A pyramid of wooden mannequins is shown against a white background. The pyramid is composed of several layers of mannequins, with the top layer having one mannequin, the second layer having two, the third layer having three, and the bottom layer having four. A teal rectangular box is overlaid on the middle of the pyramid, containing the text "2.7. Developing leadership capabilities" in white. The mannequins in the top two layers are partially obscured by the teal box.

2.7. Developing leadership capabilities

Developing leadership capabilities

Faridun Dotiwala, Naveen Unni

Leadership in aspirational corporations is much more than the common image of a passionate, charismatic, innovative CEO. The ability to lead—to inspire, direct, and teach others in an organization—is a capability that must permeate an organization. As companies grow, their ambitions are often undermined by a leadership deficit. However, the gap between performance and potential can be bridged by addressing this challenge directly through targeted capability building programs.

Working with Egon Zehnder International, a leading global executive search firm, we have explored the relationship between leadership and performance, as well as the nature of effective leadership within an organization. The insights from this study have been incorporated into McKinsey's capability building framework to construct a program that creates leadership talent where and when needed to support a company's ambitions.

To demonstrate how this program can benefit companies, we'll focus on a long-running effort at a large Asian infrastructure conglomerate. The company was stymied by its own success. Having grown very rapidly in the previous decade and with more growth expected in the next decade, its leadership pool was struggling to keep pace with its success. Between new needs and the imminent retirement of many senior leaders, the company had to develop about 500 leaders over a 6 to 8 year period.

Capturing “return on leadership”

“Return on Leadership—Competencies that Generate Growth Return”, a report published jointly with Egon Zehnder in February 2011, took a close look at the links between leadership and high performance.¹¹ The study combined extensive management appraisal data from Egon Zehnder with McKinsey's growth composition data. Altogether, the analysis covered a database that included 47 companies and 5,560 individual appraisals. We sought to determine the nature of the relationship between leadership skills and performance, the extent of influence various skills have, and the core capabilities of success.

The research found that talent is important among leaders, but only exceptional talent makes a real difference. As expected, the capabilities of executives at companies in the top quartile of our research pool were about 20 percent higher than those from the bottom quartile.¹² There was a high correlation between executives with “excellent” capabilities and financial performance, while merely “good” performances showed no correlation. In addition, of all the management capabilities we analyzed, customer impact—understanding and anticipating customer needs—had the greatest influence on corporate growth under almost any strategic situation and across all management levels.

¹¹ For a full copy of the report, visit <http://www.mckinsey.de/downloads/kompetenz/organization/Return%20on%20Leadership.pdf>

¹² Executive capabilities in eight areas such as thought leadership and people skills were gauged on a scale of 1 (lowest) to 7 (highest) based on interviews, self appraisals and feedback from colleagues

Contrary to conventional wisdom, all-round leaders—those with a wide range of good, but not distinctive, capabilities and few weaknesses—aren't necessarily the best leaders. The study showed that spiky leaders who excel in at least a few capabilities but are average or even underperformers in others have the greatest impact on corporate growth. Further, beyond individual capabilities around customer impact, we found no standard skill set that worked best for all strategies and at all levels. Most interesting, people leadership skills were not necessarily the most important for senior executives in every situation. Growth through mergers and acquisitions, for example, requires the top team to master a set of thought leadership and business leadership capabilities, while organic growth requires a greater emphasis on people and organizational skills.

Our leadership research found that a small group of excellent leaders is not sufficient to steer an ambitious business, a fact that is especially relevant to businesses that have grown rapidly. A critical mass of excellent leaders is required to trigger and sustain corporate growth. To outperform the competition, organizations must grab, develop, and retain an unfair share of exceptional talent.

A leadership program built for growth

McKinsey's approach to leadership development is exemplified in the experience of a large Asian infrastructure conglomerate with annual revenues of more than US\$10 billion. The company had achieved fantastic growth, doubling in size every 4 or 5 years over the previous decade, and it expected revenues to double again within the next 8 years. The nature of business was also changing, the value of individual projects had increased three- to fourfold, the work was getting more complex, and there was a strong imperative to greatly expand its global presence.

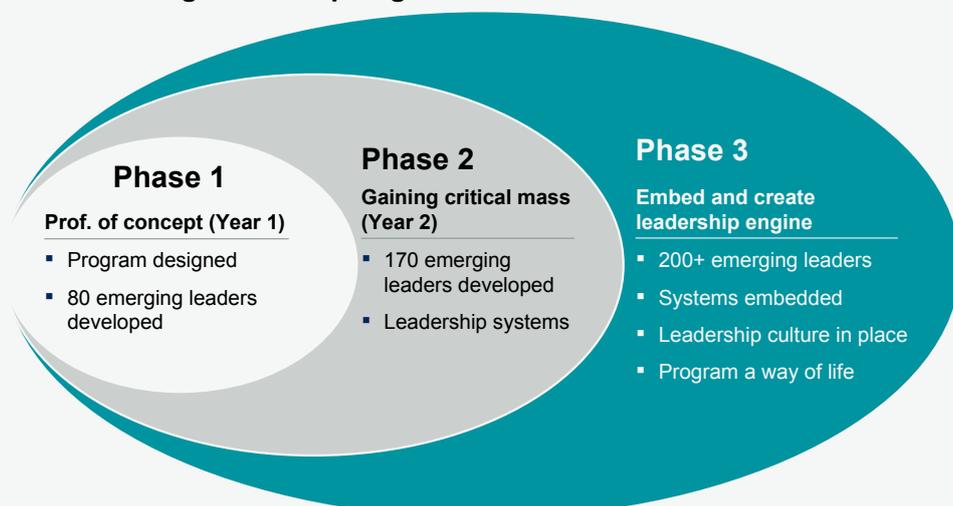
The biggest obstacle to its aspirations and continued growth, however, was a shortage of future leaders who had the required capabilities. Also, many of the company's senior leaders were expected to retire within a few years time, adding more urgency to its leadership needs. Altogether, the company estimated that it needed 500 new leaders to take on important business roles within 6 to 8 years.

Seeing a potential crisis on the horizon, management made leadership development its top priority. They decided to embark on a multi-year effort, in three phases, to establish a leadership engine—develop a pipeline of emerging leaders, create a cadre of entrepreneurial leaders, and strengthen its overall leadership system (Exhibit 52).

One focus of the effort was to build a pipeline of emerging leaders. These managers would run small businesses within the organization independently and be ready to move to senior roles with more responsibilities rapidly. Because of the company's pressing needs, these budding leaders would have to be ready to assume responsibilities faster than usual.

Exhibit 52

A self sustaining leadership engine



SOURCE: McKinsey & Company disguised client example

While the scale of the effort created challenges, the development approach centered on straightforward archetypes, such as business builders, operations experts, and integrators for mergers and acquisitions. The approach included large group meetings every 8 to 10 weeks, interspersed with fieldwork and coaching on breakthrough projects by McKinsey experts as well as selected internal mentors.

While emerging leaders were being developed, the company had to build a cadre of entrepreneurial leaders who could create disproportionate value at the senior most levels of the organization. These senior leaders would steer the business through challenges that were more unpredictable than those faced by the emerging leaders group. The goal was to prepare high-potential people for very specific positions that would likely open within a few years, while improving their performance in their current positions.

The program for entrepreneurial leaders would be very select, accommodating 20 to 30 people in each 12 to 18 month tranche. The approach would be personal, tailored to each participant, and include one-on-one coaching and gatherings in small groups.

Along with initiatives targeting emerging and entrepreneurial leaders, the company's top management believed leadership development had to be integrated into the organizational culture to unearth, train and sustain the numbers needed. Three measures were launched to achieve this:

- **Dynamic leadership planning.** To be most effective, a formal process is needed to develop a thorough understanding of top leadership candidates, recognize the critical roles that will soon need to be filled, and match individuals to roles. One valuable structure is a council of senior corporate leaders and human resource professionals that would meet regularly in workshops to discuss candidates, gather development feedback, and create appropriate and individualized development opportunities
- **Tuning leadership systems.** Six elements of human resource units must be operating in harmony to produce the best results: recruiting, performance management, professional development, training, motivation, and retention. A quick test to assure each is functioning properly is needed, followed by any fine-tuning that is required
- **A leadership development culture.** To make leadership development a way of life, a culture of mentoring and role modeling—for example, having courageous and mature conversations about professional development and personal growth—are needed across all levels of leadership. Measures to encourage these attitudes and behaviors are critical to creating a leadership development system.

Finding weaknesses and opportunities

With the overarching objectives of a leadership capability building program in place, the infrastructure company began a 4 month effort to diagnose weaknesses in the quantity and quality of its leadership capabilities. The diagnosis would not only set a baseline against which the results of the transformation program could be judged, but would also inform the detailed design of the program, correcting any weaknesses that were uncovered and spotlighting opportunities for improvement.

As part of the diagnosis, the company created a leadership model of the future of the organization, articulating behaviors that would be desired of its leaders and forming an image of great leadership in the company's context. The model is founded on a clear understanding of the company's desired future and the unique elements that would drive success in that context. Unlike typical competency models used by human resources departments, the leadership model focused on a small set of observable behaviors known to be directly linked to business outcomes.

The leadership model is helpful in identifying archetypes that would be most effective in pushing a business forward. Each leadership archetype offers advantages in a particular area, such as operations, business building, or mergers and acquisitions integration. The mix of archetypes

in a leadership model influences the behaviors that are emphasized, and can be critical to the success of a transformation effort.

The company developed a leadership model that centered on core values such as integrity and fairness, team work and spirit, and pride in the organization and its work. These values were reflected in a series of specific desirable attributes such as taking ownership of work and finding customer solutions that were linked to capabilities in execution, customer relations, entrepreneurship, and people skills. Together, they formed an image of the company's ideal leader.

Multifaceted implementation

Moving beyond design, the company began the hard work of building its needed leadership skills. Implementation would span several years, but success of the leadership program was crucial to achieving the ambitious view of the future held by top management. Using new adult learning principles that focus on analytical and perceptive instruction, the company put together a program that emphasized six sets of interventions (Exhibit 53).

Each of the six intervention sets reinforced the others and also introduced aspects, such as exposure to outside experts and continuous improvement processes, that would help sustain and renew the capabilities beginning built:

- **Personal mastery.** Participants must have a full sense of their own leadership strengths and weaknesses. In the program, such personal insight was gained through anonymous feedback from subordinates, peers and superiors; sessions focused on personal reflections to help understand patterns from the past that are relevant to development challenges; and tools such as the Myers-Briggs Type Indicator to comprehend personality aspects that affect performance. Next, participants prepared an individual 2 to 3 year Leadership Development Plan that included career aspirations, strengths and weaknesses, and an action plan with milestones. They also participated in “Lead Self Forums” (the first of a series of forums), which focused on self awareness and removing barriers to growth and learning.
- **Forums.** Participants attended a series of forums that covered core aspects of leadership—leading oneself, others, and businesses—as well as a CEO forum (Exhibit 54). These forums brought in personal experiences, role playing, and other adult learning techniques to personalize the lessons for the participants

Exhibit 53

Six sets of interventions

1	2	3
<p>Personal mastery to discover and unleash self potential e.g.,</p> <ul style="list-style-type: none"> ▪ Personal Insights Workshop—8 proprietary tools + expert facilitation ▪ Ongoing coaching 	<p>Forums with real experience that cover leadership model e.g.,</p> <ul style="list-style-type: none"> ▪ Techno-commercial skills ▪ Managing performance through dialogues—role play feedback 	<p>Learning through delivery of breakthrough projects e.g.,</p> <ul style="list-style-type: none"> ▪ Personal involvement to ensure stretch ▪ Learning from peers and coaching from experts
4	5	6
<p>Coaching on both domain and behavioral topics e.g.,</p> <ul style="list-style-type: none"> ▪ 1 on 1 communication skills coaching ▪ Personal counseling to overcome limiting mindsets 	<p>Development council e.g.,</p> <ul style="list-style-type: none"> ▪ Improvement suggestions specific to individuals ▪ Create new opportunities 	<p>Special experiences to create world-class exposure e.g.,</p> <ul style="list-style-type: none"> ▪ Visits to best in class organizations ▪ Exposure to experts from other industries

SOURCE: McKinsey & Company disguised client example

Exhibit 54
Aspects of leadership development—a series of forums



SOURCE: McKinsey & Company disguised client example

- **Breakthrough projects.** An important element of leadership development is enabling participants to move out of their comfort zones by creating stretch opportunities. Breakthrough projects—projects critical to the organization’s strategy—were used to give leadership trainees real experiences that had a visible impact on company performance. Participants were carefully fitted to each project to ensure passion and relevance to the participant’s personal development areas (Exhibit 55).
- **Coaching.** Coaching is critical to tailoring a program for each participant. One-on-one sessions were important in developing functional and behavioral capabilities, as well as overcoming personal obstacles. These sessions were led by a variety of internal and external

Exhibit 55
Breakthrough projects (BTP)—opportunities to stretch

	BTP Description	Project impact	Personal learning
<p>What is a good project?</p> <ul style="list-style-type: none"> ▪ Participant is excited and passionate ▪ Project is realistic and has business impact ▪ The project challenges key development areas 	 <ul style="list-style-type: none"> ▪ Securing the electrical power system package of a 250 million ton expansion project 	<ul style="list-style-type: none"> ▪ Request for Quotation (RFQ) responded to, order awarded 	<ul style="list-style-type: none"> ▪ Large external network formed
	 <ul style="list-style-type: none"> ▪ To achieve the target, 4 months before the contractual completion date 	<ul style="list-style-type: none"> ▪ Completion 5 months ahead of schedule 	<ul style="list-style-type: none"> ▪ Improved negotiation/ influencing skills ▪ Execution skills
	 <ul style="list-style-type: none"> ▪ Identify and develop 5 new external customers for business unit 	<ul style="list-style-type: none"> ▪ Identified and initiated contact with 12 potential clients ▪ 3 clients converted 	<ul style="list-style-type: none"> ▪ Improve networking skills ▪ Enhanced business development skills

SOURCE: McKinsey & Company disguised client example

stakeholders. For example, mentors (who were typically senior colleagues with a long-term interest in the participant's overall development); coaches (typically internal or external experts who offer advice and support on specific business and behavioral topics); and guides (who offer structured support through a mix of coaching, advising, and consulting).

- **Development council.** The development council typically comprises very senior leaders who meet regularly to discuss the development of the participants in the program. Its objectives are to provide visibility to participants, enable a high-quality discussion around their development needs, and provide useful feedback (Exhibit 56)
- **Special experiences.** To help candidates broaden their exposure, participants also sought ideas and knowledge from external sources. Formal efforts included trips to other companies to witness best practices in a variety of areas and meetings with experts from a range of industries.

Using the latest thinking in adult learning, the program was presented in a field and forum format—a combination of classroom instruction and discussion, and practical work onsite to exercise the new capabilities (Exhibit 57). Classroom work focused on acquiring leadership skills, while the fieldwork put these skills into practice under the occasional watchful eyes of coaches.

The impact—leadership building and financial gain

By embarking on an aspirational capability building program with courage and conviction, top management had transformed the company in a variety of ways. Results from the program were evident in the company's financials, businesses, and leadership talent pool.

A revenue increase of more than US\$250 million was directly attributable to the program. More than 150 breakthrough projects were executed by emerging leaders with results such as completing projects 2 months ahead of schedule and developing new customers for particular business units. Senior leaders also delivered legacy projects, for example, reducing the working capital in a struggling business unit by 40 percent or opening an entirely new product and service range.

Exhibit 56

Development council—continued feedback

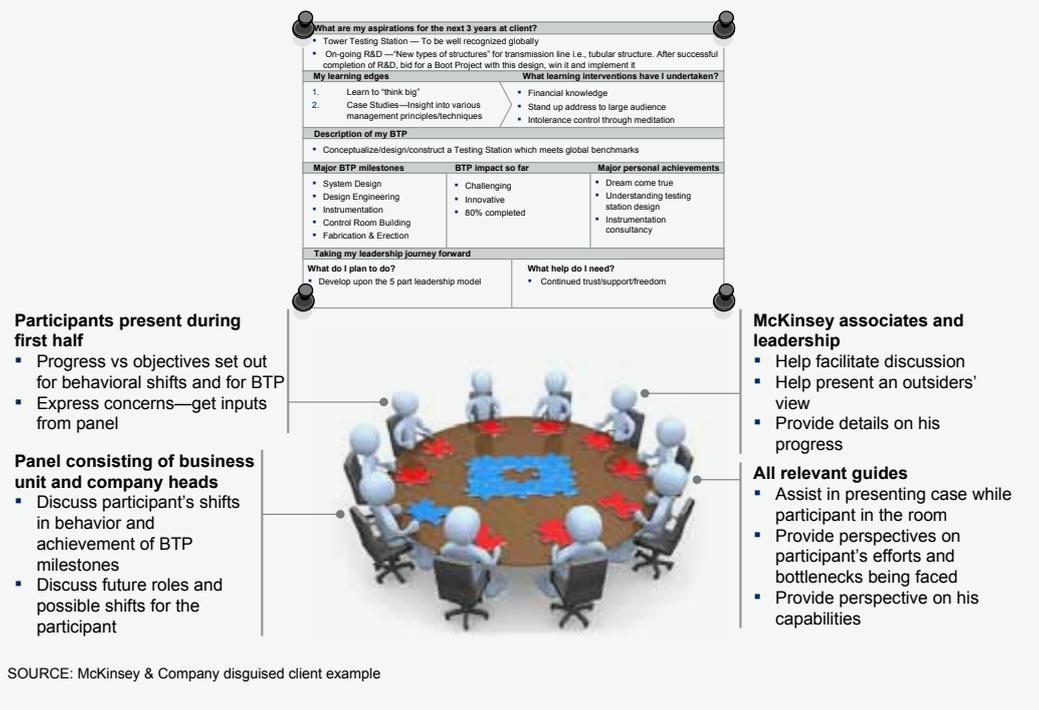
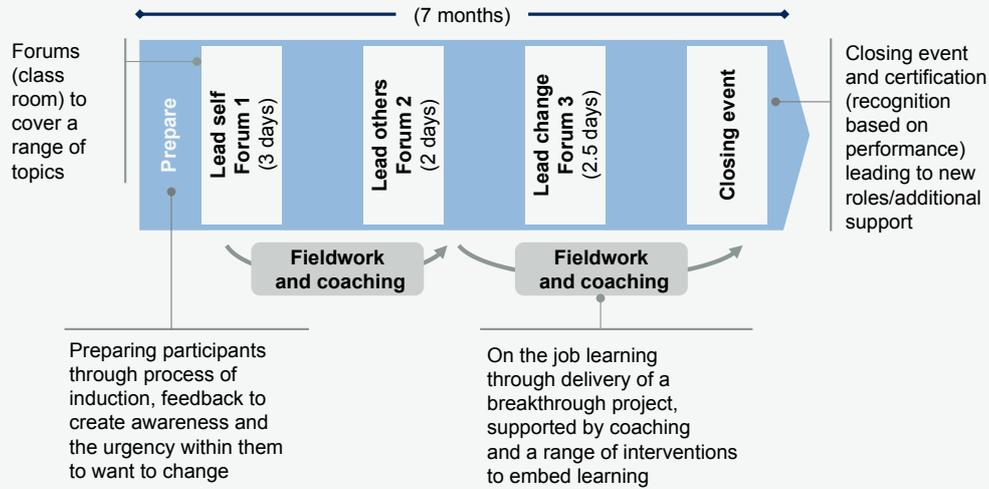


Exhibit 57
“Field and forum” learning format



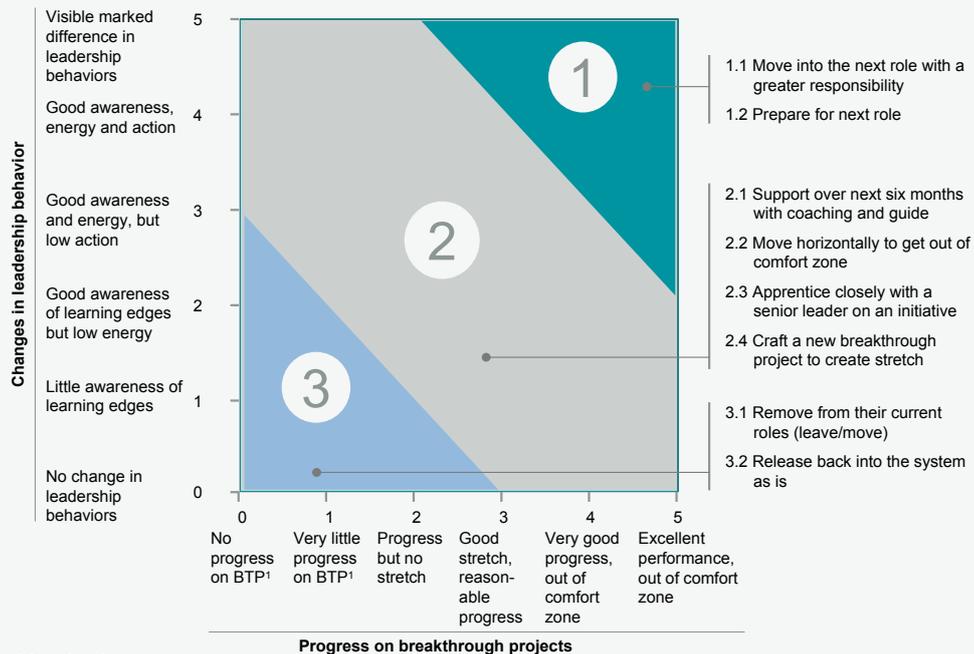
SOURCE: McKinsey & Company disguised client example

In addition, there was measurable improvement in leadership behavior and job performance. Individuals were measured on two dimensions—business performance and personal leadership behaviors. This allowed us to categorize people into three categories (Exhibit 58). Typically, 40 percent were in Category 1, 50 percent in Category 2, and 5 to 10 percent were in Category 3. As a result of this measurement process, several young leaders were named to lead operating companies, and even more were designated as design heads, project directors, and business builders.

Further, to sustain these successes, new systems and a new attitude toward performance were embedded into the corporate fabric—creating a pipeline of future leaders two to three times as large as it had been in the past, training a cadre of coaches and guides, and developing an environment of open feedback and communication.

Exhibit 58
Impact on leadership behavior and performance

NOT EXHAUSTIVE



1 Breakthrough projects

SOURCE: McKinsey & Company disguised client example