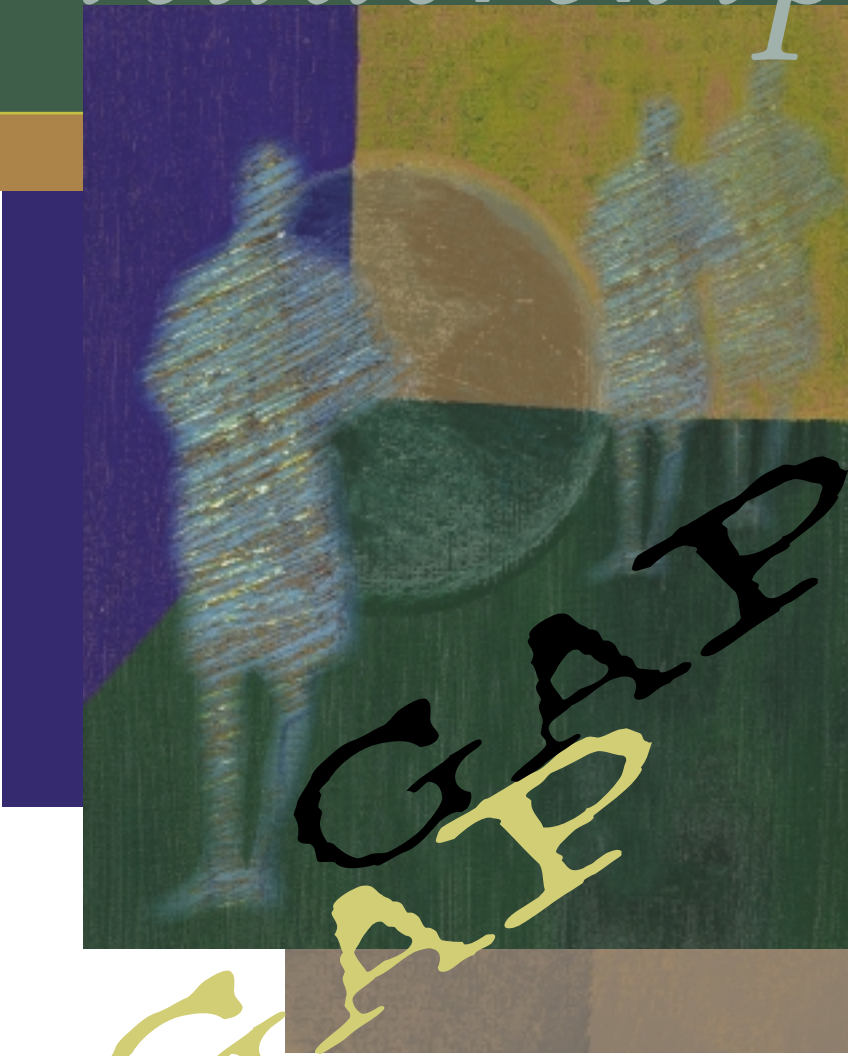


The leadership



Building leadership capacity is one of the most important business issues challenging organizations today. Five critical forces are challenging business leaders and their organizations as never before:

- Global competition
- Rapid technological innovation
- Creating responsive and flexible organizations
- Building strong teams throughout an organization
- Responding to differing employee values and needs

It is projected that these forces will remain the key business challenges over the next decade¹. The consensus is that leadership capacity has become mission critical in many organizations as they invest significant time and resources to attract, retain, and develop leadership talent².

However, upon closer examination it is clear that many organizations are struggling to build their leadership capacity. Study after study shows that senior leaders are not satisfied with current approaches to developing leaders³. These studies also suggest a low degree of confidence in the ability of current leaders to lead organizations into the future.

We have found that the most important distinguishing feature of best practice organizations is their fundamental belief that strong leadership throughout their organization (not just at the top) is the ultimate source of sustainable competitive advantage for their companies. Leadership capacity is seen as a long-term investment and these organizations make the long-term commitment, often sustaining programs even during difficult economic times.

The leadership capacity gap can be defined as a

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series of three interrelated gaps:

The *Talent Gap* refers to the shrinking pool of available future leaders.

The *Capability Gap* reflects the low confidence that executives have in the capability of existing leaders to lead the organization into the future.

The *Development Gap* refers to the limitations of current approaches to leadership development and learning.

The Talent Gap

The talent gap exists because demographic changes have resulted in a shrinking pool of younger leaders available to assume senior roles in organizations. In coming years the business world will experience a critical shortage of middle and upper leadership. It is projected that many large companies may experience a departure of up to 40% to 50% of its senior executives due to retirement⁴.

The exodus of leadership talent coupled with the organizational restructuring that has taken place over the past decade has also resulted in lean hierarchies and organizational structures. This

capacity gap

building leadership capacity

has left many organizations without a pool of employees ready to move into senior leadership roles. In addition, lean organizations do not have the layers they once had. Consequently, leaders have not had the career opportunities to develop their skills and capabilities as they may have had in the past. Collectively these demographic shifts are putting pressure on organizations to be innovative and vigilant in their efforts to attract, retain, and develop a strong group of potential leaders.

The Capability Gap

As identified, many CEOs believe their leaders do not have the capabilities necessary for their organizations to succeed in the future. This capability gap appears to be greatest in the ability of leaders to inspire and engage employees. Research conducted by the Conference Board of Canada found that up to 70% of Canadian CEOs surveyed report that leaders in their organizations are only "fair to weak" in building strong teams, gaining employee commitment, and making employees feel valued¹. These have been identified as the capabilities that will be especially important in years to come¹.

Other research has found significant bottom line implications in the relationship between leadership and employee engagement. In a 2003 survey of 2,300 Canadian employees, Watson Wyatt discovered that employees' distrust of corporate leadership is harming the ongoing financial performance of corporations⁵. For instance, only 50% of Canadian employees report having trust and confidence in the senior leaders of their organization. The study also found that companies whose employees report having high trust and confidence in their leadership are worth nine times more in terms of total return to shareholders than those organizations where employees have low trust and confidence in leadership.

Leadership programs must help leaders develop the capability to inspire and engage employees, as organizations continue to contend with shifting demographics and shrinking pools of employees. Employee retention and motivation will be vital and the organizations that have capable leaders who can inspire and engage employees will have a distinct competitive advantage.

The Development Gap

A development gap also currently exists in organizations. As senior leaders have begun to place greater emphasis on leadership development, they are recognizing that current approaches to leadership development are not effective. Existing strategies for building leadership capability are falling seriously short of the mark in many organizations⁶. For example, Hewitt surveyed CEOs and HR executives of 240 major U.S.-based, multinational companies and found that just over two-thirds of respondents believed that their leadership development programs were ineffective in building the leadership capability required by their organizations⁷.

Many believe the development gap exists, in part, because current leadership development strategies have focused primarily on leadership at the top of organizations⁶. Furthermore, current development strategies are seen to be too generic, outdated, and focused primarily on classroom training³. The leadership development gap for all levels needs to be bridged through innovative and integrated leadership development experiences focused on achieving meaningful business outcomes⁸.

Conclusion

If the leadership capacity gaps are not addressed, these gaps will seriously affect many organizations' ability to remain competitive. Fulfilling leadership capacity is not a choice for leaders; it has become an economic imperative.

The benefits of building the leadership capacity are vast for the organization and its senior executives, shareholders, customers, employees, and leadership professionals. The entire organization will have leaders focused on what the enterprise needs to do – deliver value to its external customers to drive business results. Leaders have the opportunity to create tremendous value and can pave the way for both their personal and organizational success.

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