstrates that organizations with the highest quality leaders were 13 times more likely to outperform their competition in key bottom-line metrics such as financial performance, quality of products and services, employee engagement, and customer satisfaction. Specifically, when leaders reported their organization's current leadership quality as poor, only 6 percent of them were in organizations that outperformed their competition. Compare that with those who rated their organization's leadership quality as excellent—78 percent were in organizations that outperformed their competition in bottom-line metrics (see **Figure 3**).

FIGURE 3 LEADERSHIP QUALITY RELATED TO ORGANIZATIONAL PERFORMANCE



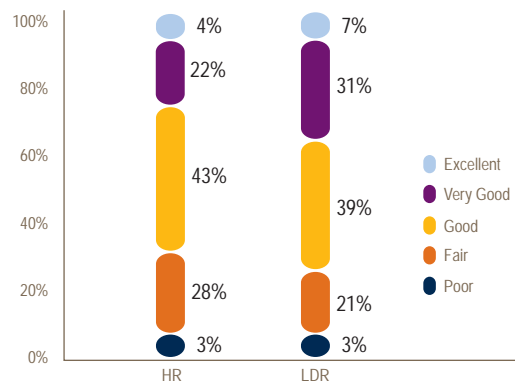
**Leadership quality doesn't affect just the bottom line; it also affects employee retention and engagement.** In this study, organizations with higher quality leadership were up to three times more likely to retain more employees than their competition; they also had more than five times the number of highly engaged leaders. There is considerable research that ties engagement and retention to organizational performance, but one step beyond leadership engagement is passion. Passionate leaders are defined as those who bring their full energy to their work, proactively make decisions and add value, and act with a sense of ownership. Leadership passion should not be ignored because, as DDI reported in *Finding the First Rung* (Erker & Thomas, 2010), the most pervasive reason for employees to take a promotion was greater compensation and *not* their passion for their role. In this research, leadership quality was related to passion as well—leaders in organizations with higher quality leadership were almost eight times more likely to report that the passion of their leaders is high.

Only **38%**  
of leaders  
rated the quality  
of leadership  
highly.

## IS LEADERSHIP KEEPING UP?

Given the gravity of the role that leaders play in today's highly competitive business environment, this question needs to be asked: Do we have the leaders we need to keep up with the speed of business? Unfortunately, the answer is no—only 38 percent of the 12,423 leaders in our study reported that the quality of leadership in their organization is very good or excellent (see **Figure 4**). HR respondents were even more critical, with only one in four rating the quality of their leadership highly. This means that the majority of organizations are missing the opportunity to use their most critical asset to its fullest potential. Making matters worse, ratings published in the previous *Global Leadership Forecast* (Howard & Wellins, 2009) were almost identical, suggesting that, despite the billions spent on an array of talent management initiatives, organizations have not showed much progress.

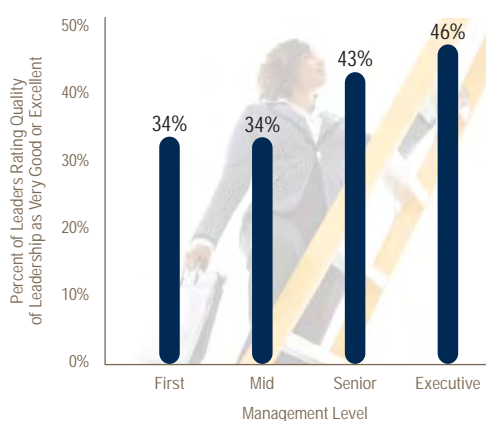
● ● ● ● **FIGURE 4 LEADERSHIP QUALITY**



Leaders at different management levels varied in their evaluations of the overall quality of leadership, a trend found in previous editions of the *Global Leadership Forecast*. It seems that the higher the leader is in an organization, the more

favorable is his or her view of leadership quality (see **Figure 5**). In essence, the view from the top is a rosy one. Higher-level leaders likely have a different view of leadership than mid- or first-level leaders because they are more exposed to and interact regularly with capable colleagues. Another possible explanation is that they have more accountability for developing leaders and are hesitant to admit fault for low leadership quality. Either way, their perspective could prevent them from fully understanding the pressing need to develop leaders at the lower levels of management.

● ● ● ● **FIGURE 5 LEADERSHIP QUALITY ACCORDING TO DIFFERENT LEADERSHIP LEVELS**



Respondents to this study were not alone in their concern about the current state of leadership. According to Bersin & Associates (2011), more than half of organizations state that their business is being held back by a lack of leadership talent and that their top priority in the next year is to improve leadership skills.

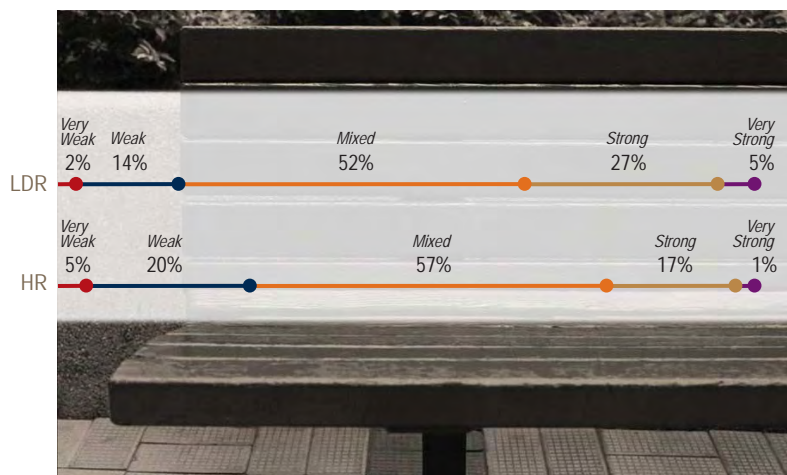


**GLOBAL FINDING:** According to both leaders and HR professionals, leadership quality was rated highest in North America (52 percent of leaders and 30 percent of HR rated it highly) and lowest in Europe and Asia (33 percent of leaders rated it high, as did only 21 percent of Asian HR professionals).

Only **18%**  
of HR professionals  
we surveyed  
reported strong  
bench strength to  
meet future  
business needs.

But perhaps the most troubling news is that only 18 percent of HR professionals surveyed reported a strong bench to meet future business needs (see **Figure 6**). During the recession many organizations were guilty of losing their focus on talent, and the consequences of that are evident. Organizations don't have the leaders they need today or, more importantly, for the future. With two out of every three leaders reporting that the quality of leadership is low (and has been for over the past decade, according to previous editions of the *Global Leadership Forecast*) and bench strength alarmingly weak, progress in improving leadership quality has been stagnant for far too long. In today's highly competitive global economy, this is a liability that organizations can no longer afford.

● ● ● ● **FIGURE 6 BENCH STRENGTH TO MEET FUTURE NEEDS**

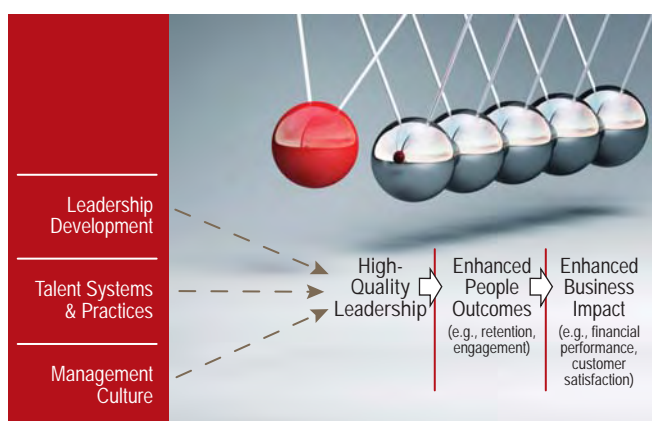


When we first found evidence of this truly dire state of leadership, we thought it was time that leadership practices evolve. But after further consideration, evolution seems too light-handed (and relaxed) for the kind of progress that needs to be made. As organizations are forging ahead at lightning speed and revolutionizing all other parts of the business, it's time for leaders to move forward too. The time has come to **revolutionize leadership practices** to develop the leadership capability that can keep up with the speed of business.

### THREE DRIVERS FOR IMPROVING LEADERSHIP QUALITY

So, how can organizations revolutionize their practices to drastically improve the quality of leadership? According to the leaders surveyed in this study, high-quality leadership has three key drivers: **leadership development**, other **talent management systems** that build a high-quality leadership pipeline, and **management culture** (see Figure 7).

FIGURE 7 DRIVING BUSINESS THROUGH LEADERSHIP PRACTICES



Improving the quality of an organization's leadership involves identifying the critical skills leaders need to succeed and then providing leaders with opportunities to develop and apply those skills effectively. Quality of leadership is improved also by ensuring the effectiveness of the talent management systems that support development, such as leadership selection, performance management, and leadership succession. Finally, leaders cannot be effective in an environment in which employees lack the freedom to make decisions or to innovate. An effective management culture enables and empowers others, which allows organizations to capitalize on their talent. When these three factors are working together, the synergistic result is higher-quality leaders who, as previously demonstrated, can effectively enhance people outcomes as well as drive business impact. The remainder of this report will discuss each of the three drivers in more depth.

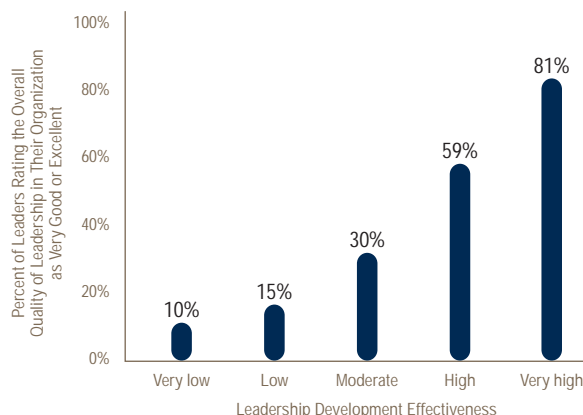




## LEADERSHIP DEVELOPMENT: IT WORKS, BUT IT'S NOT WORKING

According to the leaders who participated in this study, training and development systems are the leading determinant of leadership quality, beating out selection, performance management, and succession systems. In fact, leaders in organizations with more effective leadership development programs were eight times more likely to rate the quality of leadership as very good or excellent (see **Figure 8**).

**FIGURE 8 EFFECTIVENESS OF LEADERSHIP DEVELOPMENT AFFECTS LEADERSHIP QUALITY**



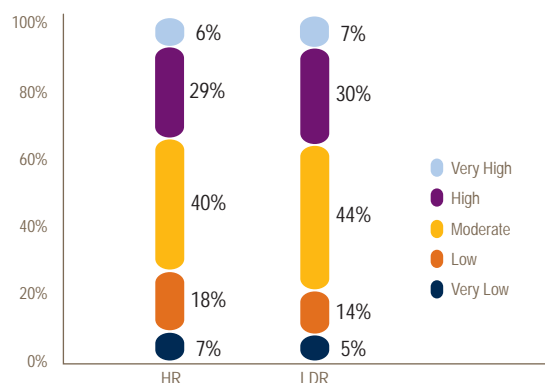
*“Our capability is weak due to years of focusing on business objectives that did not include developing leaders.”*

—HR PROFESSIONAL,  
FINANCIAL SERVICES  
INDUSTRY

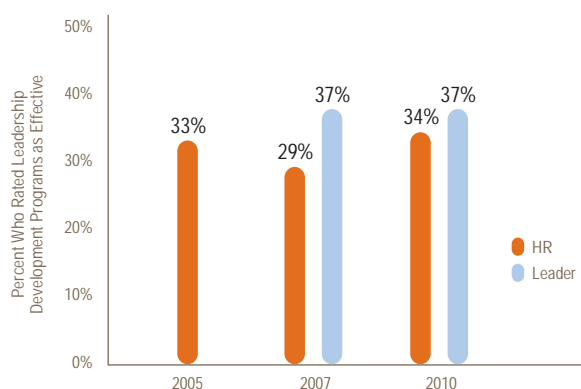
Yet, only about one-third of leaders and HR professionals (see **Figure 9**) rated their organization's leadership development efforts as effective, and there has been virtually no progress in this area over the past five years (see **Figure 10**). This is bad news for leaders, the people they lead, and the organization, as the role of a leader continues to become increasingly critical.

*Only 1/3 of leaders and HR professionals rated their leadership development efforts as highly effective.*

**FIGURE 9 LEADERSHIP DEVELOPMENT EFFECTIVENESS**

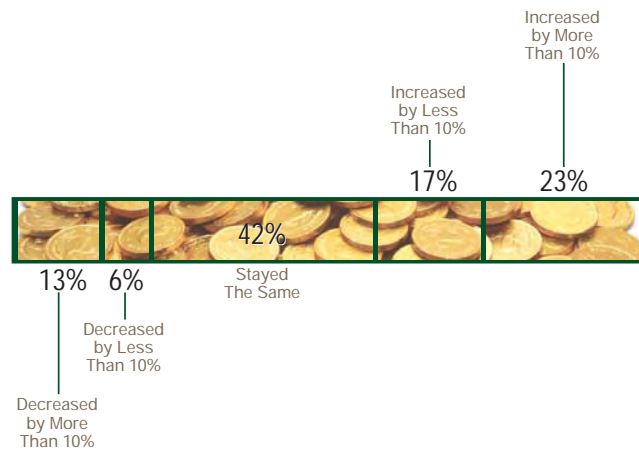


**FIGURE 10 LEADERSHIP DEVELOPMENT EFFECTIVENESS OVER THE YEARS**

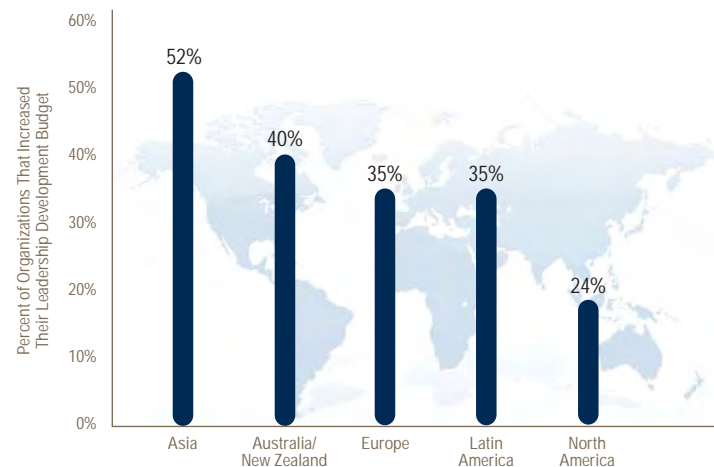


It's easy to assume that leadership development effectiveness is suffering because development budgets are suffering. But our findings do not support that hypothesis. Four in ten organizations maintained the same level of funding for their leadership development budgets this year, and a similar percentage increased their budgets (see **Figure 11**). There were regional differences, with Asian countries increasing their spending on development the most and North America the least (see **Figure 12**). This is largely due to the fact that countries like India and China were less affected by the recession and are still rapidly growing their workforces.

● ● ● ● **FIGURE 11 2011 LEADERSHIP DEVELOPMENT BUDGETS**

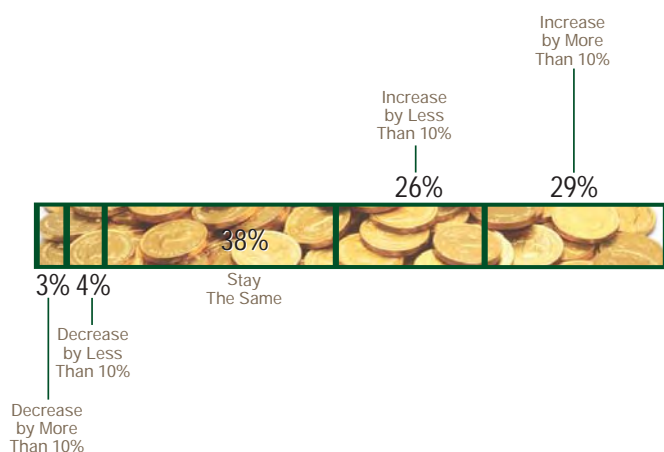


● ● ● ● **FIGURE 12 LEADERSHIP DEVELOPMENT BUDGETS**



The majority of organizations also are planning to ramp up spending on leadership development (see **Figure 13**). Of the organizations we surveyed, 55 percent plan to increase their budgets in 2012, while only 7 percent expect it to decrease; the rest project it to stay the same. With budgets on the rise and the quality of leadership not following suit, the question remains: *What can organizations do to get a better return on the billions being spent on leadership development each year?*

● ● ● ● **FIGURE 13 EXPECTED 2012 LEADERSHIP DEVELOPMENT BUDGETS**



## CRITICAL SKILLS: THE WHATS

To better understand how to improve the effectiveness of leadership development initiatives, this research asked two questions:

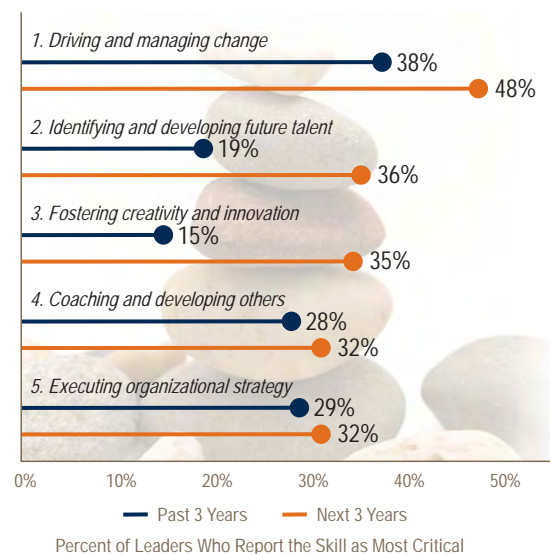
1. **Whats:** Are organizations focusing on developing the right leadership skills for today and tomorrow?
2. **Hows:** Are organizations using the right methods and approaches?

Leaders were asked to identify the critical leadership skills needed in the past three years and those they will need in the next three years. The top three skills critical for leaders in the past were driving and managing change, executing organizational strategy, and coaching and developing others. These are not surprising given the business landscape of the past several years. Change has been abundant, and amid the turbulence, execution has been prioritized. But as organizations begin their recovery, leaders recognize that there are some major differences in the relative importance of skills they will need for the next three years.

## A DIFFERENT FUTURE

Driving and managing change will remain the number one priority for leaders over the next three years, up a full 10 percentage points in the number of leaders who find it critical for their role. (Figure 14 shows the top five skills for the future in order of criticality.) The vast majority of organizations surveyed are in the process of changing their business models and services, going global, or looking for ways to be more competitive. Leaders will have to operate under

● ● ● ● FIGURE 14 MOST CRITICAL SKILLS NEEDED IN THE PAST AND FUTURE



these constantly evolving conditions for the foreseeable future. Coaching remains a critical skill for leaders as workforces stay lean and a premium is placed on top talent. And it's hard to imagine a time when executing organizational strategy will not be critical.

But one of the skills that rose to the top of the list that wasn't as critical in the past three years is identifying and developing talent. The war for talent may have been on a hiatus during the downturn, but the war is heating up again, and especially so in emerging economies such as India and China where organizations will struggle to fill hundreds of thousands of job openings (Manpower, 2011). The leaders of tomorrow will need to be talent scouts, always on the lookout for the best internal and external talent. And once they find them, they will need to accelerate their development.

Fostering creativity and innovation is another new priority rising to the top of the list. The number of leaders citing innovation as a critical skill increased more than for any other skill. Innovation has become a mantra for many organizations as they shift from a recessionary, cost-cutting mind-set to a competitive one. According to The Boston Consulting Group (2010), 72 percent of executives list innovation as a top priority, the highest percentage since it began conducting the annual research. The same study shows that those who focus on innovation enjoy up to a six-fold advantage on total shareholder return versus their industry peers. IBM's *Capitalizing on Complexity* (2010) study also reports that CEOs place a premium on leaders who can drive innovation, rating it as the most important leadership quality.

So, if creativity and innovation are top leadership skill requirements, what does that really mean? Can it be taught? What is a leader's role in innovation? Working with the LUMA Institute, a leading innovation think tank, DDI has begun to answer these questions.

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*"We used to be a culture of perfection, get it exactly right, don't take risks, don't try it if you're not sure you're going to win. But that's not the way the world operates anymore."*

---

—SENIOR-LEVEL LEADER,  
LARGE INSURANCE COMPANY

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**GLOBAL FINDING:** *Leaders in North America and Australia did not cite fostering creativity and innovation as one of the top three critical skills needed over the next three years. Asian leaders placed the biggest emphasis on innovation.*



## INNOVATION: AN IMPERATIVE AS NEVER BEFORE

By Ellie Hall, Executive Consultant, Executive Solutions Group, DDI

Innovation has always played an important role in business success. However, the global economic downturn has put a spotlight on innovation's importance. Organizations now know they need to craft innovative solutions to address customer concerns that their products and services may be too complex, expensive, and slow to deliver. The pressure on leaders to analyze, experiment, and implement innovative solutions is tremendous because it's increasingly evident that innovative organizations are more likely to succeed than those that stick to the tried-and-true.

Leaders themselves don't have to be highly creative to drive a culture of innovation. In fact, an innovation mandate is not met by teaching creativity to leaders. Instead, leaders need to set and model ideal conditions for innovation. They also must support, promote, and maintain a workplace culture that inspires and rewards teams for creating and implementing new and innovative solutions.

To build a culture of innovation, leaders must address four critical obstacles: lack of stakeholder understanding, lackluster ideas, aversion to risk, and failure to execute. When people question their assumptions about stakeholders, think differently about potential solutions, experiment in order to build the highest value solutions, and get things done so that solutions are brought to market, they begin to overcome the challenges to innovation in an organization. It's the leader's role to inspire curiosity, challenge assumptions, create freedom to experiment, and drive the discipline of execution. As leaders put these actions into place, they create a culture that encourages and rewards innovation.



## ARE LEADERS PREPARED TO MEET THOSE CHALLENGES?

With a clearer picture of what skills leaders will need to drive business success over the next three years, a question that still needs to be answered is: Do they have what it takes? Unfortunately, leaders tell us that they don't. When asked to rate their own effectiveness in each of the leadership skills, 40 percent or more of leaders said they were ineffective in any of the top five critical skills (see **Figure 15**). In fact, the most critical skills needed in the future (such as innovation) are what leaders are least effective in today.

● ● ● ● ● **FIGURE 15 LEADERS' INEFFECTIVENESS IN CRITICAL SKILLS**



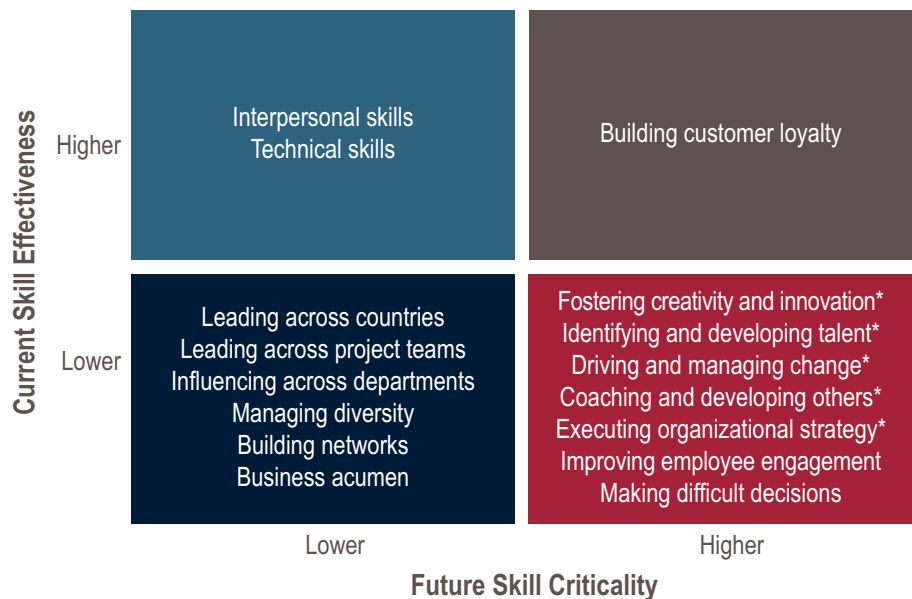
*“Changes are happening far more rapid(ly) than we anticipated. Creativity and innovation will give our organization the edge over competitors.”*

—CEO, FINANCIAL SERVICES

*About 1/2  
of leaders  
are currently  
ineffective in the  
skills critical  
for the next  
three years.*

**Figure 16** shows how all 16 leadership skills in the study fell in four quadrants based on two factors: criticality and effectiveness. The skills were split into two even groups for criticality (lower equals the bottom eight skills, higher equals the top eight skills). The skills also were divided into two effectiveness categories, lower (less than 60 percent of leaders are effective in the skill) and higher (60 percent or more of leaders are effective). Most leaders reported themselves to be lacking in most of the leadership skills; the skills leaders are least effective in and are also the most critical for their roles are shown in the bottom right quadrant. This grid paints a dismal picture in terms of leaders' abilities to drive future business because they are not proficient in any of the top five future critical skills.

● ● ● ● **FIGURE 16 CRITICALITY AND EFFECTIVENESS OF SKILLS**



**Note:** Asterisks indicate the five most critical skills needed for the future.

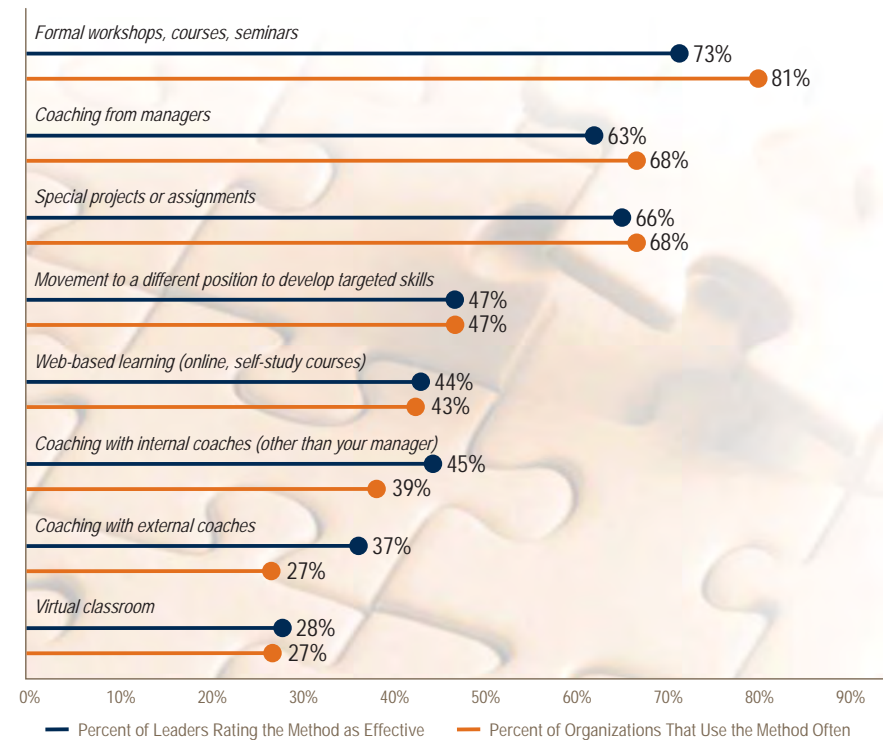
Why are so many leaders deficient in these critical skills? The most critical skills for the future are progressive—driving change, identifying talent, and fostering innovation are not for the meek or rule-governed. It takes a special breed of leader to excel at these. Part of the reason so many leaders are ineffective may lie with their personal attributes or dispositional qualities. HR professionals were asked to identify the most common personality shortcomings of leaders in their organization. These shortcomings, more apparent in times of stress, are often called “derailers” because they can significantly impair a leader’s performance. Derailers are difficult to change because they are more ingrained in personalities and require that leaders move out of their comfort zones. The culture in an organization also can accentuate derailers. (Culture will be examined in more detail later in this report.) For example, when an organization punishes risk taking, leaders are discouraged from thinking outside the box.

According to HR professionals, the most common personality derailers of leaders in their organization were risk aversion, distrust, and approval dependence (58 percent selected risk aversion and 44 percent selected distrust and approval dependence). Risk aversion and approval dependence are likely to hinder a leader’s ability to be comfortable in driving change and fostering innovation. Risk aversion refers to leaders who play it safe in their decisions and actions. During the recent economic crisis, leaders probably were reinforced for doing exactly that. Approval dependence refers to leaders who have difficulty acting independently; they look to their bosses or peers for permission to act. These personality characteristics hold leaders back from challenging existing paradigms and thinking outside the box, two important approaches for fostering innovation.

## DEVELOPMENT METHODS: THE HOWS

Knowing which skills leaders need to develop is only half the battle. There are many ways leaders can develop and a variety of tools they can use to enhance their learning experience. Below is a review of what kind of development methods organizations are providing, how leaders perceive the effectiveness of those methods, and which ones have the greatest impact on development. HR professionals indicated which development methods they used most often, while leaders weighed in on the effectiveness of each of those methods (see **Figure 17**).

FIGURE 17 USE AND EFFECTIVENESS OF DEVELOPMENT METHODS



**GLOBAL FINDING:** To develop their leaders, North American organizations use web-based learning and virtual classroom more and external coaches less compared to other regions. Latin American organizations use manager coaching less than those in other regions.

The good news is that there is congruence between what leaders and HR professionals reported. The methods leaders perceived as the most effective are the same ones HR professionals relied on most often. For example, HR professionals rated formal workshops as the most used method, and 73 percent of leaders perceived this method as effective. Web-based and virtual classroom training methods fell short, not because they are ineffective, but because many organizations use courses that either are not engaging or lack skill-building components. DDI's research has shown that both web-based and virtual classroom training have promise for developing more effective leadership skills. However, to be effective, they require a combination of engaging design and built-in supplemental skill practice sessions.

The bad news is that when we looked at the relationship between the use and effectiveness of each method, we found that organizations were ignoring other important leadership development methods (see **Table 2**). Organizations with more effective leadership development programs tended to use four methods more often and more effectively: formal workshops and three types of coaching—manager, internal, and external. The majority of organizations are utilizing two of these methods successfully (formal workshops and manager coaching), while neglecting the other two (internal and external coaching). Only 27 percent are utilizing external coaches and only 39 percent are utilizing internal coaches successfully to develop leaders. If organizations want to create more effective programs, they should put more effort into utilizing methods that have a greater impact on overall development, such as multiple types of coaching methods.

*Only 27% are  
utilizing external  
coaches and  
only 39% are  
utilizing internal  
coaches successfully  
to develop leaders.*

 **TABLE 2 METHODS MOST RELATED TO DEVELOPMENT EFFECTIVENESS**

CURRENTLY UTILIZED	CURRENTLY UNDERUTILIZED
Formal workshops, courses, seminars	Coaching from internal coaches
Coaching from managers	Coaching from external coaches

It is important to note that our data shows that leaders are still largely ineffective as coaches. Coaching is a skill that can be learned and developed only through continuous practice and feedback. There are dozens of books and courses on the theory and behaviors behind great coaching, but not a single one will turn leaders into great coaches. It takes far more than a good book to make progress.



## DELIBERATE PRACTICE MAKES PERFECT

By Jim Concelman, Vice President, Leadership Development, DDI  
Janice Burns, Senior Consultant, Leadership Solutions Group, DDI

Vince Lombardi, one of sport's greatest coaches, had a philosophy about practice that is as relevant to leadership as it is to sports: "Practice does not make perfect. Only perfect practice makes perfect."

High-performing leaders get there through perfect—or deliberate—practice; that is, specific and purposeful activities designed to improve performance that are practiced over time.

The first step in deliberate practice is to identify specific skills or areas of performance that need to be developed, and then intentionally improve them. There's no doubt that leaders need many skills—such as influencing, managing change, and coaching—to succeed. However, there are essential skills—such as empathy and involvement—that leaders also need when interacting with others. These essential skills are best learned in formal training or a workshop, the method that leaders and HR professionals still rate the most effective. Deliberate practice is not a spectator sport, yet leaders can benefit from watching a demonstration of a skill before trying it themselves.

Successful skill development requires repetitive, effortful practice combined with real-time feedback. To become proficient, leaders need to practice the essential skills at least four times over an extended period and in a variety of situations. Guided practice with specific feedback ensures that the focus is on the specific behaviors the leader needs to improve, stretching the leader to higher levels of skill and expertise.

Deliberate practice is not achieved by keeping it locked up in the classroom. It extends into the workplace, where experience and application, supported by social media and informal learning, help leaders refine their abilities and enhance their performance.

## LEARNING: FROM AN EVENT TO A JOURNEY

At this point you might be asking, How many of these methods should our organization be using to develop our leaders? According to our research, when it comes to how many development methods to use, the answer is simple: the more, the better. Participating organizations were divided into three groups according to leader ratings of the effectiveness of their leadership development initiatives. As it turns out, the most effective organizations used a greater number of development methods compared to the less effective organizations.

However, it's not just the sheer number of methods used that matters, but how those methods are blended together. A strategic mix of well-designed and well-executed methods is the key to effective development. The 70/20/10 approach to learning posits that 10 percent of learning should consist of formal training, 20 percent should be learning from others (e.g., coaching), and 70 percent should occur on the job. In addition to the importance that formal training clearly plays in development, many leaders mentioned in interviews the influence that a good mentor or coach had on their careers. Similarly, others talked about how a global assignment radically changed their perspective. This mix ensures that there isn't an overreliance on one method because each method offers something new and important.

Of the 70/20/10 approaches, this *Global Leadership Forecast 2011* found that formal training is the most effective method. It provides leaders with a way to practice essential foundational skills in a safe environment. A major criticism of formal training is that it can be implemented as a one- or two-day event that isn't personally engaging or relevant for leaders. The question then is how can organizations turn the 10 percent into something with more impact that goes beyond a discrete learning event.





## DEVELOPMENT: THE LEARNING JOURNEY

By Aviel Selkovits, Project Manager, Leadership and Workforce Solutions, DDI  
Ellie Hall, Executive Consultant, Executive Solutions Group, DDI  
Janice Burns, Senior Consultant, Leadership Solutions Group, DDI

Development is not a one-time event. It's an integral part of the “learning journey,” which should be founded on the challenges facing an organization and what leaders must do to drive the business forward.

DDI's Learning Journey<sup>SM</sup> experience is designed so participants can engage in the development process together. This journey takes place over time and consists of multiple formal and informal learning components and experiences. It begins with a review of relevant organizational and assessment data, the business drivers, and the target audience's development gaps. This information is used as the starting point for designing the learning journey.

When designed right, three critical perspectives converge in the learning journey, enabling individual and organizational transformation. These perspectives are business—understanding and solving business challenges and cultural priorities; role—improving leadership in one's area as well as

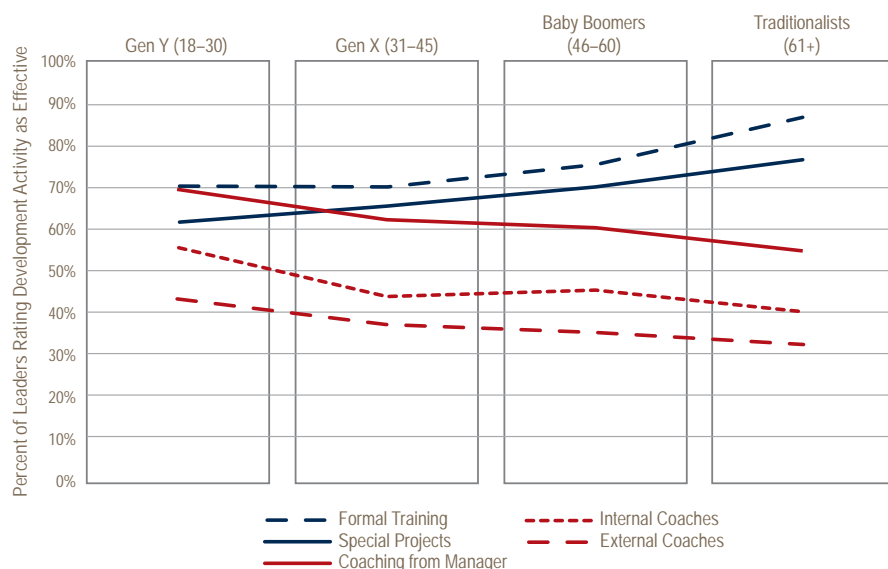
the overall organization; and self—evolving one's knowledge, experience, competencies, and beliefs. Other best practices for creating a learning journey include the following:

- **Seek diverse perspectives**—Engage multiple stakeholders from various functions and levels to gain a wide and multifaceted perspective on what is most critical to the organization.
- **Focus on what's most important**—Spend more time on and provide multiple learning experiences to develop the competencies and knowledge for the highest priority business drivers.
- **Include formal and informal components and experiences**—In addition to courses (instructor-led, virtual, web-based), include technology-driven components such as podcasts, wikis, and blogs. Structured development experiences, such as action learning projects, along with the opportunity to network with and learn from others ensure a deep level of learning.

## DIFFERENT STROKES FOR DIFFERENT FOLKS

With the anticipated retirement of the large baby boomer generation from the workforce, the importance of passing on their expertise and knowledge to younger generations becomes a paramount issue. According to this report, Generation Y leaders are the least engaged of all age groups in their jobs. One reason for this disengagement may be that they are seeking development in ways organizations are not effectively providing it (see **Figure 18**).

● ● ● ● **FIGURE 18 DEVELOPMENT PREFERENCES BY GENERATION**



*Generation Y  
leaders  
find all three types  
of coaching to be  
more effective  
for development.*

Unlike their older colleagues, the Generation Y cohort found all three types of coaching (manager, internal, and external) to be more effective for development, suggesting that they value learning through the experiences of others. For this generation, organizations would be advised to set up coaching networks of all types. Older generations, on the other hand, favor formal training and special projects as ways to hone their skills. At this point in their careers, seasoned leaders have had numerous, significant on-the-job experiences; now they want specialized support to help them through specific challenges. (See **Table 3** on next page.)

● ● ● ● **TABLE 3** **GENERATIONAL LEARNING DIFFERENCES**

	YOUNGER GENERATION OF LEADERS	OLDER GENERATION OF LEADERS
<b>COACHING PREFERENCES</b>	Desire to learn from others via coaching	Ample opportunity to have learned from others—in fact, they should be coaching newer leaders
<b>LEARNING STYLE</b>	Less likely to embrace the formal structure of a classroom	Want formal training on specialized topics and projects

In summary, to revolutionize leadership development practices to significantly improve the quality of leadership, organizations need to focus on developing the skills that will be critical for future leadership success, such as driving change, fostering innovation, and identifying and developing talent. And considering the nature of the skills and the different types of learners in the workforce, organizations need to provide multiple ways for leaders to learn these difficult skills.

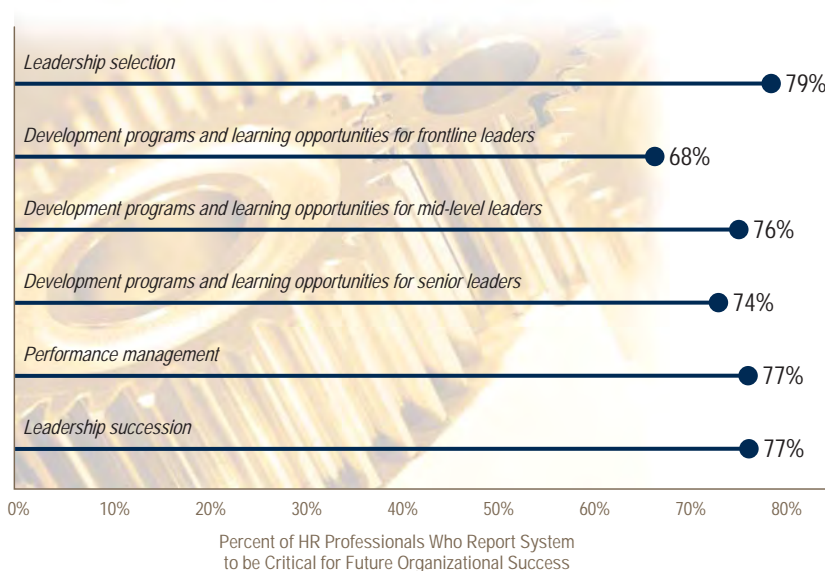
## TALENT MANAGEMENT: IT'S MORE THAN JUST DEVELOPMENT

Organizations need more than an effective development strategy to ensure they have a ready supply of capable leaders. Development is just one component in a comprehensive talent management system. DDI defines talent management as a mission-critical process that ensures organizations have the quantity and quality of people in place to meet current and future business priorities. The process covers all aspects of an employee's life cycle, starting when the organization selects the right leaders, then continuing to when the person's performance is aligned to the organization's strategic goals with an effective performance management system. It's fueled with effective development and leadership succession efforts. Improving the quality of leadership involves doing all of these things well.

HR professionals were asked to rate the importance of each of their talent systems in terms of its impact on organizational success (see **Figure 19**). Although development was deemed important by the majority of them, even more HR professionals considered other systems critical for organizational performance. On the whole, talent management is clearly a driver of

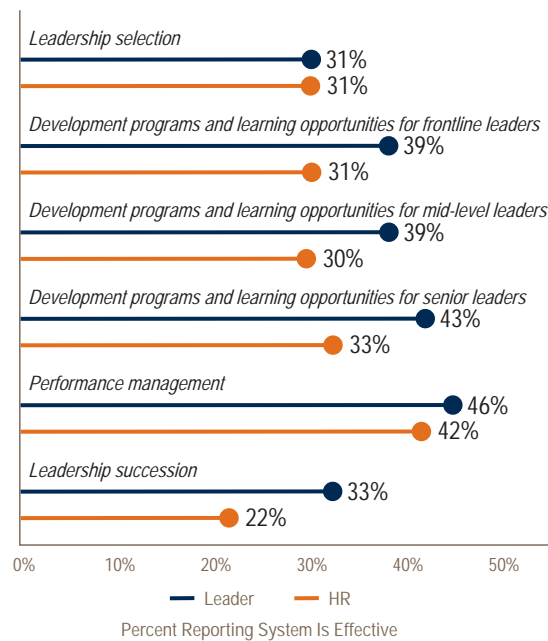


**FIGURE 19 IMPORTANCE OF TALENT MANAGEMENT SYSTEMS FOR FUTURE ORGANIZATIONAL SUCCESS**



organizational success. Unfortunately, leaders and HR professionals alike rated the current effectiveness of these systems as dismal (see **Figure 20**). Although performance management was rated highest, less than half of leaders and HR professionals rated their system's effectiveness as high. On the other hand, a mere 22 percent of HR professionals rated their succession system as effective. What follows are more in-depth findings for each of the talent management systems (except leadership development, which was covered in the first section of this report).

● ● ● ● **FIGURE 20 EFFECTIVENESS OF TALENT MANAGEMENT SYSTEMS**



## SELECTION SYSTEMS: STAYING OBJECTIVE

Every organization has experienced the consequences of a poor hire. Selection is the critical first step in talent management because no amount of development or performance management will make up for a poor hiring decision.

In this study more HR professionals rated leadership selection as the talent management system critical to future organizational success; yet, leaders reported selection to be the least effective system. Less than one-third of both HR professionals and leaders rated selection systems as effective in their organization (see **Figure 20**). This finding is even worse than DDI's *Selection Forecast 2006-2007*, which reported that about half of its respondents, both staffing directors and hiring managers, were satisfied with their hiring processes.

What does effective selection look like? Effective selection starts with the answers to these questions: What do successful leaders in the organization need to be capable of? What knowledge and experiences must they have? What personality characteristics will be helpful for success? The answers to these questions constitute a "success profile." Considering the current changing business landscape, organizations should be reevaluating their success profiles because the answers to these questions are constantly evolving.

After clearly identifying what it takes for leaders to be successful now and in the future, the organization's next step is to choose the right selection tools. Some characteristics in leaders are more innate and, thus, difficult to develop (see **Figure 21**). For that reason, using proven tools to select for those characteristics is the most effective way to make sure the organization is

*Only 31% of leaders and HR professionals rated the effectiveness of leadership selection as high.*

● ● ● ● **FIGURE 21 EASE OF SKILL DEVELOPMENT**





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*“The definition of what makes a successful leader has been somewhat results-focused in the past. This definition has evolved (in a positive way), and therefore the realization of what we really have sitting on the bench has hit us.”*

—HR PROFESSIONAL,  
ENTERTAINMENT INDUSTRY

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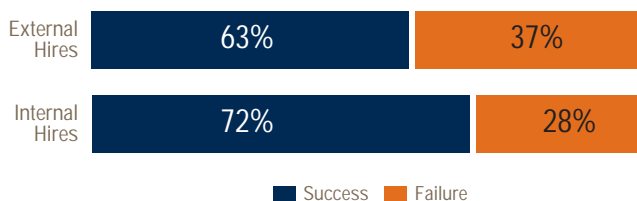
*Only 1 in 3 organizations use validated tools to make leadership selection decisions.*

making the right hiring decisions. Among the HR professionals surveyed, only one-third are using validated tools (e.g., tests, assessments, simulations) to make important leadership selection decisions. To make the right selection decisions, it's essential that selection tools are (a) targeted on the critical skills, knowledge, and experiences needed to execute business strategies, and (b) proven to predict performance.

Because so few organizations use validated tools, it's not surprising that one-third of newly hired leaders are considered to be failures (see **Figure 22**). This statistic is worrisome given the enormous cost associated with failure in leadership positions. As reported in *Forbes* (2010), “A bad corner-office hire can cost ten times the hire's base salary....Those estimates don't include morale loss and the risk a departing executive may poach talented employees.”

Internal hiring may have better success because both parties (hiring manager and hire) have more information. Hiring managers can glean data from an internal hire's work performance history, and the internal hire has inside information about the role and the organization's culture. However, using selection tools is still critical for internal hiring and promotion because past performance is only partially predictive of future performance in a new role. With regard to external leadership hires, validated selection tools are the single most effective way to ensure that objective data is collected to inform selection decisions. **To revolutionize their selection systems to hire higher-quality leaders, organizations need to more thoroughly gather the data needed to make these critical business decisions.**

● ● ● ● **FIGURE 22 LEADERSHIP HIRING SUCCESSES AND FAILURES**



## PERFORMANCE MANAGEMENT SYSTEMS: DISCUSSIONS, NOT FORMS

Performance management is the process for translating an organization's mission and strategies into actionable goals that the individual can own. Effectively managing leaders' performance is critical for organizations because executing organizational strategy is closely linked to and dependent on leaders accomplishing their objectives.

On a positive note, leaders in this study rated the effectiveness of their organization's performance management systems higher than any other talent management system. This might reflect the fact that senior managers in many organizations see performance management as an essential component of managing the business, not just an HR system. And, with the advent of performance management software systems, top-down alignment becomes easier and more transparent. However, more than half of the leaders surveyed did not rate their organization's performance management system as highly effective.

More specifically, 8 in 10 leaders reported that their individual performance expectations were tied to corporate goals and strategies. Leaders also reported that their performance management systems took into account what they were to accomplish and also how their objectives were achieved. Furthermore, almost 7 in 10 leaders agreed that performance appraisals have an appropriate balance between the "whats" (i.e., objectives, quantitative goals) and the "hows" (i.e., competencies, behaviors used to achieve objectives).

*More than **1/2**  
of the leaders  
surveyed did not  
rate their  
organization's  
performance  
management system  
as highly effective.*



One area still needs work: Only a little more than half (56 percent) of the leaders surveyed believed that their performance review discussions provided them with clear direction and coaching about how to enhance performance. For many leaders the focus of performance management is still on compliance, such as filling in the form, following the process, and submitting ratings. What gets lost in the process is the discussion.

**The true value of performance management lies in the quality of the discussions leaders have with their managers.** Performance management shouldn't be an isolated event that happens once a year; it's a process designed to monitor, inspire, and improve high performance. An example of this can be found at Atlassian, an Australian software company. Atlassian's revolutionary performance management system goes beyond the yearly performance review. Each month, employees have a discussion with their particular leader about a special topic. Topics can range from what they love and hate about their jobs to future career goals. Such discussions make performance management more than just filling out a form.

To revolutionize performance management, managers of leaders need to drive it by (1) ensuring performance discussions occur, and (2) providing leaders with clear accountabilities, timely feedback about their performance, and guidance around development. In fact, this is also a good model for leaders to follow when managing the performance of their own direct reports.

## SUCCESSION MANAGEMENT SYSTEMS: STRATEGICALLY PLANNING FOR THE FUTURE

Succession management is less about the present than it is about the future. Its focus is on ensuring that organizations have the right quantity and quality of leaders—at all levels—to meet the unpredictable business needs of the future. Contrary to popular belief, succession management is not just for senior-level positions; it should be for the entire leadership pipeline.

Unfortunately, only 22 percent of HR professionals rated the effectiveness of their succession system as high (see Figure 20). In further support of this, Bersin & Associates (2011) found that one of the key talent challenges organizations are facing is the need to fill gaps in their leadership pipeline. Today's gaps may be even greater because of the recent changes in the business landscape. If the competition changes, if the economy changes, and if consumer expectations change, the skills that once helped to drive business success probably won't drive continued success (Lombardi & Bourke, 2010).

The majority of organizations clearly have neglected this key area, and that neglect is taking a toll. Remember, only 18 percent of organizations reported having strong leadership bench strength (see Figure 6). When asked why, time and again they cited a lack of focus, strategy, and formality of succession planning. Often, the organization's rapid growth was cited as the reason for this gap; other times, it was simply a lack of foresight.

*Only 22%  
of HR professionals  
surveyed rated their  
leadership succession  
system as highly  
effective.*



**GLOBAL FINDING:** *Among HR professionals, Australia's bench strength is weakest (only 9 percent report bench strength to be strong), followed by North America (14 percent) then Latin America (16 percent). Although Asia (21 percent) and Europe (26 percent) had higher ratings, bench strength is still a severe problem for organizations around the world.*

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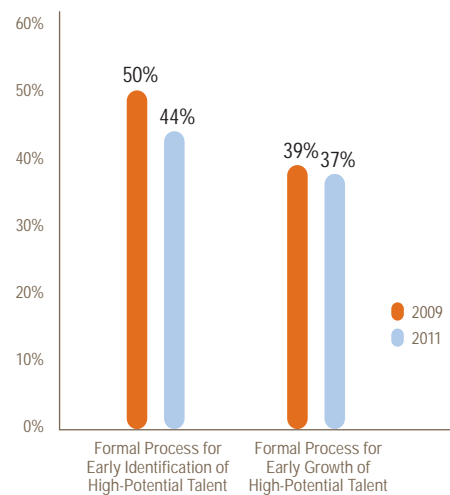
*“We need to develop key talent for the future in a strategic way, not by default.”*

—SENIOR-LEVEL LEADER,  
METALS AND MINING  
INDUSTRY

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Among the many practices required for successful succession management systems, this study focused on two: identifying and growing high potentials and moving leaders through the pipeline. This study found that fewer organizations have formal succession strategies in place than they did two years ago. Today, less than half of the organizations surveyed have a formal process for early identification of high-potential talent, and just over one-third have formal processes for early growth of high-potential talent (see **Figure 23**).

● ● ● ● **FIGURE 23 FORMALITY OF SUCCESSION PLANNING STRATEGIES**



Without a more formal strategy, expecting that the most capable talent will land serendipitously in the most critical positions is highly unrealistic. Identifying leadership potential can be tricky, as many people still mistake potential for current performance. Clear criteria for defining potential are important.

For example: A major automobile company sent its top 25 high-potential leaders through an executive assessment process to determine who would be groomed for promotion. When the results came back, the company president strongly objected because two high performers he felt strongly about weren't on the list. In a team discussion it was discovered that the president's criteria for potential were too narrow, and the two clearly were not the right leaders for the current environment. A more rigorous process ensured that the right talent were being groomed to lead the organization in the future.



## PERFORMANCE VS. POTENTIAL REVELATION

By Audrey Smith, Senior Vice President, Executive Solutions Group, DDI

Organizations recognize that developing leaders from within (a “grow your own” strategy) is crucial to achieving critical business objectives. However, too many organizations struggle deciding on whom and where to invest their time, money, and development resources. When stocking high-potential pools, they might miss opportunities to ensure a balanced and diverse pool of internal talent by using vague or inconsistent criteria, evaluating current performance rather than future potential, or basing nominations on one manager’s unchallenged perspective. They also mistake the high-level evaluation that admits people into the pool with a formal, in-depth diagnosis of their readiness for leadership roles.

In DDI’s experience, organizations with effective succession management programs recognize that performance, potential, and readiness differ. They distinguish between current high performers, those ready for a near-term promotion, and individuals with the potential to achieve success in executive positions. These organizations also differentiate between development and routine progress review for those leaders deemed to grow two or more levels within a specified time frame (e.g., 3–5 years).

Organizations can improve the odds for preparing to meet critical business needs by knowing how to spot executive potential early in leaders’ careers, then concentrating development efforts on those leaders who show the greatest promise. However, a leader’s ability to grow relies on factors that are difficult to develop. To predict who will succeed in an expanded role, it’s important that screening of high potentials incorporates hard-to-develop personality traits, such as propensity to lead, culture fit, receptivity to feedback, and adaptability.

Best-practice organizations design talent diagnostics and avoid the mistake of oversimplifying individuals being considered for higher-risk roles. They also are more likely to leverage holistic assessments of the knowledge, experience, competencies, and personal qualities pivoted to success. The long-term effects of backing the wrong choice can be devastating.

*Only 26%  
of organizations  
have effective  
programs to  
ensure smooth  
leadership  
transitions.*

Once high-potential talent have been identified, it's time to accelerate their development. A second key aspect of succession management is ensuring smooth transitions as leaders go from one level to the next in the organization. It's incorrect to assume that leaders who excel in their current position will excel in their next one. The inherent flaw in this logic is that new roles require leaders to operate under different circumstances for which they might have no experience. In this study two-thirds of leaders have made a leadership transition in the past five years, but only 26 percent of organizations have effective programs to ensure smooth leadership transitions. Most development efforts occur once leaders are in their new role, not before—which helps to explain why, on average, only 1 in 4 leaders found their transitions to be easy. Leaders reported that they would have benefited most during their transitions from having a better understanding of the new ways of thinking required in the new role, early experiences that were relevant to their new position, and a better self-awareness of their strengths and growth areas related to their new assignment.

To smooth the transition, organizations can use a variety of assessment tools to help make better promotion decisions as well as help leaders see their potential blind spots in advance. Organizations also can ensure that leaders have ample support in their development with coaching before and during the transition. **To revolutionize succession systems, organizations need to have a long-term focus and to build formal processes for identifying and preparing future leaders.** If the responsibility for success rests on leaders' shoulders, shouldn't organizations provide them with all the help and support they need to ensure success?

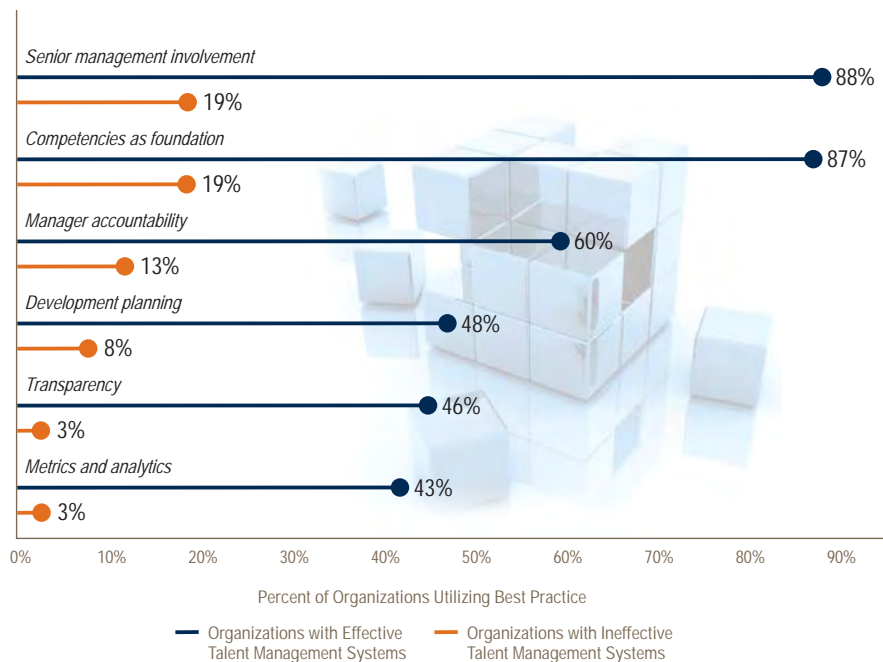
## BEST PRACTICES FOR BUILDING EFFECTIVE TALENT MANAGEMENT SYSTEMS

We have discussed the major components of talent management and the critical role they play in growing the quality of leaders that organizations need. But effective talent management systems rely heavily on how well those systems are implemented. This research identified a number of practices essential to fueling the effectiveness of any talent management system (see **Figure 24**). For example, measurement and analytics are key for selection, development, performance management, and succession systems. Ultimately, organizations with more effective talent management systems followed the best practices listed in the chart below; less effective organizations did not.

*“We are great at rolling programs out but not so good at following through.”*

—SENIOR LEADER, HEALTH CARE INDUSTRY

FIGURE 24 TALENT MANAGEMENT BEST PRACTICES



*Only **57%**  
of organizations use  
competencies as the  
foundation for  
all of their talent  
management  
systems.*

## COMPETENCIES AS THE FOUNDATION

Imagine learning a language that has 100 different definitions for any given word. The same difficulty often faces leaders. Without clearly defined competencies as a basis for all talent management systems, leaders are left guessing what it takes to be successful in their jobs, and managers of leaders don't have a measurement system for evaluating performance or making promotion decisions. Almost two-thirds of organizations have clearly defined competencies for key leadership positions. However, only 57 percent of organizations use those competencies as the foundation for their talent management systems. Using competencies throughout an organization's talent management system helps drive alignment and creates a common language between systems and among employees. For example, one of the world's largest hotel chains uses competency models as a basis for managing the talent progression of thousands of global employees from initial selection to training and in making key promotion decisions. If an effort is made to identify what success looks like, why not incorporate that into all talent systems?

## TRANSPARENCY

Although talent strategies can be the secret to success, that doesn't mean organizations should treat those strategies as secrets. Most organizations don't rate their systems as being transparent, even though transparency is essential for integrating the systems into the organization. Transparency was defined as "the disclosure of all pieces of information about a talent management process, the reasons for it, and its outcomes." If leaders don't know the strategies, it will be difficult, if not impossible, to deploy them. If leaders are expected to be talent advocates, they need to understand what kind of talent the organization needs. Furthermore, transparency around compensation policies and how promotion decisions are made can serve to create a universal set of values. Some organizations go so far as to publically post managers' performance feedback. But, unfortunately, transparency is not the norm—**fewer than 1 in 3 organizations describe their systems as transparent.**

## SENIOR MANAGEMENT INVOLVEMENT

Senior managers have a unique perspective in identifying the leaders the organization needs in the future; they also have the influence needed to put initiatives at the top of the priority list. In other words, when senior leaders are actively involved in talent management, talent management efforts are more effective. Of organizations with effective talent management systems, 88 percent had active senior management involvement, compared to only 19 percent of organizations with ineffective systems (see Figure 24). Senior managers should be intimately involved in developing high-potential leadership talent by monitoring high potentials, playing a role in training, providing resources, and taking a lead in systematically reviewing the top tier of managers. A recent Aberdeen study (Lombardi, 2010) found similar results, specifically that best-in-class organizations were far more likely to have CEOs who champion engagement efforts. In organizations that were not best-in-class, engagement was generally led only by the HR function.

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*“The trouble is that talent management is not someone’s specific responsibility.”*

—HR PROFESSIONAL,  
TRANSPORTATION SERVICES  
INDUSTRY

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## MANAGER ACCOUNTABILITY

Managers are intimately tied to the growth of leadership talent. They are accountable for scouting for new talent, identifying and recruiting high potentials, and sharing rather than hoarding talent across the organization. Most of all, they are accountable for facilitating the development of those people who report to them. DDI’s *Finding the First Rung* study corroborated the importance of their role, with 51 percent of leaders citing manager support as one of the most influential ways to build their skills. **Yet, when asked if managers were formally held accountable for developing the leaders that report to them, only 41 percent of HR professionals and 53 percent of leaders agreed.** Organizations with more effective talent management systems were more than four times more likely to hold managers accountable for developing others. If manager support in development is such a critical element in an organization’s development strategy, then more accountability and responsibility for making sure this happens should be recognized and enforced.



*Less than  
1 in 4  
HR professionals  
reported that  
their organization  
was adept at  
measuring the  
effectiveness of its  
talent management  
system.*

## DEVELOPMENT PLANNING

One would never start a business without a well-documented, thought-out business plan. Similarly, one would not manage an important project without **first documenting goals, timelines, and responsibilities. Yet, only 1 in 3 organizations report that leaders have high-quality, effective development plans** despite the fact that having effective plans is related to the quality of leadership development (see Figure 24). While an effective development plan is the first step, following through and sustaining progress on the plan is the linchpin for true development. Still, only 43 percent of leaders periodically review their development plans with their managers. This is noteworthy because organizations with effective talent management systems were six times more likely to ensure that development plans were effectively executed.

## METRICS AND ANALYTICS

The adage still holds true: What gets measured gets done. According to this research, organizations with effective talent management have measured the impact of their talent initiatives. For them, measurement was an advantageous tool for tracking progress, diagnosing issues, and ultimately creating effective systems with quantifiable impact. Unfortunately, less than one in four HR professionals reported that their organization was adept at measuring the effectiveness of its talent management system. This finding is concerning because there is an increasing demand for HR metrics and analytics in today's more evidence-based business world. Measurement is taking on a new look, moving from descriptive (e.g., how many people have we hired and trained?) to predictive (e.g., how will employees with different backgrounds and competencies perform in different leadership roles?). The recent economic crisis has served to highlight the real pains of making decisions not supported by data. Organizations need to prioritize analytics because there is little doubt that measurement will become increasingly important in the coming years.

## MANAGEMENT CULTURE: INNOVATING THE WAY WE MANAGE



According to more than 12,000 leaders around the world, strategic talent management is the major vehicle for building leadership capability in organizations—but talent doesn’t work in a vacuum. The way organizations manage people and the culture they create plays a fundamental role in their employees’ ability to drive the business. Regrettably, management practices haven’t been changing with the times. Over the past decade the business world has made great leaps in many areas. Technology has made exponential strides in the way people communicate and learn on the job. Crowdsourcing has enabled organizations to network inside and outside the organization in unprecedented ways. Dozens of new products are on the shelves as a result of innovation and widespread collaboration thanks to the Internet. Yet, the way organizations manage themselves has not evolved; organizations are still stymied by the same hierarchical, formal, and bureaucratic hurdles they have faced for the past 50 years. Senior leaders still call the shots, mid-level management is generally a forgotten lot, and frontline leaders and employees are left to execute strategy with no real authority to do so. The command-and-control ways of management are ingrained in many organizations, a legacy from their founding years ago.

But times have changed, and Gary Hamel—an influential business thinker, professor, and author—shrewdly points out in his book, *The Future of Management*, that “time often proves conventional wisdom wrong.” The world is round, not flat, after all. But despite the rapid evolution of business, managers have grown comfortable (some might say complacent) with their practices, forgetting that just because it was how it was done in the past, doesn’t mean it’s the best way for the future. Thousands of leaders told us that innovation is a critical skill that leaders will need in the future. But what are organizations doing to evolve and what innovations are they bringing to the practice of management itself? Shouldn’t management devote energy to reinventing their management processes to create a better culture for the future?

*“Right now, your company has 21st-century, Internet-enabled business processes, mid-20th-century management processes, all built atop 19th-century management principles.”*

—GARY HAMEL

DDI partnered with Gary Hamel and his Management Lab ([www.managementlab.org](http://www.managementlab.org)) to identify the key factors that either facilitate or hinder the way in which the work of management is carried out (see **Table 4**). Leaders around the world were asked: How far along has your organization's management culture evolved?

● ● ● ● **TABLE 4 MANAGEMENT CULTURE FACTORS**

<b>STRUCTURE:</b> Is the organizational structure hierarchical and rigid or fluid and flexible?
<b>BUREAUCRACY:</b> Are management processes bureaucratic or a source of competitive advantage?
<b>POWER:</b> Is power held by people who value the status quo or people who value innovation?
<b>INFLUENCE:</b> Is influence based on a person's formal position or his or her abilities?
<b>DECISIONS:</b> Are key business decisions closed or open for discussion?
<b>INNOVATION:</b> Are the opportunities to innovate only for senior leaders or for everyone?
<b>VALUES:</b> Are values shared and meaningful to employees or are they not?
<b>GOALS:</b> Are organizational goals focused on bottom-line growth or do they include other goals?

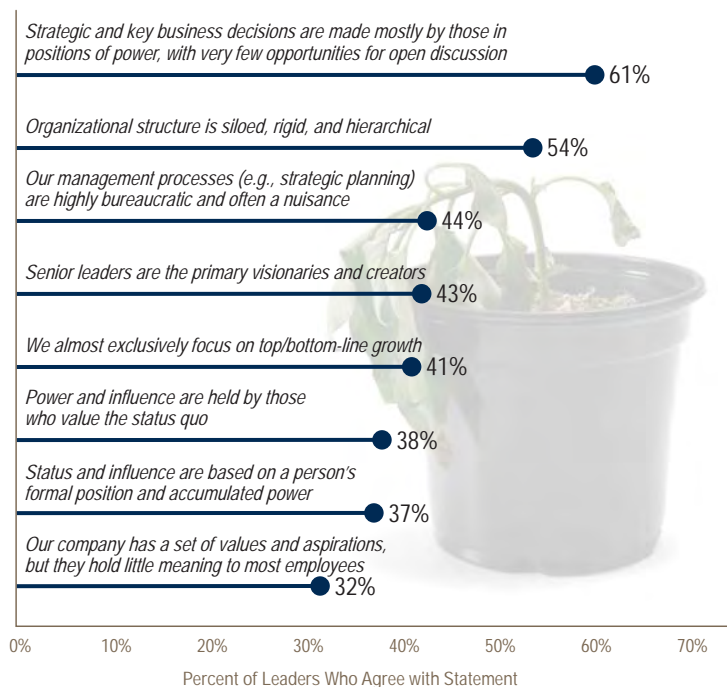
## HOW EFFECTIVE IS THE MANAGEMENT CULTURE OF ORGANIZATIONS?

To better understand how effective the management culture is in today's organizations, leaders were asked to choose between two statements for each of the eight factors. For example, leaders were asked to choose which statement best described their organization: "My organization's structure is fluid, flexible, and nimble" or "My organization's structure is siloed, rigid, and hierarchical" (see **Table 5**). The less effective of the two statements are presented in **Figure 25**. The major pain points for organizations were opening decisions up for discussion (61 percent of leaders reported few opportunities for discussing key business decisions); creating a structure that is less siloed and rigid (more than half of the leaders surveyed described their organization this way); and ensuring that processes are non-bureaucratic (44 percent of organizations reported that their processes were bureaucratic and did not add value). On the more positive side, organizations seem to be doing a better job creating a shared set of values (only 32 percent of leaders reported that their organization's values hold little meaning to employees) and giving status to those on a merit basis (only 37 percent reported that status was based on formal position power).

TABLE 5 MANAGEMENT CULTURE STATEMENTS BY FACTOR

	Ineffective Management Culture	Effective Management Culture
<b>STRUCTURE</b>	Organizational structure is siloed, rigid, and hierarchical.	Organizational structure is fluid, flexible, and nimble.
<b>BUREAUCRACY</b>	Our management processes (e.g., budgeting, strategic planning, risk management, business review) are highly bureaucratic and often a nuisance.	Our management processes (e.g., budgeting, strategic planning, risk management, business review) are a source of major competitive advantage.
<b>POWER</b>	Power and influence are held by those who value the status quo.	Power and influence are held by those who value innovation and change.
<b>INFLUENCE</b>	Status and influence are based on a person's formal position and accumulated power.	Status and influence are based on ability to lead, contributions, and performance.
<b>DECISIONS</b>	Strategic and key business decisions are made mostly by those in positions of power, with very few opportunities for open discussion.	We have open, vigorous, and uncensored discussions around strategy and key business decisions.
<b>INNOVATION</b>	Senior leaders are the primary visionaries and creators.	Employees/Leaders have the opportunity to innovate/create.
<b>VALUES</b>	Our company has a set of values and aspirations, but they hold little meaning to most employees.	Our company has shared values and aspirations that are meaningful to our employees.
<b>GOALS</b>	We almost exclusively focus on top/bottom-line growth.	We balance our focus on growth with a commitment to sustainability and socially significant goals.

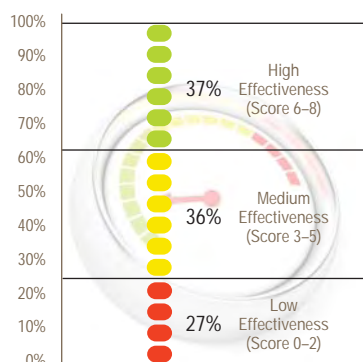
FIGURE 25 MANAGEMENT CULTURE INEFFECTIVENESS



*Organizations with effective management cultures were more than 2½ times more likely to have highly passionate leaders.*

Leader scores were aggregated by organization, and organizations were labeled in terms of the effectiveness of their management culture as low (leaders choosing the more effective statement zero to two times), medium (three to five times), or high (six to eight times). **Figure 26** illustrates that a lot of work remains to be done, with only about one-third of organizations reporting having a highly effective management culture. Likely, these ratings would be even lower if employees (that is, non-leaders) were included in the sample.

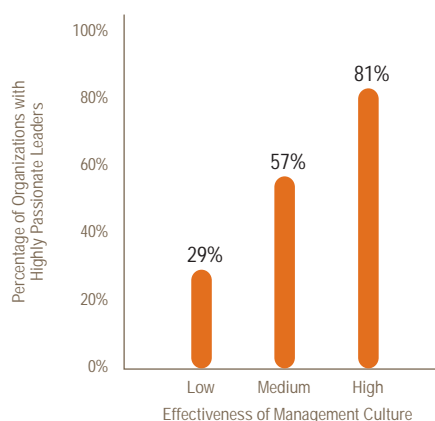
● ● ● ● **FIGURE 26 CURRENT STATE OF MANAGEMENT CULTURE**



**Smaller organizations were more successful than larger ones at developing effective management cultures.** Only one-third of organizations with more than 10,000 employees had a highly effective culture, whereas 44 percent of organizations with less than 500 employees had a highly effective culture. It's no surprise that smaller organizations would find it easier to have a fluid and flexible structure, which was the number one factor that differentiated organizations with less effective cultures from those with highly effective cultures. But other factors such as open discussions about strategy (the second biggest differentiator), shared values, and opportunities to innovate shouldn't be found only in small organizations. Larger organizations can still "think small" through smaller and more nimble teams or business structures.

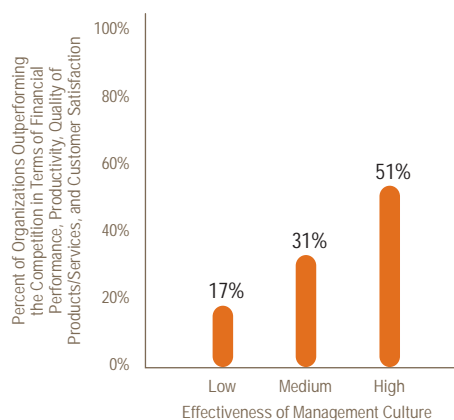
Regardless of organization size, there is no denying that an organization's management practices can greatly affect leadership performance. The data for this research supports this. But this research also demonstrates that management culture is related to other outcomes, such as the passion that leaders have for their work (see **Figure 27**). Organizations with effective management cultures were more than two and a half times more likely to have highly passionate leaders. An organization that offers leaders meaningful goals and allows them the freedom to make decisions to achieve those goals is more likely to have leaders who are excited about their work and invested in their roles.

● ● ● ● **FIGURE 27 MANAGEMENT CULTURE RELATED TO PASSIONATE LEADERS**



This passion also translated into organizational results (see **Figure 28**). Organizations that had more evolved management cultures were three times more likely to outperform their competition in terms of bottom-line metrics such as financial performance, productivity, quality of products or services, and customer satisfaction.

● ● ● ● **FIGURE 28 MANAGEMENT CULTURE RELATED TO BUSINESS IMPACT**



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*“Our environment is changing so rapidly and there is so much opportunity in front of us. It’s just a question of perpetually raising the bar and that’s not a thing that any one individual can do for themselves. You have to be operating in a culture of that.”*

—SENIOR-LEVEL LEADER,  
INSURANCE INDUSTRY

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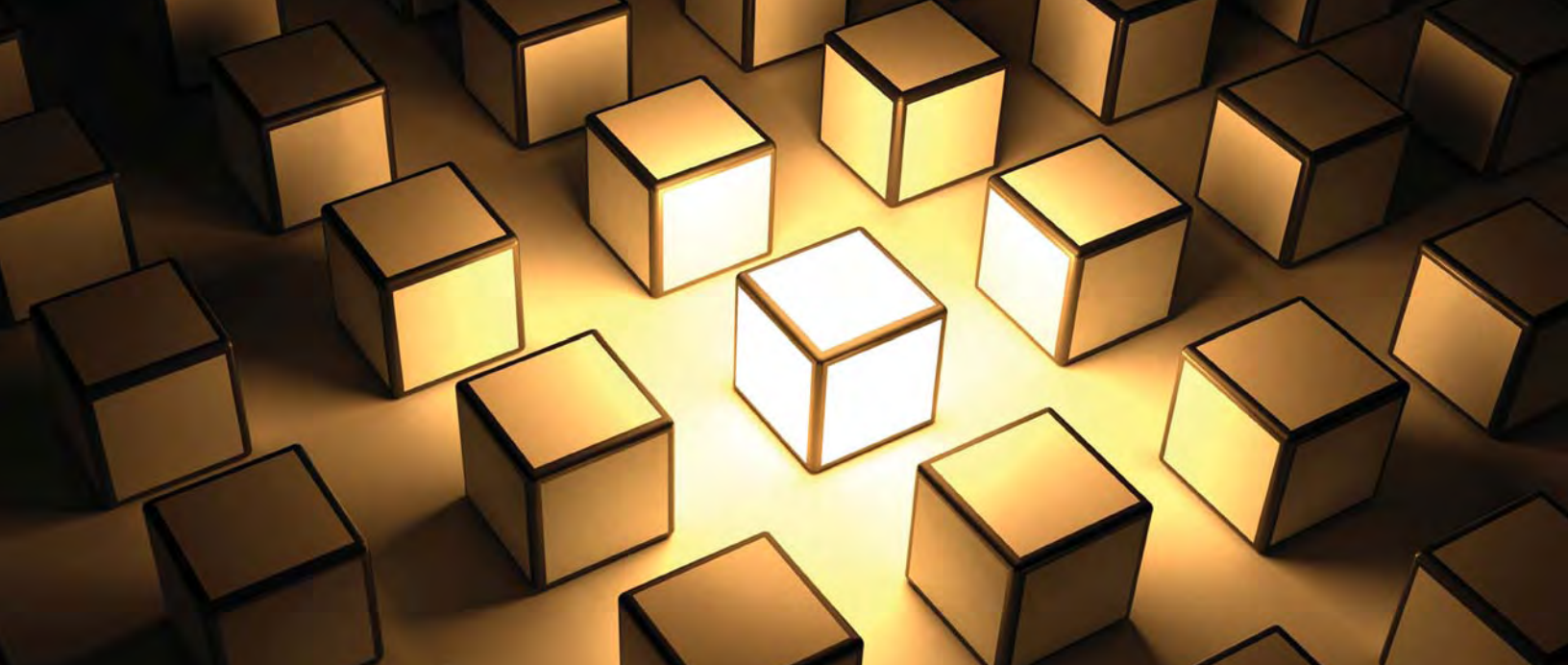
Creating a culture that provides freedom and autonomy can drive business results and differentiate you from the competition. For example, HCL, one of the largest Indian IT services organizations, has revolutionized its business planning process by basing it on customer teams; its strategic plan comes from the business plans created by associates with their best customers, and it is what drives corporate strategy. Therefore, to revolutionize management culture, organizations need to break down the hierarchy and minimize the bureaucratic hurdles so that leaders can be nimble in responding to customer needs. Organizations also should work on opening up decision-making and innovation opportunities to all employees. Reserving those opportunities for only a select few disengages leaders and fails to capitalize on organizational talent and capabilities. Leaders also need to constantly challenge the status quo, looking for ways to involve the renegades versus the contented. And a modern-day organization needs goals beyond the bottom line that resonate with and are meaningful to their leaders. Doing this creates an environment that encourages all employees to drive the business.

Organizations need to start making decisions that give all their employees opportunities to have a real impact on the organization and to begin better utilizing their greatest asset, human capital. As an aging workforce starts to retire, the talent coming in to organizations is younger and less engaged. An inflexible and antiquated system could preclude organizations from attracting and hiring the best new talent. As every aspect of businesses looks to innovation as a path toward success, shouldn’t the same be expected of the way we manage?



**GLOBAL FINDING:** Leaders in Australia and New Zealand were more likely to describe their organizational processes as bureaucratic and their organizational structure as siloed, rigid, and hierarchical compared to other regions. Leaders in Asia were least likely to describe their organizations as such.





# MANAGEMENT INNOVATION: THE ULTIMATE ADVANTAGE

By Gary Hamel, Director, Management Lab

Are you a management innovator? Have you discovered new ways to organize, lead, coordinate, or motivate? Is your company a management pioneer? Has it invented novel approaches to management that are the envy of its competitors? Does it matter? It sure does.

Management innovation changes how managers do what they do (e.g., setting goals and laying out plans, motivating and aligning effort, coordinating and controlling activities, identifying and developing talent). It can create long-lasting advantage and produce dramatic shifts in competitive position. Over the last century, management innovation has allowed companies to cross new performance thresholds (for instance, Procter & Gamble's approach to brand management).

Yet, few companies have a process for continuous management innovation. Most businesses focus their innovation efforts on new products or operational efficiencies, typically producing gains that competitors quickly copy. To stay ahead of rivals, leaders need to become serial management innovators, systematically developing breakthroughs in how their companies execute critical management processes.

There are three keys to management innovation:

1. **Tackle a big problem**, much like General Electric did in bringing management discipline to the chaotic process of scientific discovery by perfecting Thomas Edison's most notable invention, the industrial research laboratory.
2. **Search for radical management principles**, as did the founding members of Visa, the first non-stock, for-profit membership enterprise.
3. **Challenge conventional management beliefs**, as Toyota did when it identified frontline employees, not senior managers, as the best process innovators.

So far, management in the 21st century isn't much different than management in the 20th century. And therein lies the opportunity. Leaders can wait for a competitor to stumble upon the next great management breakthrough, or they can become a management innovator right now. In a world swarming with new management challenges, leaders need to be even more inventive and less tradition-bound than all those management pioneers who came before them. If today's leaders succeed, their legacy of management innovation will be no less illustrious than their predecessors'.



*Given the criticality  
of the role of  
leadership today,  
and its dire state,  
the need for  
progress is  
unquestionable.*

## CONCLUSION

### REVOLUTIONIZE LEADERSHIP, REVOLUTIONIZE YOUR BUSINESS

The phrase “business as usual” has never been more outdated. In today’s more complex, high-speed, and ambiguous business environment, business will never be “as usual” again. The world of business is morphing at a blistering pace, and it’s the job of organizations to ensure that their leaders morph too. Unfortunately, more than 2,600 organizations around the world told us that leadership is not keeping up with the times. Leadership quality is a problem, and the bench strength of organizations is at a devastating low.

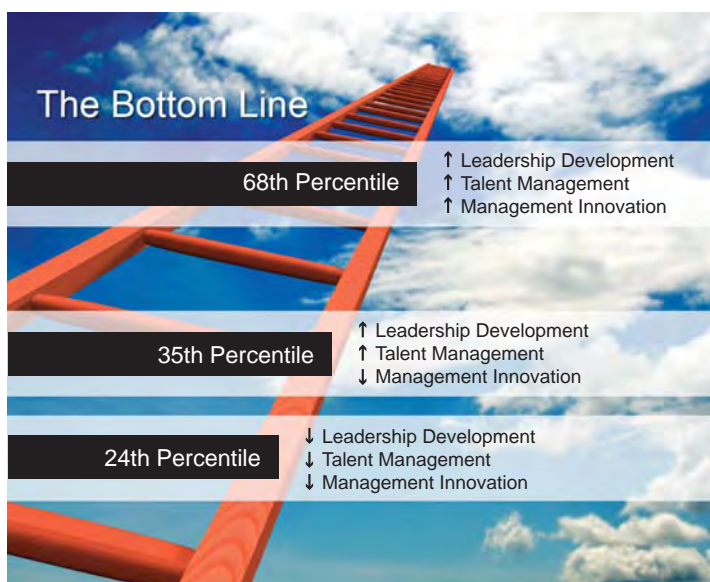
This research shows that transforming talent management and culture is the key to improving the quality of leadership. Some organizational stakeholders might claim, “We don’t care about leadership skills if it doesn’t give us business results.” But it is precisely those leadership skills that generate results. Focusing on improving the quality of leadership is the first step toward business success. And the more employees are engaged, developed, and empowered, the more they can drive business outcomes.

To demonstrate the payoff that a leadership revolution can have, this study identified organizations rated low, medium, and high in terms of the effectiveness of their leadership development initiatives, talent management systems, and management culture and compared their leaders’ ratings of organizational financial performance to those of their counterparts. There was a significant difference in where the identified organizations ranked financially. Organizations rated low on all three critical drivers were only in the 24th percentile in terms of leaders’ ratings of financial performance. Organizations that were successful in both aspects of talent management (leadership development and other talent systems) but not in terms of management culture fared better (35th percentile). But organizations that excelled in all three drivers demonstrated the most significant financial advantage: They were in the 68th percentile in how their leaders rated their organization’s financial performance (see **Figure 29**). Clearly, there is a synergistic effect when all three of these drivers are working together.

Given the criticality of the role of leadership today, and its dire state, the need for progress is unquestionable—and real progress demands a revolution. A revolution can be defined as a complete overthrow or a replacement of tradition. It also can be defined more simply as a significant change in course. What better time than now to break convention (an ineffective one, at that) and take a solid, effective turn in the focus and strategy of leadership practices. Leaders will be executing and creating organizational priorities for years to come—shouldn't they be well-prepared to do that? Organizations need to revolutionize leadership practices with the future in mind, and now is the time to begin doing that.

Whatever your business, wherever you are, the journey begins with one step. What is your first step in joining the leadership revolution?

● ● ● ● **FIGURE 29 FINANCIAL IMPACT OF LEADERSHIP REVOLUTION**



# APPENDIX

## DEMOGRAPHICS

### ORGANIZATION CHARACTERISTICS

#### INDUSTRY

1%	Agriculture
4%	Automotive & Transport—Leasing/Manufacturing
3%	Banking
<1%	Beverages
6%	Business Services
3%	Chemicals
2%	Computer Hardware
2%	Computer Services
2%	Computer Software
4%	Construction—Services & Materials
3%	Consumer Products Manufacturers
1%	Consumer Services
<1%	Cultural Institutions
3%	Education
5%	Electronics
6%	Energy & Utilities
<1%	Environmental Services & Equipment
4%	Financial Services
4%	Food
<1%	Foundations & Charitable Organizations
4%	Government
3%	Health Care—Products & Services
5%	Health Care Provider
9%	Industrial Manufacturing
4%	Insurance
2%	Leisure
1%	Media
<1%	Membership Organizations
3%	Metals & Mining
4%	Pharmaceuticals
1%	Real Estate—Commercial & Residential
4%	Retail
<1%	Security Products & Services
4%	Telecommunications—Equipment & Services
4%	Transportation Services

#### NUMBER OF EMPLOYEES

1%	1–10
3%	11–50
4%	51–100
6%	101–200
14%	201–500
11%	501–1,000
28%	1,001–5,000
10%	5,001–10,000
7%	10,001–20,000
8%	20,001–50,000
7%	50,001 or more

#### PRESENCE IN GLOBAL MARKET

40%	National
60%	Multinational (own, operate, or have affiliate offices outside own country)

### LEADER CHARACTERISTICS

#### MANAGEMENT LEVEL

29%	First-level (supervisor, team leader, foreman, etc.)
33%	Mid-level (leader of first-level leaders)
29%	Senior-level (leader/manager of mid-level leaders)
9%	Executive-level (leader in a policy-making position)

#### ORGANIZATIONAL TENURE

3%	Less than 6 months
3%	6–11 months
10%	1–2 years
20%	3–5 years
21%	6–10 years
16%	11–15 years
27%	More than 15 years

## FUNCTIONAL AREA

8%	Accounting/Finance
3%	Administrative/Clerical
5%	Customer Service and Support
1%	Distribution
8%	Engineering
3%	Health Care Provider
8%	Human Resources/Personnel
6%	Information Systems
2%	Maintenance/Facilities
5%	Manufacturing/Production/General Labor
6%	Marketing
13%	Operations
<1%	Publications/Graphic Design
2%	Purchasing
3%	Quality Assurance
4%	Research/Development
10%	Sales
14%	Other

## AGE

2%	25 and under
22%	26–35
42%	36–45
27%	46–55
5%	56–60
2%	Over 60

## GENDER

69%	Male
31%	Female

## COUNTRIES BY REGION\*

### AFRICA/MIDDLE EAST

	HR	Leader
Egypt	0	6
Iran	1	1
Israel	0	6
Kuwait	1	3
Lebanon	0	1
Libya	1	0
Morocco	0	2
Qatar	0	1
Saudi Arabia	2	2
South Africa	52	224
Tunisia	0	1
Turkey	2	4
United Arab Emirates	5	7
Yemen	0	1
Zimbabwe	1	0
Other Africa	1	4
<b>Total</b>	<b>66</b>	<b>263</b>

### ASIA

	HR	Leader
China	327	916
Hong Kong	12	20
India	63	1,556
Indonesia	45	600
Japan	101	954
Kazakhstan	0	3
Korea	7	8
Laos	0	2
Malaysia	52	443
Philippines	49	588
Singapore	32	321
Taiwan	53	666
Thailand	40	317
Vietnam	1	1
Other Asia	1	3
<b>Total</b>	<b>783</b>	<b>6,398</b>

\* Number of HR professionals and leaders who completed the survey. The number of HR professionals corresponds to the number of organizations that participated in the survey.

## ● ● ● ● AUSTRALIA/NEW ZEALAND

	HR	Leader
Australia	112	146
New Zealand	26	202
<b>Total</b>	<b>138</b>	<b>348</b>

## ● ● ● ● EUROPE

	HR	Leader
Austria	0	1
Belgium	1	8
Bulgaria	0	2
Czech Republic	1	3
Denmark	0	2
Estonia	0	1
France	17	76
Germany	22	144
Greece	2	5
Hungary	1	6
Ireland	4	107
Italy	3	10
Netherlands	4	19
Norway	0	5
Poland	38	433
Portugal	1	2
Romania	0	5
Russia	6	81
Slovakia	0	5
Spain	3	14
Sweden	0	3
Switzerland	5	6
Ukraine	0	1
United Kingdom	52	260
<b>Total</b>	<b>160</b>	<b>1,199</b>

## ● ● ● ● LATIN AMERICA

	HR	Leader
Argentina	1	5
Brazil	21	61
Chile	29	194
Colombia	5	76
Costa Rica	4	6
Dominican Republic	1	4
Ecuador	2	1
El Salvador	0	5
Guatemala	4	6
Honduras	0	4
Mexico	40	324
Nicaragua	0	8
Panama	5	7
Peru	4	56
Puerto Rico	62	166
Venezuela	0	5
<b>Total</b>	<b>178</b>	<b>928</b>

## ● ● ● ● NORTH AMERICA

	HR	Leader
Canada	50	307
United States	522	2,796
<b>Total</b>	<b>572</b>	<b>3,103</b>
Region unknown	0	184

## GLOBAL SPONSORS



**AmCham Singapore** is one of the largest American chambers outside the U.S., one of the largest American chambers in ASEAN, and the largest foreign business chamber in Singapore. We represent an estimated \$25 billion of investments in Singapore and the region. Our 4,000 members represent more than 650 companies. With more than 245 events per year and 13 industry-focused committees, AmCham helps organizations gain invaluable insights into operating in Asia. For more information, visit [www.amcham.org.sg](http://www.amcham.org.sg)



**The Business Processing Association of the Philippines (BPAP)** was formed in 2004 to solidify efforts in promoting the Philippines as a destination of choice for business process outsourcers. It serves its members and the country by helping establish the Philippines as a recognized worldwide leader in the IT-BPO industry while ensuring the industry's continued growth and competitiveness. BPAP represents the industry's needs in offshore marketing, education and training, security and privacy, legislation and public policy, among others.



**The Chartered Institute of Personnel and Development (CIPD)** is a professional body whose mission is to lead in developing and promoting best practices in personnel training and development. CIPD also serves the professional interests of its members, who now number more than 127,000. The CIPD conducts research into many issues related to developing and managing people.



**Harvard Business Review (HBR)**, published by Harvard Business School, is among the most acclaimed business magazines in the world. *HBR* publishes the most original, robust, and relevant ideas for the people who are leading, creating, and transforming businesses and organizations around the world. The *HBR Chinese Edition (HBRC)* was launched in September 2002 as the only authorized franchise of *HBR* in mainland China. Seventy percent of *HBRC* content is translated from the English publication, and the remaining content is local. It provides breakthrough management ideas and best practices that will have an impact on organizations for decades.



**HR Future** is South Africa's premier human strategy magazine. It alerts readers to new people management trends, stimulates fresh thinking, and caters to the human capital information needs of executives, HR professionals, managers, and next generation talent tasked with leading people to create and increase stakeholder value in their companies. Articles address HR topics from a business point of view to ensure the link between human capital management and the company's business goals and bottom line.



**HRoot** is the leading media company in the human resource industry of Greater China. HRoot businesses include web site, publication, exhibition, training, advertising, and simultaneous online information management as well as information technology support. Every year 100 million page views are provided to users, and 4.5 million information searches are carried out by HR managers throughout its web sites.



**The Human Capital Institute (HCI)** is a global think tank, educator, and professional association that defines the agenda and sets the pace for the new business science of human capital management. With more than 82,000 members in 40-plus countries, HCI offers a new association framework that cuts across the silos of recruitment, HR/OD, finance, manufacturing, and operations.



**KPI**, a professional institute for human resource management, was founded in 1976. KPI's mission is to provide businesses with professional support and assistance regarding management, development, and utilizing human resources. KPI's business goals are (1) provide in-depth knowledge and information about new trends in HR management; (2) enhance job competence of HR managers; and (3) benchmark best HR practices of global companies.



**Macquarie Graduate School of Management (MGSM)** ([www.mgsm.edu.au](http://www.mgsm.edu.au)) specializes in the delivery of a comprehensive suite of postgraduate management MBA and doctoral programs. Acknowledged as a leader in the delivery of short-term executive education programs and customized degree and non-degree programs, MGSM is internationally recognized for excellence in management education. It consistently ranks as a leading business school throughout Asia-Pacific. It is EQUIS accredited. MGSM's mission is to enable people of high potential to become successful business leaders who bring lasting prosperity to organizations and communities.



**Management** gives managers pragmatic and realistic guidance on the corporate world, including advice on how to balance careers and personal goals. This monthly magazine covers executives' interests, with profiles on prominent businessmen, company and industry case studies, and the latest trends in marketing, finance, and management. *Management* gets close to companies and studies issues from the inside out to give its readers the real-life examples from which they can learn.



Management  
Association of the  
Philippines

The Philippines' Leading Management Association

**The Management Association of the Philippines (MAP)** is a 60-year-old management organization

committed to promoting management excellence. Its 720 members represent a cross section of CEOs, COOs, and other top executives from the top local and multinational companies operating in the country, including top officials of government and academia. Visit [www.map.org.ph](http://www.map.org.ph) for more information.



Founded in 1947, the **National Association of Directors of Human Resources (ANDRH, formerly ANDCP)** is the largest community of

HR professionals in France, with almost 5,000 members. Its mission is to share best practices and develop the professionalism of its members, promote HR's contribution to improving organizations' performance, and represent HR directors with government, media, and social partners. ANDRH is a member of three international associations: World Federation of Personnel Management Associations, European Association for People Management, and Mediterranean Federation of Human Resources, of which it is a founding member.



**NZ Management**, published since 1955, is New Zealand's largest circulating monthly business magazine. It is written for achieving and aspiring leaders and managers. *NZ Management* features articles on critical leadership and management and economic issues as well as profiles and interviews with successful local and global leaders. It provides best-practice advice on every aspect of career development and organizational leadership.



**Personalmagazin** is Germany's most widely read human resources journal.

Every month it offers HR trends, objective analyses, and precise recommended actions in three different areas of professional HR management: management, law, and organization. *Personalmagazin* also offers its readers services and professional instructions to develop personal, social, and management-related skills.



**The Personnel Management Association of Thailand (PMAT)** is a network of professionals

who manage people at every level. Its goal is to promote the efficiency of HR strategy in every organization in support of the government's mission to develop the quality of the country's workforce. PMAT has been organizing various HR activities for 44 years. It now has more than 2,400 members from both the private and public sectors from all over the country.



**The Puerto Rico Chapter of the Society for Human Resource Management (SHRM-PR)** has a

membership of more than 1,300 HR executives and professionals in Puerto Rico. Its main purpose is to provide meaningful programs, seminars, and resources in partnership with the national SHRM. Also, it provides networking opportunities with other HR professionals and represents the voice of the profession in public policy matters that affect Puerto Rico's competitiveness and economic development.



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**Jazmine Boatman, Ph.D.,** manages DDI's Center for Applied Behavioral Research (CABER), DDI's hub for research to support evidence-

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**Richard S. Wellins, Ph.D.,** is senior vice president at DDI. Rich is responsible for leading DDI's global research programs, launching new

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## ACKNOWLEDGEMENTS

This study was a true global effort, and the authors would like to acknowledge the invaluable contributions of the following people:

### Management Innovation Research

#### Advisors

Gary Hamel and the Management Innovation Lab

#### DDI Project Team

**Project Management:** Jennifer Pesci-Kelly, Aviel Selkovits

**Participant Recruitment:** Malu Arredondo, Amit Arte, Noemi Barbosa de Luna, Monica Chen, Jesie Dieu, Nikki Dy-Liacco, Tania Fernandes-Klerx, Ramon Fontaine, Priscilla Giglio, Lisa Han, Kumiko Hashimoto, Julie Hogan, Marta Janiak, Arati Karve, Emily Kershaw, Patrycja Korczynska, Cathy Lavoie, Ellen Lee, Maggie Liu, Dorothy Lo, Victor L. Magdaraog, Yvonne McGowan, Simon Mitchell, Marisa Molnar, Stephanie Nam, See Yi Ngiam, Panmanee Ong-art, Joyce Qi, Julie Rautenbach, Myra Rehman, Katrina Jane L. Roxas, Retianna C. Shakina, Arunima Shrivastava, Neil Suchman, Lily Sun, Charna van der Merwe, Julie Vedrinne, Christien Winter

**Research:** Michael Kemp, Stephanie Neal

**Editorial:** Mike Crawmer, Shawn Garry

**Graphic Design:** Susan Ryan, Janet Wiard

**Web:** Mark Hamilton



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Our areas of expertise span every level, from individual contributors to the executive suite:

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- Leadership & Workforce Development
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