Leadership at Scale

Better Leadership, Better Results

‘At a time of technology-driven change, the need to inspire, engage and tap into the creativity of employees demands better leaders. This book sets out how that can happen’

Kevin Sneader, Global Managing Partner, McKinsey & Company
Leadership at Scale

Better leadership, better results

CLAUDIO FESER,
MICHAEL RENNIE
& NICOLAI CHEN NIELSEN
Dedication

For Evelyne, Dario, and Alessio, for your understanding, support, and love.

Claudio

For my mother Patricia who through her values and love inspired my lifelong interest in leadership.

Michael

For Samira, for your unwavering support and love, and for always believing in me.

Nicolai
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Introduction: Leadership that really drives performance

Andrew St George, Claudio Feser, Michael Rennie, Nicolai Chen Nielsen

Why this book? | Why leadership matters | The organizational leadership challenge | Meeting the organizational leadership challenge: leadership at scale | What does impact look like? | Structure of this book

In this book, we will use a fictional company called New Classic Look clothing (NCL) to illustrate a leadership development journey in practice. Carolyn Randolph is the CEO of NCL, a specialized clothing company based in Shanghai. The company had grown quickly under her leadership, was operating in over 50 countries, and had amassed a yearly revenue of $6 billion. The stock had outperformed the market in recent years, and shareholders expected the growth to continue. Ever since the head of design had retired last year, however, NCL struggled to stay up to date with the latest trends in the fast-changing market. Carolyn felt that the company required a comprehensive revamp in order to stay relevant.

In our story the company executives recently finalized an ambitious strategy to reignite growth, but Carolyn had her doubts about their ability to execute it. The executive team seemed jaded and out of touch with the dynamic market they operated in, and Carolyn did not feel that the company had a strong ‘leadership bench’ to take over in the future. In a bid to enable the strategy and help NCL reach its performance objectives, Carolyn decided to launch an ambitious leadership development programme.

Carolyn is not alone. Many executives we work with feel they have a leadership gap in their organization, with negative performance implications. In addition, many organizations struggle to bridge this gap. We find that a large proportion of leadership development initiatives do not achieve the desired outcomes and do not result
in enhanced performance. Making this link, while critical, is difficult to do in practice. We will be re-acquainted with Carolyn, her executive team, and NCL in Part 2 of this book, where we will follow their leadership development journey in detail, and see how NCL is able to increase its leadership effectiveness across the organization, to help enable the overall company strategy.

Why this book?

Leadership increases value by driving performance, pure and simple. Every day throughout a large organization, hundreds of leaders make thousands of decisions; these decisions involve millions of interactions; and each of these can either support or harm the main effort of the organization. So it makes sense for an organization to guide their people in interactions in a way that aligns behaviour with strategy and purpose. Great organizations understand the primacy of the relations that its leaders – at all levels – have with those around them.

Yet a new leadership challenge has emerged: organizations consistently state that they lack the required leadership to execute their strategies, despite collectively spending billions of dollars on leadership development globally. Perhaps your organization is one of them: you understand the need for effective leaders, and yet the development programmes you run are not delivering what you need of them?

We wrote this book in order to develop more and better leaders in organizations. We focus on leadership at scale, on leadership development across an organization. We have found that most of today’s leadership development approaches in organizations – while important for selected individuals – simply do not work for organizations as a whole.

We know what works and we practise what we preach. McKinsey & Company is one of the world’s largest leadership factories. Internally, we invest over $500 million each year in building our own knowledge and leaders. We have seen more of our alumni go on to be chief executives of other companies than any other management consulting firm, and indeed any other firm: currently more than 450 McKinsey alumni are leading billion-dollar organizations, in addition to the many alumni who are high-ranking officials in public office. What we practise within, we apply to our professional engagements. We serve
88 of the Fortune 100 companies, half of which on human capital and leadership topics. McKinsey – a ‘top five’ global leadership development institution – conducts over 100 leadership development programmes globally per year.

We constantly review and measure what we do for clients; and we research widely. In this book, we have combined data from over 375,000 employees in 165 organizations, new research from over 500 executives, years of practical experience, as well as our own internal approach to developing our people, to crack the code for developing leadership at scale that really drives organizational health and performance. Our approach rests on the idea that leadership excellence matters profoundly, more than previously thought, in terms of both organizational health and performance. We offer a systematic and fact-based approach towards developing leadership across the entire organization, in order to really move the needle on performance. Leadership at scale is the answer.

This book is the product of hundreds of colleagues and friends from McKinsey and beyond, who have come together to integrate and advance our latest thinking on leadership to better serve our clients on the topic. We are proud of our insights, but also know that leadership is an unfolding science that continuously yields new data on how humans, organizations and society work.

We wrote this book for a broad, global audience of current and future leaders. It is relevant for anyone leading an organization, department, or team, as well as for individuals who want to improve their knowledge of leadership and understand how they can perform better on the job. It will help executives and current leaders take a critical look at their leadership development approach, understand how to better link leadership with the overall strategy, and drive performance through leadership effectiveness. For leadership development practitioners (for example, the chief human resources officer (CHRO) or head of learning and development), there is significant detail to provide a roadmap for implementation as well. For individuals and aspiring future leaders, the book provides a broad background on the importance of leadership in organizations and what good leadership looks like, what works and what does not in terms of becoming a better leader, and the specific skills that are needed to succeed in today’s organizational environment.
The book is applicable to businesses, non-profit organizations and governments. We also see a benefit in using the book as a textbook on applied leadership courses at universities or business schools.

Our hope is that this book will, first of all, help you create higher performing, healthier and more sustainable organizations. Beyond that, we hope that the science and practice of great leadership will ripple throughout society itself. Some say that the world is in a ‘crisis of leadership’,¹ and we believe in advancing the pursuit of excellent leadership as a noble goal in and of itself.

**Why leadership matters**

Effective leadership is important for organizations, and leadership development is often the top human capital priority of CEOs and a top three priority overall.² No surprises here. But how much does leadership really matter? We show that leadership excellence matters profoundly, more than perhaps previously thought, in terms of both organizational performance and health. First, leadership effectiveness matters directly to performance. It is measured — discretely — by a range of metrics relating to observed organizational practices, and is a predictor of future performance. The better the leadership effectiveness, the better the organizational performance. Companies with top-quartile leadership effectiveness have on average a 3.5 times greater total return to shareholders (TRS) than companies with bottom-quartile scores, over a three-year period.³ Organizations that invest in developing leaders during significant transformations are 2.4 times more likely to hit their performance targets.⁴ So, leadership effectiveness can be measured independently — and has a positive impact on — organizational performance.

Second, health (which we define as an organization’s ability to align, execute and renew itself) sustains exceptional performance over time. (We define the components of organizational health in more detail in Chapter 1.) For over ten years, we have measured health through the medium of the Organizational Health Index (OHI), and have accumulated a database of over 5 million respondents across all geographies and sectors. We find that health is one of the best predictors of future performance. Health encompasses a number of highly desirable organizational qualities that include strategic alignment, talent retention, energy,
purpose, commitment, innovation, direction, accountability and external orientation. We show that leadership effectiveness is itself a key driver of organizational health, and that it is extremely rare to achieve top-quartile health without top-quartile leadership effectiveness.

The organizational leadership challenge

Leadership has been studied for thousands of years, and there has historically been a great admiration for heroes, and the great men and women in history. Over the last century numerous schools of leadership have emerged. Scholars talk about the ‘romance of leadership’, and the larger-than-life quality that the term often assumes. It has been found, for example, that people have a tendency to explain poor company performance on uncontrollable or external events, while good performance is credited to the foresight and quality of leadership.

Today, there is no lack of leadership advice on the market. There are hundreds of university (and corporate) courses on the topic alone. A plethora of leadership coaches and niche consultancies have emerged. A quick internet search on the topic yields several hundreds of thousands of articles, books and videos, many of them published within the past few years.

So it should be simple for organizations, right? Unfortunately, this is not the case. Organizations are drowning in leadership advice (and it’s not helping them), and are smothered by theoretical jargon. We have found that there is a double gap, and it is a big one. We call it the organizational leadership challenge.

First, leadership is often the number one human capital priority for CEOs (and a top three priority overall), and our latest research showed that a third of organizations do not feel they have the quality and quantity of leaders to execute their strategies and performance objectives. An additional third of organizations state that they do not have the leadership capacity needed to take them through the next three to five years, beyond the near-term strategy and performance objectives.

Second, depending on context, between 50 and 90 per cent of leadership development interventions are not successful, a finding consistent across multiple sources. For example, our recent survey of executives found that only 55 per cent believe their leadership
development efforts meet and sustain the desired objectives. Indeed, when looking only at those who ‘strongly agree’, the proportion drops to around 11 per cent. In another study, three-quarters of the nearly 1,500 senior managers at 50 organizations interviewed were dissatisfied with their organization’s learning and development function. And only 7 per cent of senior managers polled by a UK business school think that their companies develop global leaders effectively. It is clear that there is a huge problem. (Another interesting discrepancy is that leaders overwhelmingly over-estimate their effectiveness at leading and the effectiveness of their leadership development efforts, compared to the views of those they lead.)

Organizations are certainly attending to the gap by spending money on leadership development. One study reported that in 2017, US companies spent, on average, $1,075 per learner compared with $814 per learner in 2016 on capability building. A large portion of this spend is on leadership-related development (more than $50 billion by some accounts), with a typical four-week executive leadership course costing $40–50,000 for tuition only ($2–2,500 per day). This points towards billions of dollars wasted, with little or no impact.

These two conundrums go hand in hand and lead to a double whammy: organizations do not have the leadership capacity they need now or in the future, and they are not successful when trying to develop more and better leaders. Perhaps your organization is one of them: you understand the need for effective leaders, and yet the development programmes you run are not delivering what you need of them.

Some claim that the leadership industry has failed. While this is a strong assertion, we do agree that better leadership development is needed. There are three main reasons for why this is the case. First, the majority of the leadership literature targets individuals, focusing on how to increase the effectiveness of one or a few individuals. The literature often talks about the key behaviours that leaders need to display, for example: authenticity, decisiveness and strategic thinking. While improving the effectiveness of individual leaders is important, an incremental ‘bottom-up’ approach is not sufficient in today’s fast-paced markets when entire organizations need to adapt quickly to new realities. To truly increase their leadership effectiveness fast, organizations must think at a much larger scale, and respond in a coordinated, system-level manner.
Second, leadership research often is ‘one-size-fits-all’, that is it typically focuses on leadership qualities that cut across a sample of high performing organizations. While such cross-cutting leadership qualities are undoubtedly important, they miss the important question of what was different between the organizations, but still effective. To increase leadership effectiveness at scale, organizations must understand and develop the leadership behaviours that matter to their specific contexts.

The third reason for the organizational gap in leadership effectiveness is that leadership is widely seen and mostly written about as a soft discipline, often with limited hard data. A lot of research is based on anecdotal evidence, or small sample sizes. The industry is highly fragmented with few performance standards (besides reputation), and anyone can in theory set up a leadership development practice overnight. What is needed is more science and more rigour.

Meeting the organizational leadership challenge: leadership at scale

We know from our research and our experience what works. Our approach begins with enabling organizations to increase their leadership effectiveness at scale across the organization, to really drive performance. Scale implies touching a critical mass of leaders and employees to reach a tipping point – after which point the change becomes self-sustaining and the organization fundamentally changes how it leads.

The need to develop leaders at pace and scale has never been more acute, as we live in an era of accelerating change and uncertainty. In large organizations several hundreds if not thousands of leadership decisions are made each day. As an organization grows (or shrinks) it must change with the times, and rises and falls as a result of the quality of the decisions it makes.

There are multiple levers that executives can use to improve leadership effectiveness, including leadership development programmes, talent acquisition, promotions and dismissals, succession planning, and even organizational structure and process changes. We focus on leadership development interventions, as this creates meaningful near term changes in leadership effectiveness (besides, perhaps, drastic hiring and
firing decisions). As such, the focus of the book is on increasing leadership effectiveness of an organization as a whole, through leadership development interventions (the focus is not on developing individual leaders, although this is of course part of a whole-system effort). We have set about this in three ways:

1 We offer clear insights based on proprietary research data from hundreds of leadership development practitioners and participants. Coupled with the latest neuroscience of adult learning, this illustrates the key success factors of leadership development interventions. We tested over 50 key actions to discover what really matters. We present our four key principles related to:

i focusing on the critical shifts that drive disproportionate value
ii engaging a critical mass of leaders through breadth, depth and pace
iii architecting programmes for behavioural change using modern adult learning principles grounded in neuroscience
iv integrating the programmes in the broader organizational system and measuring the impact of the programmes.

However, there is no ‘silver bullet’ – organizations must do many things right in order to succeed. With this approach organizations can flip the odds of success of leadership programmes from an average of approximately 10–50 per cent to almost 100 per cent. Leadership development is very much a science, and we show how to move from insight to action and really make the change happen at scale, across the whole organization.

2 Related to the principle of focusing on the critical behaviours that really matter for a particular organization, we offer an updated review of situational leadership. Situational leadership is by no means new and has been recast or reinvented by many studies related to contingency or contextual leadership. However, for first time, we have been able to set effective leadership in a precise organizational health context defined through data in a practical way. Our latest research shows the specific
behaviours an organization should develop to increase its leadership effectiveness, given the organizational context. In addition, we discuss the mindsets and skills organizations should foster, to best support the desired behaviours.

This latest research breaks new ground by isolating the characteristics that make for effective leadership under any circumstances, in terms of not only behaviours but also mindsets and skills. The research pinpoints those (behaviours, mindsets and skills) that are best suited to discrete stages of an organization’s development. In effect, our research renders pointless the academic debates about whether exemplary leadership is situational or normative. The data clearly reveals that it can be both, in different contexts, and all the time depending on the context. We can also illuminate, with some certainty, those behaviours that consistently undercut the long-term health of an organization as well as those that hurt the organization in particular situations.

For example, we have found that organizations with bottom-quartile organizational health (the least healthy) should focus more on fact-based decision-making and solving problems effectively, while organizations with top-quartile health (the healthiest) should focus on motivating and bringing out the best in people. (We discuss organizational health and how to measure it in more depth in Chapters 1 and 2.) These insights can help organizations adopt the leadership behaviours fit for their specific context, to best drive performance.

3 We show how to create system-wide change. We set out the 4Ds (Diagnose, Design & Develop, Deliver, Drive Impact) – stages that characterize the leadership development programmes we run. At each stage we show how the programme works by linking to the broader organizational context, and by addressing the importance of talent acquisition, succession planning and performance management. Leadership development is only one of the many tools available to executives. Others, such as talent acquisition, succession planning and performance management are equally important, and often run in parallel with leadership development efforts, as part of a broader initiative.
With this knowledge, you can take a comprehensive approach to increasing the leadership effectiveness in your organization.

Some will say that the key success factors listed above are already known. The question then becomes why do organizations not adopt them? There could be three main reasons:

- There could be a short-term orientation and lack of sustained focus from CEOs and Boards. It is easier to focus on a few, high-profile and visible interventions that deliver immediate feedback (such as executive programmes) than to design and sustain an integrated programme over a period of time.
- CHROs/CLOs may need to focus on simplifying their message and ensuring an even stronger focus on linking leadership development and organizational results.
- Third, it may be that – as is with any organizational effort – bringing an idea to life is often much more difficult than generating the idea in the first place. Knowing what best practice leadership development looks like does not guarantee a successful implementation.

Interestingly, we also find that organizations typically have learning and development budgets available for leadership development – the money is there. The imperative is therefore to spend this budget more effectively (not necessarily to earmark new funds for leadership development) in order to generate a better return on the investment.

*What does impact look like?*

When done correctly, leadership development interventions can have a profound impact. The impact is two-fold:

- increased leadership effectiveness improvements
- business impact across the organization.

In the short term, we often see profound shifts in the leadership effectiveness evaluations of participants, for example measured through a 360-degree feedback survey at the beginning and end of
a programme. In addition, we also often see significant performance improvements stemming from the on-the-job ‘breakthrough projects’ conducted by the participants. For example, a global chemicals producer rolled out a global leadership transformation across 200+ plants, leading to an annual net income increase of more than $1.5 billion (from a market cap starting point of approximately $40 billion).

Another example is from an energy and construction company that rolled out a seven-month leadership programme for 30 senior leaders and 200 middle managers. The impact from projects above and beyond the normal work of participants resulted in an incremental revenue of more than $250 million (almost 3 per cent of revenue).

Longer term, successful organizations are able to sustain the shifts in leadership effectiveness by expanding the initiative to all levels of the organization and, through this, generate additional business impact. One large insurance company in Asia, for example, ran a six-month leadership development programme for ‘pivotal leadership positions’, consisting of four Vice Presidents, 33 Regional Managers, and 210 Office Heads. Positive behavioural changes were observed in 70 per cent of the participants. Further rollout across the organization led to a 25 per cent improvement in core business KPIs, and also helped turn around 30 office branches that were previously not meeting their performance targets. Common for all the companies was an underlying increase in organizational leadership effectiveness. We include case studies throughout the book to help illustrate the concepts, both short snippets as well as longer, more in-depth examples.

Structure of this book

This book has three parts:

- **Part 1 (Chapters 1–6):** we define leadership and the mindsets and behaviours required for effective leadership at scale for a given context; and we discuss our leadership development philosophy and the guiding principles of our approach.

- **Part 2 (Chapters 7–12):** we outline our approach in more detail with case examples and an extended fictional case (based on our collective experience) of CEO Carolyn
Randolph and her company. We felt this was the best way to show how a leadership development programme looks from the outside and feel from the inside.

- **Part 3 (Chapters 13–14):** we look at some of the questions that might arise from our approach to whole-system development.

The research and methodology supporting our views can be found in the Appendices. An outline of the book is provided below.

**PART 1: LEADERSHIP DEFINED**

**Chapter 1: The foundations: context, experience and mindset**

Leadership has been studied for thousands of years, and a multitude of definitions and schools exist. After studying, practising, and developing leadership for many years, we define leadership in terms of a set of observable behaviours, which are affected by the context, skills and mindset of the leader. We know what makes a great individual leader and great leadership, and focus on both the organizational context and the individual context to produce insights on leadership at scale.

**Chapter 2: The leadership at scale diamond**

We discuss our different pillars of leadership knowledge, including our latest research, and introduce our four core principles of leadership development, which jointly constitute the leadership at scale diamond.

**Chapter 3: Core Principle 1: Focus on the critical shifts**

Different organizational contexts present different leadership challenges. We review different lenses to identify the leadership behaviours that will be most effective, including the primary lens of organizational health. Armed with our latest research with over 375,000 data points, we show the specific leadership behaviours that can help an organization transition to higher stages of health, depending on the health quartile that the organization is in.
Chapter 4: Core Principle 2: Engage the organization
Too often, leadership development efforts are sporadic and episodic. We discuss the importance of developing a critical mass of leaders through sufficient breadth (who must be reached), depth (how intensely must they be reached) and pace (how quickly should interventions be rolled out).

Chapter 5: Core Principle 3: Architect programmes for behavioural change
Programmes must be designed not just for knowledge acquisition or skill building, but to maximize behavioural change on the job. This requires more than classroom learning which, for leadership development purposes, is well and truly dead. We present the seven adult learning principles based on neuroscience that organizations should adopt in leadership development journeys.

Chapter 6: Core Principle 4: Integrate and measure
Capability building only forms 25 per cent of the required effort to make leadership at scale succeed. Successful programmes involve the whole organization. Measurement of these programmes is essential. We discuss communication, role-modelling, measurement and system reinforcement to sustainably shift organizational ways of working.

Part 2: Our approach in practice

Chapter 7: A roadmap for successful leadership development
There are many ways to implement a leadership development intervention – what is key is that the four principles outlined are adhered to. We outline our typical approach in practice, framed around four main steps: Diagnose, Design & Develop, Deliver, Drive Impact. For each stage, we outline the typical outputs and how to get there.
Chapter 8: Meet Carolyn Randolph

Here we introduce our fictional story of New Classic Look clothing (NCL), which is facing a leadership crisis. The organization embarks on a leadership development journey across the organization, in order to improve organizational health and reach its performance objectives.

Chapter 9: Setting the leadership aspiration

Too many leadership development interventions start with a bottom-up ‘needs analysis’, and completely miss the link to strategy. We show here how to translate your strategy into required leadership qualities and capabilities through a leadership model, and define the aspired business outcomes as a result of the intervention. Thereafter comes assessing the current leadership strengths and gaps, as well as the root causes, which is a critical prerequisite prior to designing the programme. At the individual level, this includes understanding the mindsets that account for why leaders behave the way they do today, and how the mindsets and behaviours need to change in the future, based on the leadership model (‘from–to’ shift).

Chapter 10: Designing the roadmap

Our research shows that designing a successful leadership development intervention requires multiple sources of input, including ‘end-users’, external best practices and design expertise. In addition, it is critical to design the ‘learning transfer’ up front, that is the process of putting learning to work in a way that improves performance.

Chapter 11: Delivering the Leadership Peak Programme

Neuroscience informs the latest thinking on how to help adults learn and change their behaviour. In addition, technology is playing a huge role in redefining the delivery of programmes, and best practices include gamification, on-demand learning and daily ‘triggers’ to participants.
Chapter 12: Driving impact

More than a quarter of organizations do not measure the return on leadership development. We show how to measure return on investment (ROI) with the same rigour as other initiatives across three dimensions: participant assessment, behavioural change and business performance. In addition, it is critical to adapt formal HR systems to reinforce the leadership model (for example, performance evaluation, compensation, succession planning) and to use ‘graduates’ to build future leaders and embed desired leadership expectations further down the hierarchy.

PART 3: FREQUENTLY ASKED QUESTIONS

Chapter 13: FAQs on leadership development

Questions include the return on investment, how leadership development differs across organizational levels and industries, and the importance of recruiting.

Chapter 14: FAQs on trends relevant to leadership

Questions include defining the most critical leadership behaviours in the future, how millennials differ (and what to do about it), whether men and women lead differently and how technology is changing leadership development.

APPENDICES

These include supporting material for our situational leadership research, an elaboration of the skills and mindsets that can underpin each leadership behaviour, and details on how to boost individual learning and performance.

We hope this book is an insightful and enjoyable read and contributes to enhanced leadership effectiveness and performance in your organization.
Want More? Order Your Copy of *Leadership at Scale* Today!