

# Leaders in Short Supply

*By Sandy Ogg and Marshall Goldsmith*

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## The Juggling Act

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Business in the 1990s continued to increase in complexity. More and more this environment forced senior executives to juggle shifting priorities to deal with the constant and accelerating change. Increased competition, international expansion, rapid deregulation, growing interdependence, industry consolidation, internal reorganization, and other potential "game changers" are just a few of the challenges faced daily.

Success depends largely on how well corporate leaders can manage this juggling act, understanding the opportunities and challenges that accompany it, and creating a compelling vision of the business' future. The leaders who will succeed are those who recognize and react the fastest to change. The calibre of your organization's leaders can mean the difference between scraping and scratching just to get by and redefining the industry. The results translate into billions of dollars in revenues, profits-or losses-and shareholder value:

- ◆ Arthur Martinez has created \$14 billion in shareholder value since joining Sears in 1992.
- ◆ Jack Welch and Roberto Goizueta have each created \$150 billion in shareholder value in their 17-year tenures as CEOs of General Electric and Coca-Cola, respectively.
- ◆ Power struggles and poor leadership at Apple Computer have combined to reduce the value of the company by \$2 billion this last decade.
- ◆ IBM lost \$35 billion in market value under the backward-looking leadership of John Akers prior to the arrival of Lou Gerstner.

Simply put, leaders can make or break a business. Unfortunately for organizations today, great leaders are in short supply. As Johnson & Johnson CEO Ralph Larsen has aptly put it, "The most critical business challenge facing us at Johnson & Johnson is a shortage of good leaders."

Recognizing and admitting that your company has a shortage of good leaders is easy. Understanding the nature of that shortage is more difficult. It requires management to know what skills their current leaders have and what skills the company will need from its leaders as the business changes.

## Assessing Current Leaders

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Companies can better understand the skills of their current leaders by taking an inventory to determine each person's ability and readiness to capitalize on the complex nature of today's businesses. This inventory should categorize people along two dimensions:

- ◆ How traditional or contemporary the skill set of an individual is.
- ◆ How ready an individual is for change.

People with more contemporary skills and a high capacity for change, or A players, should be recognized and held up as role models for the organization. Those with a traditional skills set and little inclination to change, or C players, need to be let go.

The organization needs to center its leadership development efforts on those in the other two quadrants, the B-players. Individuals with contemporary skills and low change readiness need to be motivated and refocused, while those with traditional skills and a high capacity for change

need to be retrained. Companies that focus on growing these B players will thus always have a ready supply of A players within their ranks.

## Defining Leadership Standards

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In developing leaders, companies must begin with the end in mind: defining the company's leadership standards—skills and behaviors—that are essential for the company's leaders to succeed as the business evolves. Companies that skip this crucial step can spend a great deal of time and money without even knowing what leadership gaps they are trying to fill. For example, this gap could be a simple issue of numbers: a company may have great leaders but not enough of them. On the other hand, the company might need to develop certain skills within its current leaders, on either a personal, team or organizational level. Once management understands what its leadership needs are, it can evaluate how the current leaders stack up against these standards, thus highlighting any gaps. To fill those gaps, businesses have two options: buy leaders or grow leaders.

## Buying Leaders

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Buying great leadership is a relatively simple solution and by far the more prominent choice. Under increasing pressure from shareholders to improve performance, boards are becoming much more willing to look outside their companies for executives who can "shake things up." Leaders with histories of success lend instant credibility and add remarkable value recognized by investors in their valuation of the company's stock:

- ◆ When AT&T President and COO Alex Mandl left in August of 1996 to run Associated Communications Corp. (ACC), a small wireless communications company, the stock of ACC's parent company jumped over 25% to 32½ in two days. Mandl has since created over \$200 million in shareholder value.
- ◆ Upon Eastman-Kodak's announcement that it had hired Motorola's George Fisher to be its new CEO, Kodak's stock jumped more than 15% in the first two days. In the three years since Fisher joined, Kodak's market value has increased by \$1.5 billion.

Such leadership talent is not cheap. Like many professional athletes, top executives have become free agents as demand for their talents has soared, resulting in multi-million dollar salaries, options, signing bonuses, and salary guarantees:

- ◆ Mandl received a \$20 million signing bonus from Associated Communications along with an 18% stake in the company.
- ◆ Eastman-Kodak lured Fisher away from Motorola with an incentive package that earned him nearly \$4 million in his first year, not including options. That compensation jumped to \$9.3 million in 1995.

There are, however, significant downsides to buying leaders. Bringing in an outsider can be extremely disruptive, especially to corporate culture and employee morale. Hiring leaders outside the company essentially admits a void of talent within the organization.

In an age of down-sizing and re-engineering, outside leadership may also give corporate shareholders priority over company stakeholders (i.e., the employees). Albert Dunlap, for instance, laid off one out of every three employees and sold \$2.2 billion in assets to increase Scott Paper's profitability in 1994, destroying the corporate culture and organizational stability in the process.

Of course, hiring a leader with a stellar track record is not a guarantee of success. Take John Sculley, former CEO of Apple Computer, who received an estimated \$72 million dollar compensation package to head Spectrum Information Technologies in October 1993. He left four months later, the company plagued by deteriorating financial problems; Spectrum ultimately filed for bankruptcy.

## Growing Leaders

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The most successful companies over the past century have focused their efforts on cultivating leaders rather than buying them. General Electric is renowned for actively developing a deep bench of leadership and management talent. Jack Welch is the latest in a long line of home-grown chief executives at GE, and GE alumni have gone on to become CEOs at more American corporations than alumni from any other company. Motorola, Procter & Gamble, and IBM are also known for developing leadership talent from within. As Collins and Porras point out in *Built to Last*, in over 1,700 combined years of operation at the most successful, well-respected, and visionary companies in the world, outsiders were brought directly into the role of CEO on only four occasions.

Growing leaders requires greater time and monetary investments than buying them. Corporations currently spend roughly \$45 billion annually on management training and education - \$12 billion of which is for executive development. But a company's ability to build and develop leaders can make the difference between being good and being great. Leadership and management style is the heart of an organization's culture. The trust that a company has in its employees forms a large component of that culture. The ultimate demonstration of a company's confidence in its employees is to promote them to leadership positions. This engenders loyalty and commitment, and preserves the culture and morale.

## Use Action Learning to Develop Strong Leaders

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Many leadership development programs attempt to improve leadership skills as an educational track separate from running the business. However, companies can tackle competitive challenges and opportunities while developing leadership skills by applying a technique called Action Learning. Action Learning uses current leadership and business issues as a platform to foster leadership development.

Action Learning operates under the assumption that people learn best by doing. As its name implies, Action Learning has two components, action and learning, serving two purposes: 1) allowing leaders to develop skills and 2) enabling executives to take action. This format serves to teach leaders a process for identifying and addressing the gaps in their leadership skills using "live ammunition"-real situations or issues facing the organization.

Action Learning is not simply throwing executives at business problems. The ultimate goal is more than problem solving, it is skills-, tools- and/or process-learning. This dichotomy is essential for success. Focusing too heavily on the problem-solving will result in a failure to internalize skills or processes needed to close the leadership gap. Concentrating too much on the skills- or process-learning can detract from their practical application in real business or organizational situations.

Leadership skills can be classified into one of three levels: personal, team, and organizational.

Action Learning can be used to develop leadership skills at any of these levels. Johnson & Johnson, for example, used Action Learning to develop the organizational leadership skills of its top executives by applying a codified organizational change model to real business issues. This exposed executives to the tools and processes necessary to understand and articulate the need for change, develop initiatives, assess the organization's readiness for change, and translate change into actions. For Action Learning to be successful, though, leaders must internalize the skills and tools they learn by repeating them on the job. An ongoing assessment of current leadership skills versus leadership standards will provide a measure of how well a company's leaders are closing the gap.

By using Action Learning to improve organizational skills, an organization can close the gap in the leadership skills of its executives. Developing a set of leadership standards and using it to understand where a company must focus its efforts will help companies address the needs of the company as the business continues to change. Reinforcing these leadership skills as people move up through the organization will ensure a continuing source of leadership talent. A company reluctant to invest in developing these skills in-house risks being forced to hire an outsider who may be willing to undermine the organization's core values for the sake of the bottom line.

# Linkage

Linkage is a global organizational development company that specializes in leadership development. We provide clients around the globe with integrated solutions that include strategic consulting services, customized leadership development and training experiences, tailored assessment services, and benchmark research. Linkage's mission is to connect high-performing leaders and organizations to the futures they want to create.

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