

Gartner for HR

Improving Leadership Bench Strength

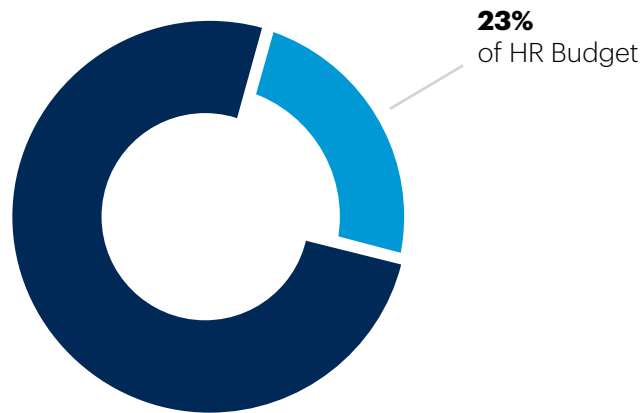


Gartner®

Substantial Investments in Leadership

Quarter of HR Budget Spent on Leadership

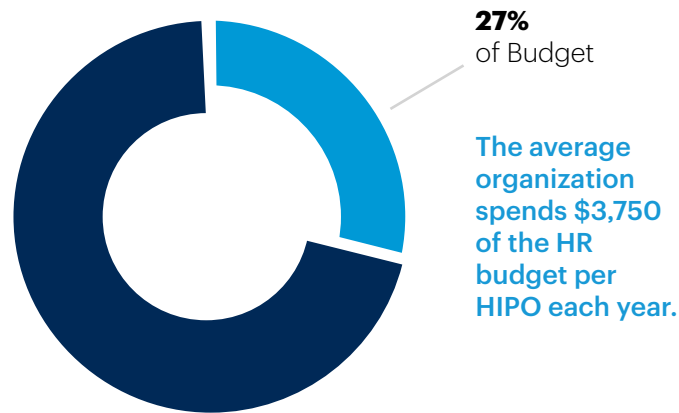
Average Percentage of HR Budget Spent on Leadership Investments, According to Heads of HR



n = 197

Much of Development Budget Goes to HIPOs

Average Percentage of Training and Development Budget Spent on HIPO Program



n = 46 HR leaders

Organizations are making substantial investments in leadership development, high-potential (HIPO) talent strategies, and succession management.

Formal succession activities include:

- Preparing for and participating in talent reviews
- Assessing development areas
- Finding development opportunities
- Creating and executing development plans

Informal succession activities include:

- Informally discussing direct reports' performance, potential or development areas
- Connecting direct reports with key executives
- Planning for or thinking about succession events

Significant Leader Time Invested in Succession Management Activities

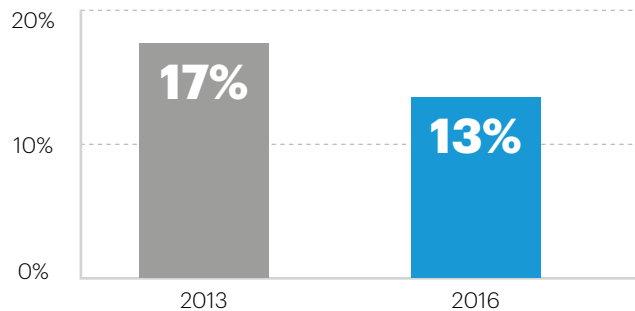
- Average time spent on succession activities by each business leader: **182 hours** (69 hours on formal succession activities + 113 hours on informal succession activities)
- Average time spent on succession activities by each HR leader: **144 hours**
- Total average time spent on succession activities for an organization with 200 business leaders and 5 HR leaders each year: **37,120 hours**
- Direct cost of time: **\$4 million**

Source: Gartner

Leadership Benches Continue to Weaken

Confidence in Rising Leaders Has Gone From Bad to Worse

Percentage of Organizations With a Strong Leadership Bench



n = 142 HR leaders
Source: Gartner

When an Organization Has a Weak Bench ...



Leader performance on key objectives* declines by 34% on average.



It **must fill senior leadership roles with external candidates** (who are more expensive, slower to onboard and more likely to fail) **21% more often than other organizations.**

n = 401 HR leaders
Source: Gartner

* Includes objectives such as responding to new competition, executing a new strategy or developing innovations.

Unfortunately, despite these investments, organizations don't have the strong leadership benches they need to meet current and future needs.

- Since 2013, even fewer organizations report having a strong leadership bench.
- A weak leadership bench can be very damaging; organizations with weak benches see reduced leader performance on key objectives and must hire externally more often.

Leadership Bench Strength



Continuity

The capacity of a leadership bench to fill gaps in existing leadership needs



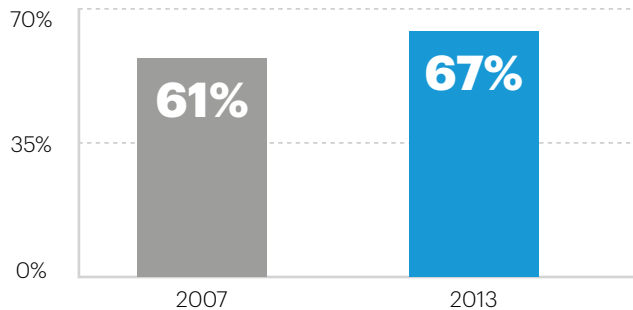
Optionality

The capacity of a leadership bench to evolve as new leadership positions arise and change happens within role

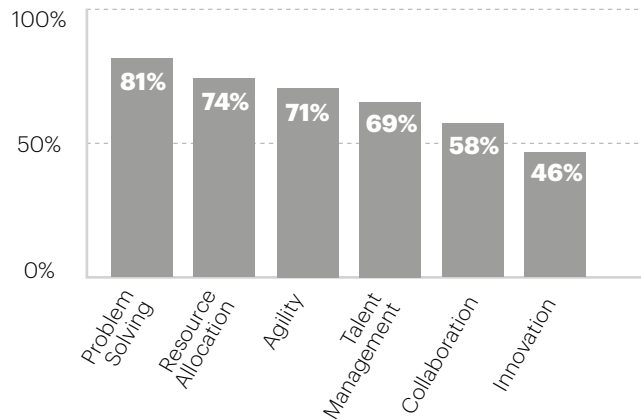
Leaders' Abilities Have Not Changed, But the Business Environment Has

Leaders Equally Effective at Competencies

Leaders' Effectiveness at Key Competencies, 2007-2013



n = 1,618 (2007); 333 (2013)
Source: Gartner



n = 333
Source: Gartner

Changes in Business Environment

"Leadership roles are changing all the time — for example, we no longer have a chief administrative officer, but we recently created a chief sustainability officer position."

**Vice President
FMCG Organization**

"Every day I have to influence someone I've never met before."

**Senior Director
Technology Organization**

"The new opportunities for growth in our organization can't really be found within one unit ... you have to look at the intersection of your work with that of other leaders across the company."

**Associate Vice President
Financial Services Organization**

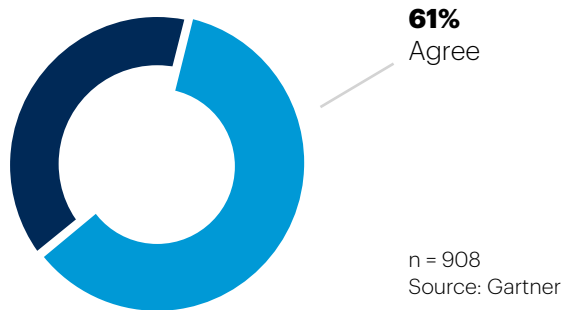
Declining bench strength is not a result of insufficient leader capabilities; leaders' average effectiveness at key competencies such as problem solving, agility and collaboration has remained relatively unchanged.

- What has changed is the business environment in which leaders and organizations must operate.

Change 1: Leadership Is More Complex

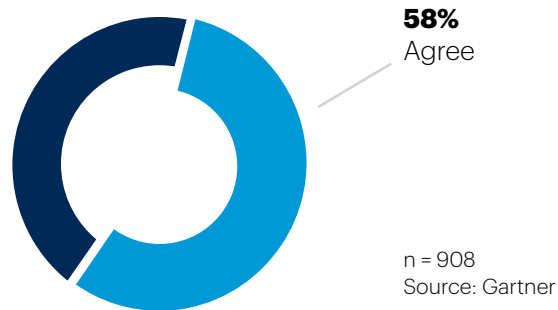
More Stakeholders to Consult

Percentage of Leaders Who Agree That the Number of Individuals They Must Consult or Obtain Approval From to Make a Decision Has Increased



More Geographically Dispersed Teams

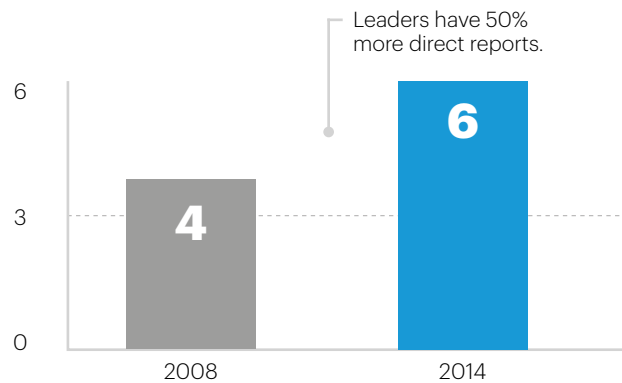
Percentage of Leaders Who Report an Increase in Time Spent Working With Direct Reports in Different Locations in the Past Three Years



The first major change in the business environment is that leadership is more complex today.

Wider Leader Spans of Control

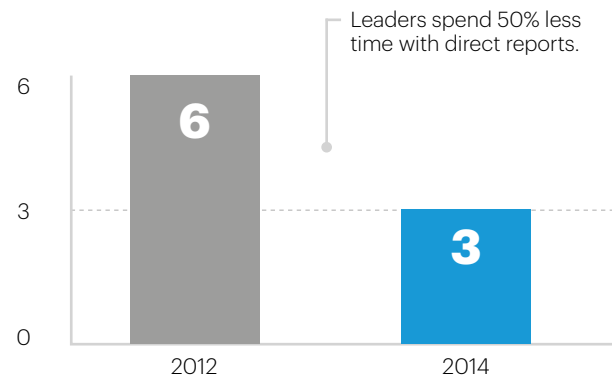
Median Number of Direct Reports per Leader



n = 10,516 (2008); 908 (2014)
Source: Gartner

Less Leader Time Spent With Team

Number of Hours per Week Employees Spend With Their Direct Leader



n = 23,339 (2012); 908 (2014)
Source: Gartner

Change 1: Leadership Is More Complex (continued)

The Best Leaders Today Are Enterprise Leaders

Individual Leadership



A leader's effectiveness at meeting individual objectives and leading his or her team to high individual performance

Network Leadership



A leader's effectiveness at contributing to and leveraging the performance of other units or teams, and leading his or her team to do the same

Enterprise Leadership

A leader's effectiveness at meeting his or her individual objectives, contributing to and leveraging the performance of other units or teams, and leading his or her team to do the same

Enterprise Outcomes

Revenue and profit for his or her business unit and other business units or teams

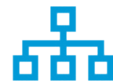
The most effective leaders in this complex environment are enterprise leaders: They lead their teams to high performance and contribute to and leverage other teams' performance.

Source: Gartner



Take — and Give — With Peers

Individual leaders use peer contributions to improve their business unit. Enterprise leaders use and provide contributions to improve the broader enterprise.



Push — and Pull — Team Contributions

Individual leaders delegate work to their team. Enterprise leaders delegate work and ensure team contributions receive the resources and visibility needed for success.



Facilitate — Don't Direct — Team Performance

Individual leaders provide their teams with direction to accomplish their tasks. Enterprise leaders connect their teams with those who can enhance and benefit from the team's performance.

n = 908 (enterprise leadership); 2,101 (enterprise contribution)
Source: Gartner

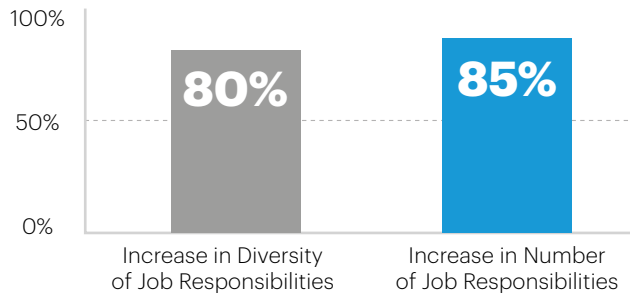
Change 2: Leadership Roles Are Changing More Frequently

Some Leadership Roles Are Eliminated, While New Roles Are Created

Organizations are starting to **eliminate** roles like chief procurement officer or chief strategy officer and **create** new roles like chief digital officer or chief sustainability officer.

Remaining Leadership Roles Are Changing

Percentage of Leaders Who Agree

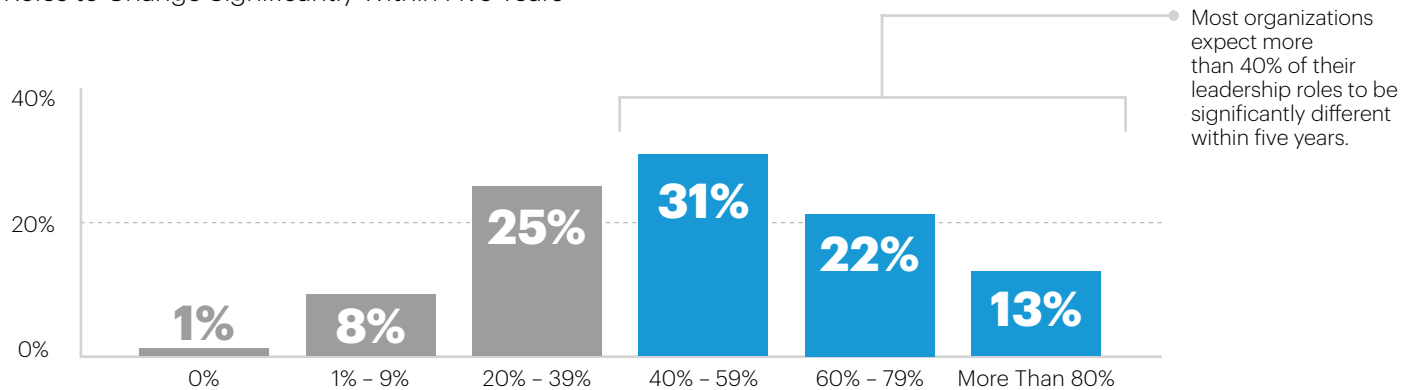


n = 3,409 | Source: Gartner

The second major change in the business environment is that leadership roles are changing more frequently.

Leadership Roles Changing Rapidly

Percentage of HR Leaders Expecting Different Amounts of Leadership Roles to Change Significantly Within Five Years

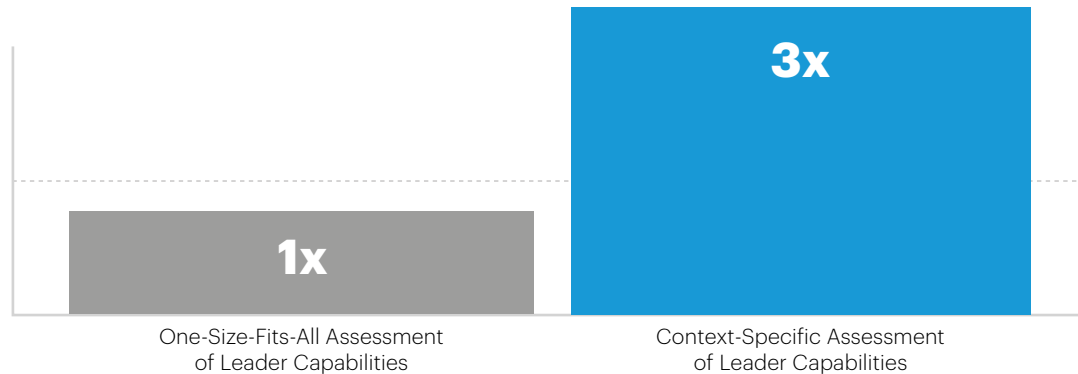


n = 173
Source: Gartner

Change 3: As Roles Change, the Capabilities Leaders Need Vary

Context Shapes the Innate Capabilities Needed for Leader Success

Ability to Predict Leader Performance Is Dramatically Higher When Leader Capabilities Are Fit to the Context



n = 8,674
Source: Gartner

Why Context Impacts Leader Performance

- Different contexts have different challenges leaders must work through.
- While these challenges are inherently difficult to navigate, each challenge requires different leader capabilities.
- Specific experience in a challenge improves leader success.
- Leader performance improves when a leader's capabilities and experience match the particular challenges of a specific role.

n = 8,674
Source: Gartner

The third major change is that rapidly changing roles present new contextual challenges that have a significant impact on the capabilities leaders need to be successful.

Contextual challenges include:

- Succeeding in volatile, ambiguous environments
- Leading geographically dispersed teams
- Transforming a high-conflict culture
- Delivering rapidly changing products, services or processes

Leadership Pipeline Management Doesn't Work

Four Common Breaks Limit the Effectiveness of Leadership Pipeline Strategies

1. Pipelines to Nowhere

Thirteen percent of leadership positions were eliminated in the past year, and 31% of leaders are in newly created positions.

2. Narrow Pipelines

A majority of organizations identify less than 10% of their workforce as HIPOs.

3. Clogged Pipelines

Nearly 75% of successor candidates do not perceive significant opportunity for career progression at their organizations.

4. Rusty Pipelines

Thirty-two percent of organizations would change members of their leadership team if given the opportunity.

Most organizations attempt to create a strong leadership bench by managing a pipeline of successors who have the potential to fill a specific position or type of role, but this approach breaks down in today's environment.

Source: Gartner

Leadership Portfolio Management Is Most Effective in Today's Environment

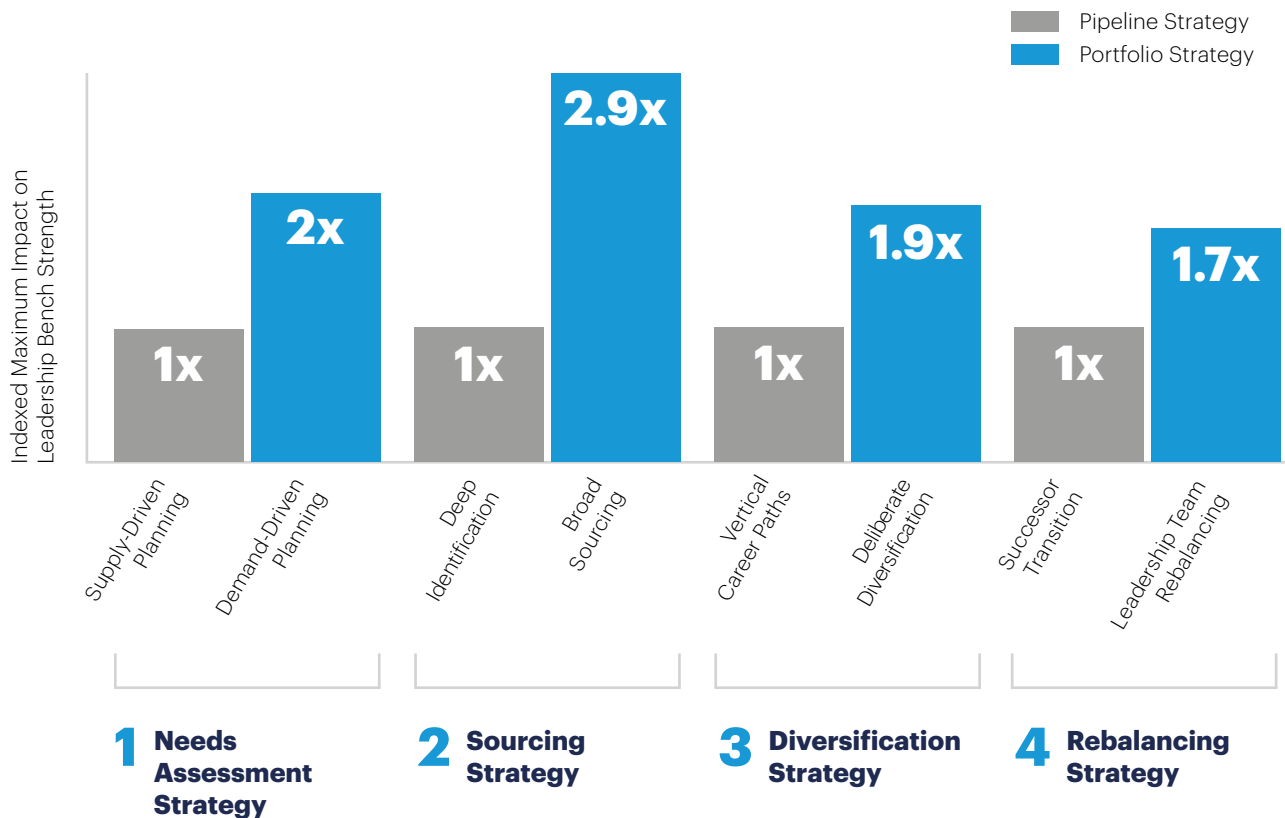
	Old Approach Pipeline Management	New Approach Portfolio Management
Needs Assessment	Supply-Driven Planning Assessing current roles and gaps in leadership supply	Demand-Driven Planning Assessing leadership needs that will lead to achievement of strategic goals
Sourcing	Deep Identification Early identification of future leaders within organizational silos	Broad Sourcing Selecting successors from across the enterprise through greater transparency
Diversification	Vertical Career Paths Preparing successors through upward career paths	Deliberate Diversification Preparing a leadership bench for a variety of futures to hedge against uncertainty
Rebalancing	Successor Transition Concluding succession management at transition of successor into preidentified role	Leadership Team Rebalancing Proactively realigning the senior leadership team with strategic goals

In an environment where leadership is more complex and leadership roles are constantly evolving, organizations must take a portfolio management approach to building leadership bench strength.

Source: Gartner

Leadership Portfolio Management Strategies Are More Effective Than Pipeline Strategies

Maximum Impact of Pipeline and Portfolio Succession Management Strategies on Leadership Bench Strength



Organizations that take a portfolio management approach build stronger leadership benches than those taking a pipeline approach.

Portfolio management strategies can double the strength of the leadership bench compared to pipeline strategies, which leads to an extra 2% growth in year-over-year revenue and profit.

Maximum Impact

The most improvement an organization can expect to receive on leadership bench strength by improving effectiveness at a strategy or tactic.

Source: Gartner

Note: The maximum impact on leadership bench strength is calculated by comparing two statistical estimates: the predicted impact when a respondent rates a driver with a relatively "high" score and the predicted value when a respondent rates a driver with a relatively "low" score. The effects of all drivers are modeled using a variety of multiple regressions with controls.

Implementing Leadership Portfolio Management Strategies



Demand-Driven Planning

Plan your leadership strategy based on projected demand, not just current supply.

- Align leadership strategy to organizational strategy, not existing roles and vacancies.
- Design HIPO and succession processes that meet future, not just current, leadership roles and requirements.



Deliberate Diversification

Identify and develop future leaders for a few different roles and contexts, not infinite agility.

- Include dual deployability, not just fit with a single role, in successor identification criteria.
- Design leadership career paths around a few diversified, not targeted, experience requirements.



Broad Sourcing

Broaden, don't just deepen, your search for future leaders.

- Encourage employee aspiration to leadership positions; don't assume it is innate.
- Design sourcing and retention strategies for underrepresented groups; don't assume general D&I efforts will be reflected in the leadership bench.
- Increase cross organizational access to talent through broader transparency, not lists of successors and HIPOs.



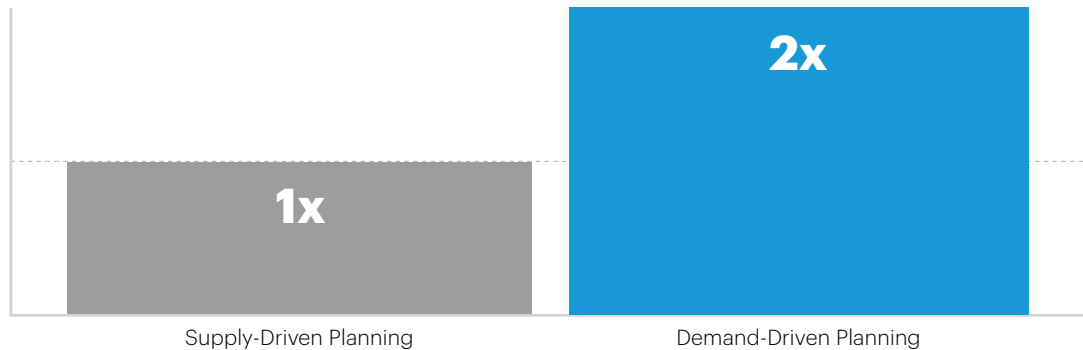
Leadership Team Rebalancing

Rebalance your leadership team regularly; don't assume succession ends with placement.

- Align current leaders' mindset and behavior with enterprise leadership, not just role, requirements.
- Reassign leaders based on complementary strengths, not just role fit.
- Transition leaders out of, not just into, positions if they become misaligned.

1. Demand-Driven Planning Improves Bench Strength More Than Supply-Driven Planning

Maximum Impact on Leadership Bench Strength of Needs Planning



Source: Gartner

Note: The maximum impact on leadership bench strength is calculated by comparing two statistical estimates: the predicted impact when a respondent rates a driver with a relatively "high" score and the predicted value when a respondent rates a driver with a relatively "low" score. The effects of all drivers are modeled using a variety of multiple regressions with controls.

Implication

Succession planning requires stronger demand forecasting capabilities in addition to supply-based needs assessment.

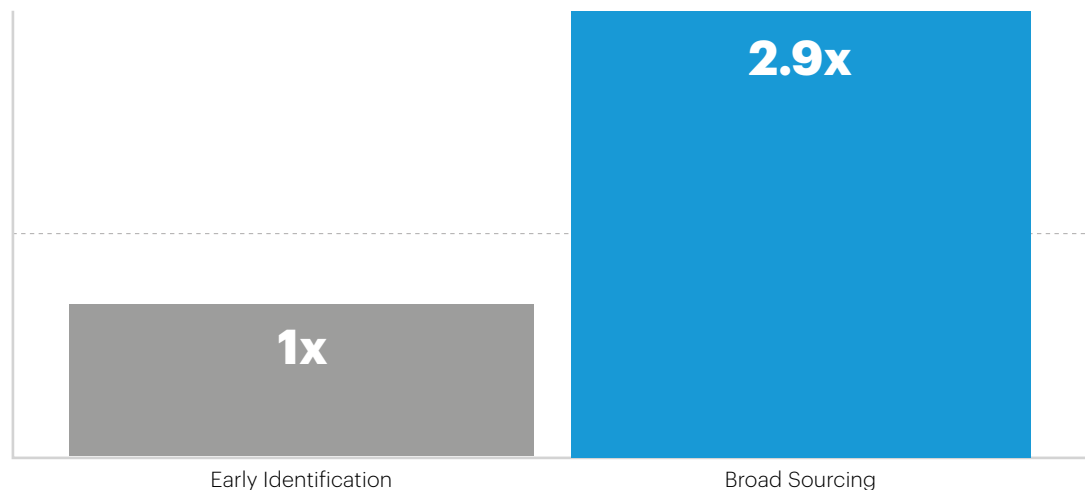
While supply-driven planning is also important, demand-driven planning has twice the impact on leadership bench strength.

Demand-Driven Planning

Assessing leadership needs that will lead to achievement of strategic goals

2. Broad Sourcing Improves Bench Strength Even More Than Early Identification

Maximum Impact on Leadership Bench Strength of Sourcing Strategy



Source: Gartner

Note: The maximum impact on leadership bench strength is calculated by comparing two statistical estimates: the predicted impact when a respondent rates a driver with a relatively "high" score and the predicted value when a respondent rates a driver with a relatively "low" score. The effects of all drivers are modeled using a variety of multiple regressions with controls.

Benefits of Broad Sourcing

- Increases flexibility by providing access to less traditional sources of successors
- Increases retention by placing a greater emphasis on candidate career aspirations
- Overcomes proximity bias by forcing a discussion of more diverse candidates

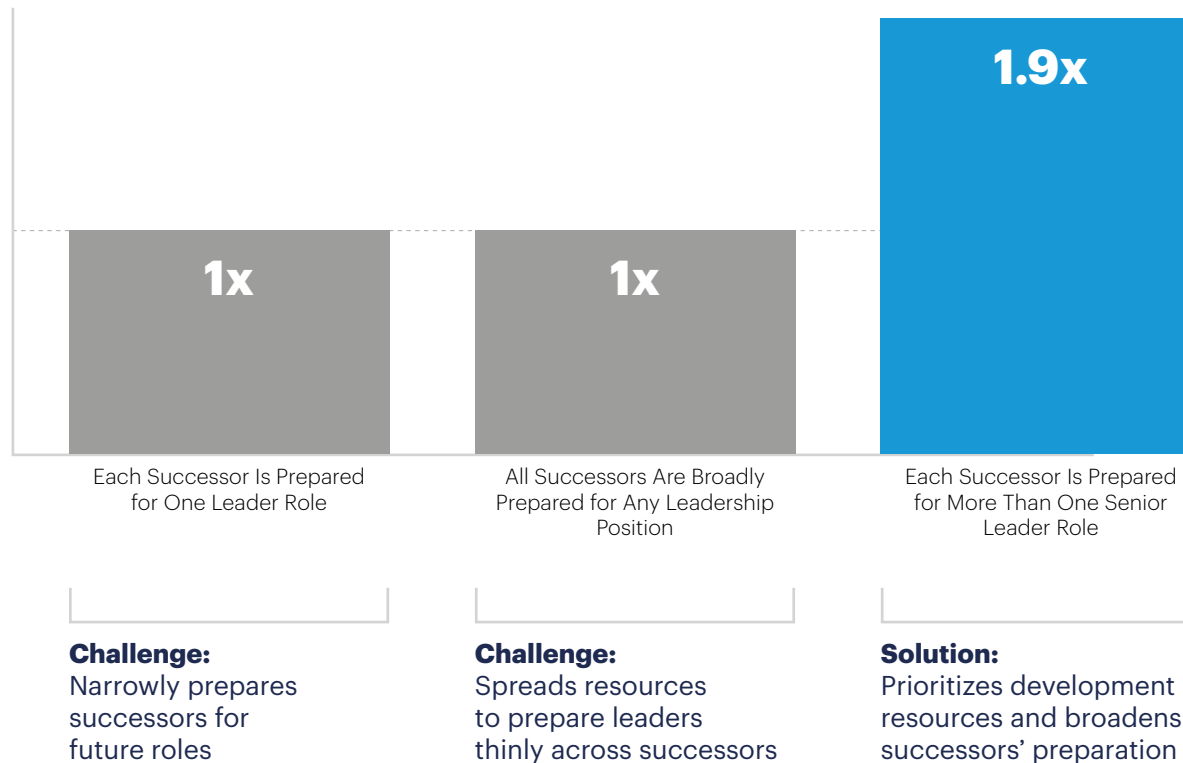
Broad sourcing has nearly three times the impact as early identification on leadership bench strength.

Broad Sourcing

Sourcing candidates for a succession plan from outside the business unit/function/division/region where the position is located through lateral or diagonal (lateral and vertical) moves

3. Deliberate Diversification Improves Bench Strength More Than Linear Succession

Maximum Impact of Successor Preparation Strategy on Leadership Bench Strength



Preparing successors for more than one senior leader role has twice the impact on leadership bench strength than preparing them for only one role or for any leadership position.

Diversification

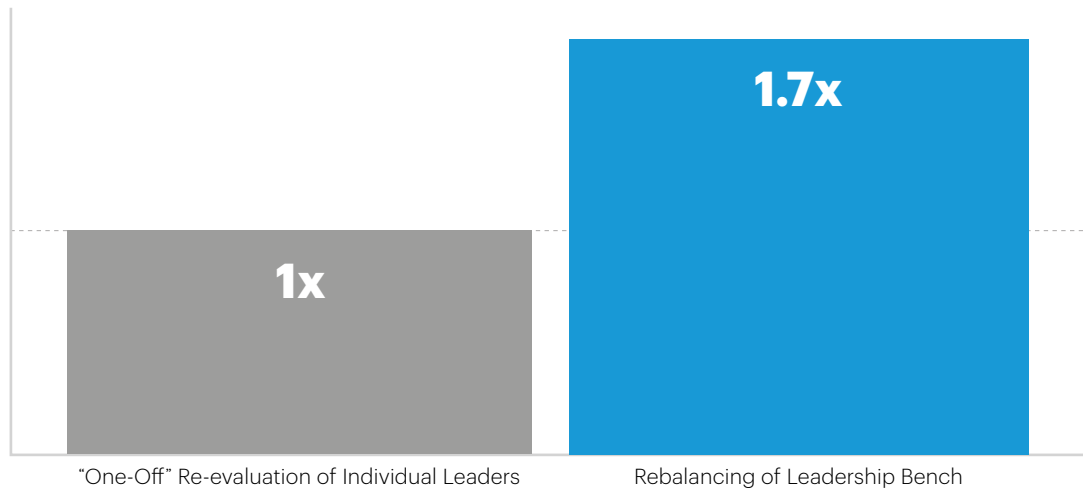
Having a variety of experiences that prepare successors for more than one leadership position in the future, not the capacity for infinite adaptability and change, or the ability to perform any and all leadership roles

Source: Gartner

Note: The maximum impact on leadership bench strength is calculated by comparing two statistical estimates: the predicted impact when a respondent rates a driver with a relatively "high" score and the predicted value when a respondent rates a driver with a relatively "low" score. The effects of all drivers are modeled using a variety of multiple regressions with controls.

4. Regular Rebalancing Improves Bench Strength More Than One-Off Re-Evaluations

Maximum Impact on Leadership Bench Strength of Rebalancing



Regularly rebalancing the leadership team has almost twice the impact on leadership bench strength than one-off re-evaluations.

Regular Rebalancing

Evaluating senior leaders' profiles against strategic goals and proactively realigning leadership benches to ensure continued strategic alignment

Source: Gartner

Note: The maximum impact on leadership bench strength is calculated by comparing two statistical estimates: the predicted impact when a respondent rates a driver with a relatively "high" score and the predicted value when a respondent rates a driver with a relatively "low" score. The effects of all drivers are modeled using a variety of multiple regressions with controls.