

UNC Leadership Survey 2014: How to Accelerate Leadership Development



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**By: UNC Executive Development
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Executive Summary

Data from the U.S. Bureau of Labor Statistics shows an eye-opening statistic: by the year 2020, a quarter of the workforce will be over the age of 55.¹ As large numbers of Baby Boomers retire, organizations are facing the difficult challenge of replacing senior talent with qualified incumbent employees. The remaining younger employees lack the years of experience and knowledge of their predecessors. According to recent research, 47 percent of survey respondents highlight gaps in knowledge between current and future leaders as an important issue in their organizations.² This shortage in qualified leaders in the midst of impending retirement places pressure on organizations to develop employees into qualified leaders and to do this at a faster rate. In addition, as the pace of change in our knowledge economy continues to increase and the global leadership learning curve becomes longer, there is a need to accelerate the development of leaders. How are organizations developing the knowledge, skills, and experiences of its future leaders to overcome this deficit?

In this signature research, conducted in partnership between the University of North Carolina Kenan-Flagler Business School and the Human Capital Institute, we investigate ways organizations are accelerating the development of their leaders. From a sample of HR professionals, we can understand the current climate of leadership development, including budgets, leadership competencies and anticipated changes for the future.

The following results were revealed:

The Bleak State of Leadership

- Organizations are concerned about their leadership bench strength, as 85 percent agree that there is an urgent need to accelerate the development of their leaders.
- Over a quarter of organizations report that 20 percent or more of their employees will reach the retirement age within the next five years.
- Senior leaders are not satisfied with current bench strength and are concerned that their high-potentials are unable to meet future business needs. Only forty percent report that their high-potentials can meet future business needs.

Trends in Developmental Programs

- Only 23 percent of respondents agree that their learning and development budgets meet current needs.
- Balancing long-term and short-term business requirements, encouraging managers to develop their employees and budget were rated as the top three challenges for leadership development.
- The majority of organizations plan to increase leadership development activities within the next five years, with formal mentoring slated for the most growth.
- The top five leadership competencies are: ethics and integrity, drive for results, effective communication, strategic thinking/insight and relationship management.

How to Accelerate Leadership Development

- Companies that use managers' subjective recommendations to assess leadership readiness report that it takes longer to develop mid-level managers, compared to those that use observations by trained mentors or managers.
- Organizations who effectively develop leaders faster and report more leadership-ready employees state they have development activities fully integrated with business strategies and hold employees accountable for the application of new skills and knowledge to the job.

Introduction

Businesses today face a number of challenges to operate efficiently and maintain competitive advantage and it is often incumbent upon company leadership to provide the proper direction to help their teams navigate these challenges and adapt appropriately. Without a steady pipeline of talented individuals with the knowledge, skills and experience to step into leadership roles, or an effective process to identify high-potential employees and give them the necessary training to be effective leaders, the company will be unprepared to handle the changes and challenges of the future.

A large portion of Baby Boomers, who constitute 31 percent of the workforce, are either

approaching or reaching the average retirement age of 61 and the traditional retirement age of 65.³ To ensure that companies can operate sustainably, in terms of grooming top performers to assume the leadership gaps left by retiring Baby Boomers, leadership development must be a top priority for human capital management today. It is especially pressing given data from the U.S. Census, which shows that an even larger portion of the workforce (33 percent) is made up of Millennials who were born from 1978 to 1989.⁴ By 2020, there will be over 86 million Millennials, representing nearly 40 percent of the workforce⁵. With the growing division between the knowledge and experience of current leaders and that of future leaders, more employers are recognizing the need to close those gaps as a high priority.⁶

Given this influx of younger and less experienced workers, now is the time for organizations to adopt effective strategies that will elevate their leadership development processes and help reduce the impending leadership gaps. So, what can organizations do to address this challenge?

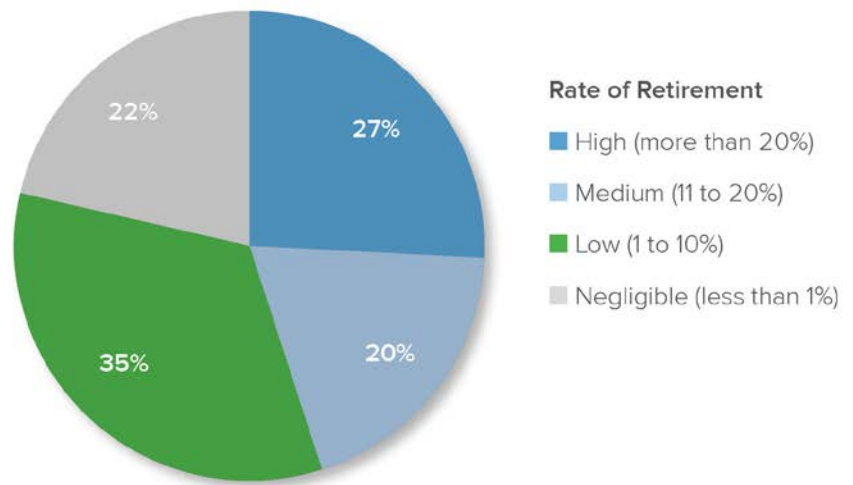
This research is divided into three sections. The first section examines the current leadership development landscape. The second identifies the latest trends in development programs and the third recognizes the best practices for accelerating leadership development. By highlighting the most effective strategies for overcoming the challenges companies face in delivering the appropriate training and development, employers can build a qualified workforce of leaders ready to take their business to the next level.

The Bleak State of Leadership

The Urgent Need for Leaders

Employers face a pressing need to develop their next generation of leaders to ensure they gain the necessary knowledge and experience to be successful within their roles. This sense of urgency can be attributed to the looming mass Baby Boomer retirements of the next few years, as over a quarter of organizations in this study report that 20 percent or more of their senior leaders will be eligible to retire within the next five years (Figure 1).

Figure 1—What percentage of your senior leaders are eligible for retirement within the next 5 years? (n=301)



The necessity to develop leaders quickly is illuminated by the findings in this study, as 85 percent of organizations agree that there is an urgent need to accelerate the development of leaders. A mere one-fifth of senior leaders (21 percent) surveyed are satisfied with their current bench strength. Likewise, less than half of organizations (40 percent) believe that their current high-potentials have what it takes to meet future business needs. This finding is supported by the 2013 UNC leadership survey, in which only 35 percent of participants reported that their high-potential talent pool meets or exceeds anticipated future needs.⁷ In short, organizations are worried about future leadership and are not satisfied with the current state of their high-potentials. On average, survey respondents report that:

- 22 percent of the leadership bench are ready to fill critical positions
- 24 percent of high-potentials are currently leadership ready.

These ongoing leadership gaps exist despite continued and increasing spend on leadership development initiatives. Organizations invested an estimated \$13.6 billion on leadership training and development in 2012, representing an increase of 14 percent over the previous year.⁸ Despite these numbers, a minority of respondents (30 percent) report that their organization has a strong leadership pipeline.

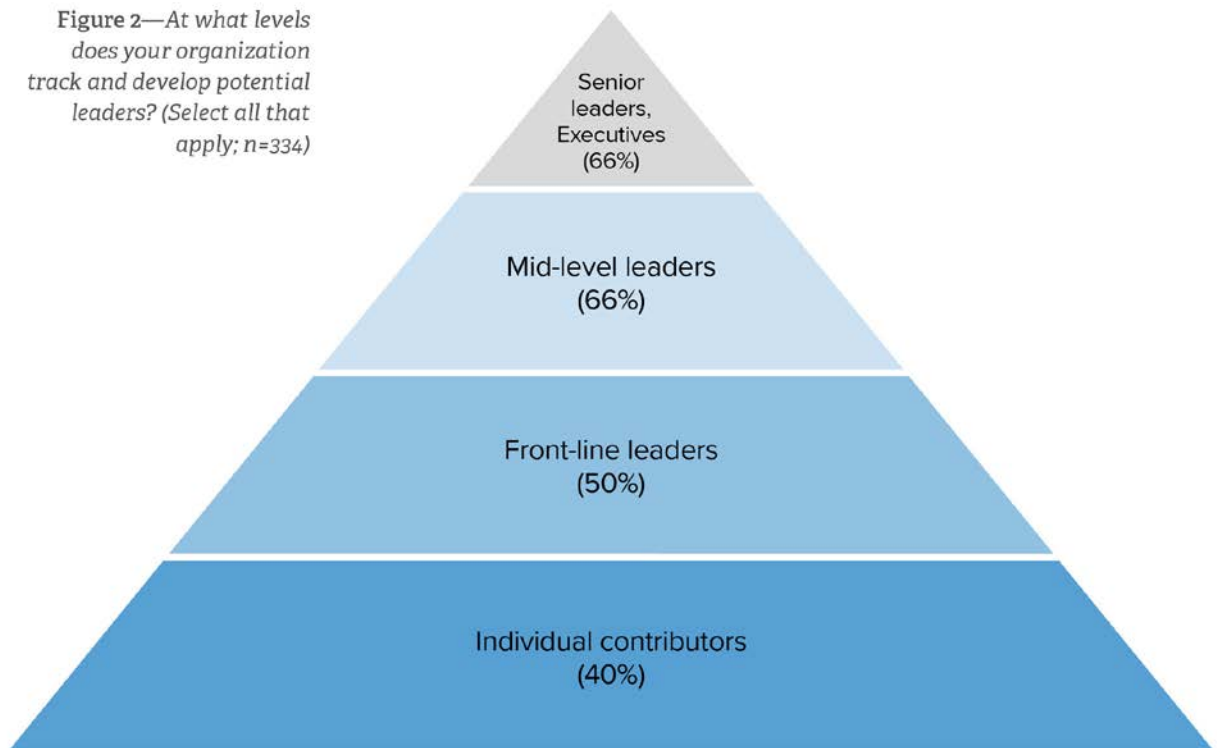
Finding Organizational Leadership

One of the biggest issues impeding effective leadership development is the ability to identify the best candidates and provide the most appropriate leadership development opportunities. Although spending on leadership development has increased, those efforts will not come to fruition if the company is unable to recognize the best candidates for advancement.

This can be explained by the fact that less than half (48 percent) of respondents report that their companies have a formal process for developing high-potential employees. Additionally, only 46 percent of the workforce of these companies participates in development activities. Companies looking to accelerate their leaders may want to incorporate developmental activities earlier in their employees' careers. Organizations reported an average 16 percent of their workforce as being identified as high-potential employees. By correctly identifying and selecting high-potential employees in the talent pipeline, organizations may be able to expand their pool of qualified internal talent and allocate funds towards their development in a tactical manner.

Another factor impeding the ability to find future leaders is that most developmental activities occur at the mid- and senior levels of the organization (Figure 2). Although it makes sense to look at the upper levels of the organization to fill leadership gaps, companies should also consider investing in the development of those high-potentials who are front-line leaders or individual contributors. As the workforce demographics shift rapidly, organizations will benefit from a more proactive approach, identifying and developing talent across the enterprise to create future leaders.

Figure 2—At what levels does your organization track and develop potential leaders? (Select all that apply; n=334)



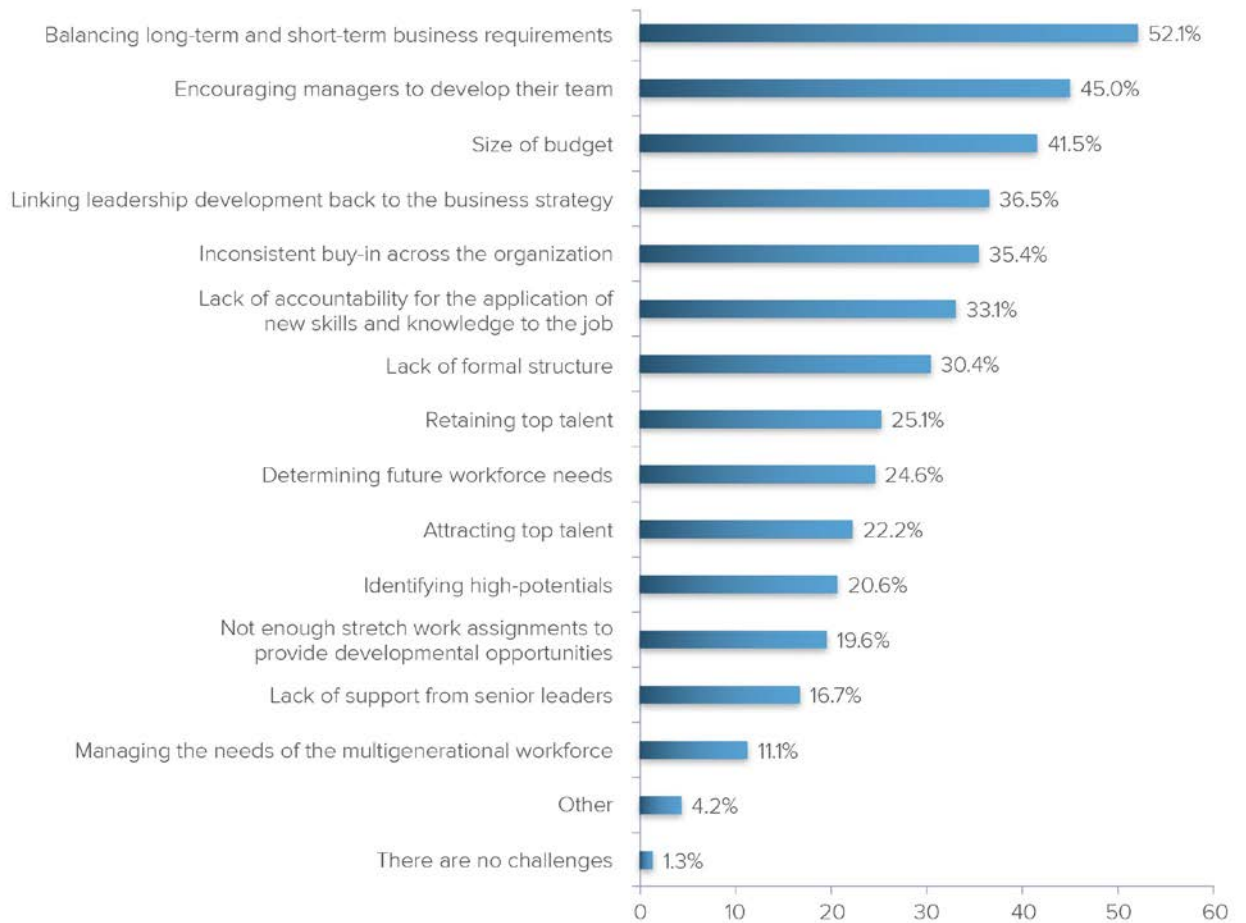
At the same time, organizations put greater focus into sourcing internally for mid-level and front-line leaders than they do when filling executive positions. For instance, 48 percent of respondents put high or moderate focus on sourcing front-line leaders internally, while 51 percent do so for mid-level leaders. Conversely, only 37 look internally when sourcing senior leaders and executives. If organizations rely on external sourcing for senior leaders and executives, and there is a deficit of qualified leaders due to retirement, then the market cost for senior leaders may notably increase. As a result, organizations may have to pay an immense amount of money to attract external senior leadership, and also provide compensation and benefits to prevent their current senior leaders from being poached by other companies.

Challenges to Leadership Development

While organizations of all sizes and across all industries recognize the need for effective leadership development, they face a number of significant challenges in their efforts to develop future leaders. When asked about their greatest challenges regarding leadership development, the top three challenges to emerge are finding the balance between long-term

and short-term business requirements, encouraging managers to develop their teams and budget constraints (Figure 3). In essence, the main difficulties can be summed up as being time, lack of accountability and money.

Figure 3—What are the challenges to leadership development at your organization? (Select no more than 5 challenges; n=378)



Another major challenge is the ability to measure the effectiveness of leadership development efforts. Only 14 percent of respondents actually calculate the return on investment of their leadership development programs. In addition, a mere 21 percent of respondents report that they effectively use data and analytics for succession planning. This finding reinforces the need for companies to adopt or improve their talent analytics systems for leadership development.

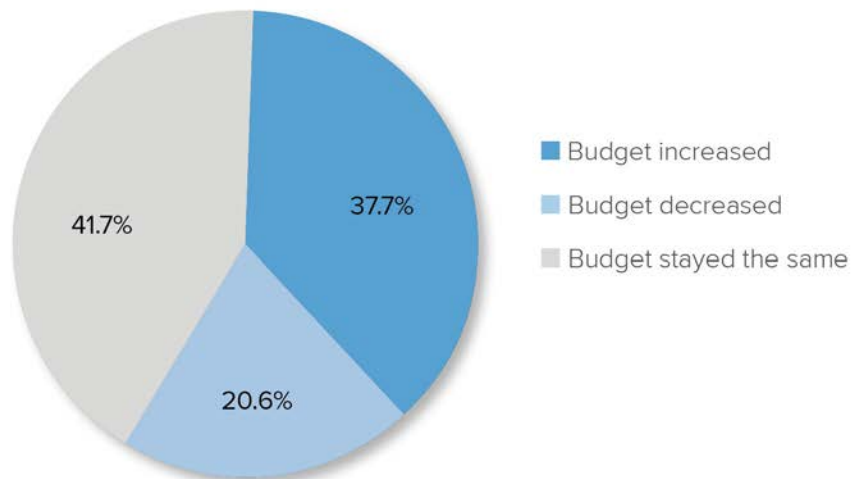
Trends in Developmental Programs

Increasing Budgets for Learning and Development

Companies recognize the value in enhancing the skills and expertise of their entire workforce, rather than a select few. Ninety-two percent of companies report that their development dollars are being allocated to all employees, not just their high-potentials. Such a strategy will help the company prepare all employees to fill current and expected skills shortages, in addition to leadership gaps.

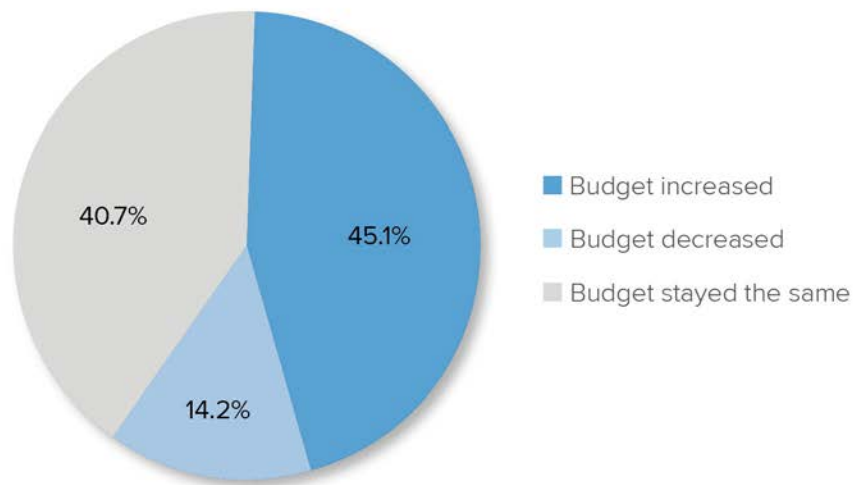
Nearly half of our respondents with budget responsibility say their learning and development (L&D) budgets remained the same for 2014 as they were in the previous year, with a third having increased their investments (Figure 4).

Figure 4—How has your budget for learning and development activities changed from last year? (n=204)



Whereas 45 percent plan to further raise their L&D budgets in 2015, 41 percent still plan to keep their budgets the same and 14 percent plan to decrease them (Figure 5).

Figure 5—How will your budget for learning and development activities change next year? (n=162)



The majority (74 percent) of those who increased their Budgets from last year also plan to increase them next year. Only 18 percent of organizations whose budgets decreased last year have plans to increase L&D dollars in 2015. However, with only 23 percent agreeing that the size of their L&D budget meets their existing needs, it is clear that more funding may be necessary.

Forty-two percent of participants state that the size of the L&D budget is a challenge for effective leadership development. Yet, not surprisingly, larger L&D budgets lead to better outcomes. Our research shows that participants who have budget responsibilities for L&D and report that the size of the budget meets the organization's development needs are more likely to have high-potentials who are ready for leadership. They also report that a greater percentage of their workforce is prepared to fill critical positions.

The Expansion of Developmental Program Offerings

Since the majority of organizations plan to increase or maintain their L&D budget, it is necessary to explore the methods and activities planned for developing their leaders. The numerous different methods to deliver leadership development and training can be divided into four distinct groups: on-the-job experience, peer-based learning, education offerings and self-based learning. While each is integral to a comprehensive leadership development program, our research shows that organizations will be adopting certain activities at a notable rate within the next five years.

Based on these findings, the top five developmental programs currently offered include:

1. Reading books, articles and trade journals.
2. Exposure to senior executives (e.g., meetings, face time).
3. Informal mentoring.
4. Attending industry conference or trade shows.
5. Workshops.

The top five development programs that organizations plan on offering within the next five years include:

1. Informal mentoring.
2. Web-based training or e-learning.
3. Readings, books, articles and trade journals.
4. Exposure to senior executives.
5. Cross-functional projects.

The programs with the biggest changes between what companies currently offer and what they plan to provide in the future, and thus the biggest areas for growth, include:

1. Formal mentoring.
2. Knowledge sharing platforms.
3. Peer round-table discussions.
4. Executive coaching.
5. Simulations.
6. Learning management system (LMS).
7. 360, multi-rater assessment.
8. Community service-learning endeavors.
9. Action learning projects.
10. Web-based training or e-learning.

Formal mentoring is identified as having the highest rate of growth between programs offered now and programs offered within five years. Results from this study demonstrate that, while the majority of organizations have informal mentoring, they may want to have a formal process in place to develop employees. Mentoring, when done effectively, can be beneficial for both the mentor and mentee and can help develop competencies in employees.⁹

In another interesting statistic, when asked what they believe are the most effective programs at accelerating the development of leaders, most companies selected the methods that are experiential based. These included stretch assignments or other special tasks that go beyond an employee's usual responsibilities, exposure to senior executives, cross-functional projects and action learning assignments.

Overall, the findings from this study suggest organizations utilize an extensive number of activities for developing leaders. It appears that organizations are looking to improve and extend their employee development activities across the board, with formal mentoring, collaborative activities and executive coaching being identified as the top rising activities within the next five years. However, with reports that 43 percent of organizations are keeping their training and development budgets the same, it begs the question of how organizations are going to afford to extend these programs to more employees.

Timeless Leadership Competencies

In addition to exploring the activities offered, it is important to determine which leadership competencies are most valued to develop. According to our survey participants, the five most important rated competencies for leadership are:

1. Ethics and integrity.
2. Drive for results (motivated).
3. Communicates effectively.
4. Strategic thinking/insight.
5. Maintaining relationships.

There is some variety in how companies develop each of the above top-rated competencies, with companies most frequently relying on self-work and self-mastery by future leaders in the competencies of ethics and integrity (50 percent) as well as in drive for results (58 percent). Work experience is used 59 percent of the time to develop the drive for results, and 62 percent of respondents use education courses to develop the communications competency. Work experience is most frequently cited for developing strategic thinking/insight (59 percent) and relationship maintenance (61 percent).

How to Accelerate Leadership Development

Assess Leadership Readiness: Use Objective Measures Versus Gut Feel

There is real value to be found in assessing the readiness of high-potential employees for accelerated leadership development. By identifying high-potentials in earlier phases of their careers, companies can establish a deep talent pipeline that can provide a targeted yet flexible approach to enhancing business growth and employee retention. It is important to keep in mind that assessing readiness is multi-dimensional and incorporates many different competencies.

In our survey, we found that the average number of months it takes to prepare a high-potential employee to assume a mid-level leadership position is 20 months ($\sigma_x = 16$). For senior leadership positions, it takes 38 months ($\sigma_x = 30$). As one-fourth of survey respondents report that over 20 percent of their senior leaders are eligible for retirement in the next five years, they need to account for the fact that it takes over three years to prepare someone for these positions.

Nearly one-third of the organizations surveyed indicate they have standardized criteria to determine leadership readiness. There is variety in how developmental readiness is measured, however, with 77 percent relying on managers' subjective recommendations, 75 percent relying on performance reviews and nearly 40 percent using observations by managers or mentors trained in assessing readiness.

Objectively assessing readiness may lead to accelerated leadership development. For example, it takes longer to develop mid-level managers when using managers' subjective recommendations (22 months) compared to 16 months for those who do not rely on managers' subjective assessments. Respondents who use observations by trained mentors or managers report that mid-level manager development occurs faster. There are no significant differences for senior-level positions, according to our research, possibly because organizations are relying more on external sourcing than internal development for senior leaders.

Offer Multiple Methods for Development

The well-known 70-20-10 model of leadership development is based on the idea that 70 percent of development comes from practice and on-the-job experience, 20 percent is derived from exposure to coaching, feedback and networking, and 10 percent is through formal education. Based on this model, a multi-method, or portfolio approach to developing leaders incorporates four critical components¹⁰:

1. Experiential, on-the-job learning, recognizing that not all experiences are created equal.
2. Learning from others, including peer coaching, 360 assessments, client feedback, etc.
3. Formal learning, such as classes, simulations and coursework.
4. Reflective learning, which ensures that employees have the opportunity to look back on their work and educational experiences.

The portfolio approach is beneficial in a number of ways, as there is not one formula that can cover all situations and all competencies. Learning and development do not happen in a vacuum, but rather are part of a continuum of interconnected developmental activities. Successful organizations recognize that the ability to provide context so that high-potentials can draw from past experiences when learning new concepts is a key component of leadership development. The portfolio method of development also allows for a customized approach based on individual needs and organizational resources. Not all competencies, however, can be developed in multiple ways.

Nearly half of our respondents are creating customized leadership development activities for each high-potential employee. Thirty-six percent recognize the importance of addressing the different learning styles of the multi-generational workforce.

Organizational-Level Concerns: Accountability and Integration within Business Strategy

Organizations accelerate the development of their leaders when senior leaders hold employees accountable for the application of new skills and knowledge to the job. Likewise, senior leaders can enhance the effect of developmental activities by fully integrating them with business strategies. Companies with this support structure in place report a greater percentage of their bench who are ready for the next level and report less time (in months) required to develop mid-level leaders.

For example, organizations in which senior leaders hold employees accountable for the application of new skills and knowledge to the job report that it takes 19 months to develop a mid-level leader, compared to 27 months for companies who do not hold employees accountable.

Development that is integrated with business initiatives also is more likely to occur at a faster pace. When development activities are fully integrated with business strategies, survey respondents report that it takes 18 months to develop a mid-level leader, compared to 24 months when there is not full integration with business strategies.

Although results from this study suggest positive outcomes of having supportive leaders for leadership development, there is room for organizations to grow. Of the participating organizations, 63 percent agree that senior leaders actively support the development of high-potentials. However, less than half (46 percent) agree that senior leaders are highly involved with the design of leadership development programs. Likewise, an even smaller percent of participants (41 percent) agree that their senior leaders hold employees accountable for the application of new skills and knowledge to the job.

Conclusions

A dramatic and significant shift in the workplace, as aging Baby Boomers near retirement and Millennials enter in the workplace, has created a significant gap in critical knowledge and experience. Over a quarter of respondents report that 20 percent of their senior leaders are eligible for retirement in the next five years. Nearly half (47 percent) of those surveyed report that over 10 percent of senior leaders will become eligible within the next 5 years. This trend will continue for the next two decades as Baby Boomers retire and leave the workforce.

This dearth of qualified leaders in the workplace is highlighted as a major concern for organizations, with 85 percent of respondents indicating that they feel an urgent need to accelerate the development of their high-potential employees. In general, senior leaders are not satisfied with their organizations' bench strength, and they are concerned that high-potentials will not be able to meet their future business needs.

While almost half of employees participate in development activities, only 16 percent are identified as high-potentials. The identification of high-potentials early on in their careers is critical to establishing a deep leadership pipeline. Most organizations look outside for senior executives but source internally for mid-level and front-line leaders. Most organizations' developmental activities, however, occur at the mid- and senior levels.

With balancing long-term and short-term business requirements, money, and encouraging managers to develop their team cited as the top challenges facing leadership development, the good news is that most leadership and development budgets are set to increase next year. Thanks in part to these anticipated budget increases, the majority of organizations plan to increase leadership development activities within the next five years, with formal mentoring slated for the most growth.

The five competencies rated most important for leadership are ethics and integrity, drive for results, effective communication, strategic thinking/insight and maintaining relationships. There is some variety in how companies are developing each of the top-rated competencies. An integrated, portfolio approach provides flexibility to build competencies and create

behaviors while accommodating individual learning styles and maximizing limited resources.

Although they recognize the critical importance of developing leaders quickly, how can organizations accelerate that development? Using objective measures to assess readiness is essential. Respondents who use managers' subjective recommendations find that it takes longer to develop mid-level managers, compared to respondents who use observations by trained mentors or managers.

Organizations that are accelerating the development of their leaders share three attributes: support from senior leaders; a formal learning and development structure; and accountability for learners. These companies report a greater percentage of their bench who are ready for the next level, as well as less time needed to develop their mid-level leaders. For organizations who are faced with an increasing need to accelerate the development of their leaders, incorporating these three characteristics is vital.

About this Research

The following research report was developed in partnership between the University of North Carolina Kenan-Flagler Business School and Human Capital Institute (HCI) in February 2014. We developed a 30-item survey and 378 surveys were completed from global organizations. Most of the respondents work in the HR function (49 percent) or in training and development (27 percent) at their organization. The results of this survey form the basis of this research.

HCI also conducted in-depth interviews with experts on the topic. To supplement these primary methods, HCI researchers also reviewed relevant information from a variety of secondary sources, including white papers, articles, books, interviews and case studies.

About UNC Executive Development

For sixty years, UNC Executive Development has partnered with organizations to create customized executive development programs to answer their business challenges. As a part of the UNC Kenan-Flagler Business School, UNC Executive Development brings the school's experience, reputation and noted faculty to these challenging and impactful programs. In 2014, the *Financial Times* ranked UNC Executive Development No. 9 overall in the world and No. 4 in the United States for its customized executive development programs designed to help organizations address these challenges. UNC Executive Development also ranked highly in many individual categories, notably as No. 3 in the world for value for money. Visit UNC Executive Development's website for more information at: <http://execdev.unc.edu>.

Contact Us

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Appendix: Endnotes

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