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Changing Leadership Strategies

- Greater competition as a result of globalization and the rise of the knowledge economy has brought about important changes in organizational leadership strategies and practices.

- Economic developments over the coming decade could accelerate changes in what is expected from business leaders.

- Many of the repercussions of changing leadership expectations will create challenges for human resource management but may also provide new opportunities for HR professionals to demonstrate their own ability to lead at a strategic level.

Over the past few decades, significantly increased competition as a result of a globalizing economy and its accompanying rapid improvements in technology and productivity has influenced the concept of leadership. While pressure to bring about short-term results has focused more attention on the most senior corporate executives, technology improvements that facilitate innovation from the organizational periphery are emphasizing the importance of leadership at all levels of a business. The paradox of the focus on leadership increasingly narrowing down to a small group of elite senior executives, as the tools of innovation flow into the hands of the entire workforce and beyond, is framing the debate on where leadership strategies of the future are likely to be heading. Most organizations' leadership strategies will simultaneously involve identifying and developing the most highly skilled and effective executive leaders while also looking to harness leadership capabilities at all rungs of the organizational hierarchy. Both of these approaches integrally involve human resource management. As trends in the management of talented leadership develop over the coming years, HR professionals' role in identifying and supporting leaders within their organizations will also elevate their own profile as organizational leaders.

Leadership at the sharp end

The rise in executive compensation may be the most high-profile business leadership issue to hit the headlines in recent years, but other issues such as increased job turnover among senior executives, the changing role of corporate boards, the implications of new research on how to identify the best leaders and how a leader thinks, and the growing importance of a business's leadership brand will also influence organizational leadership strategies.

Job churning at the top

In the last few years alone, there have been significant changes in the rate of job turnover among many senior executive roles. This has been highlighted in news stories about high-profile CEO exits, but the trend extends beyond the role of CEO. A 2006 analysis of all public North American companies by Liberum Research found a 68% increase in management turnover (28,058 changes from corporate directors to vice presidents) from the year before. CEO turnover was at a 30% higher rate. Some

Trends in executive compensation may influence attitudes toward senior executives and, as a result, some aspects of business leadership.

Table 1 | Primarily Responsible for Determining Executive-Level Compensation at Organization (by Organization Sector)

	PUBLICLY OWNED FOR-PROFIT (N = 70)	PRIVATELY OWNED FOR-PROFIT (N = 146)	NONPROFIT ORGANIZATION (N = 90)	GOVERNMENT SECTOR (N =33)	DIFFERENCES BY ORGANIZATION SECTOR
Board chairperson	3%	3%	4%	3%	
Entire Board of Directors	3%	8%	13%	18%	Government > Publicly owned for-profit
Compensation committee (may be composed of Board members)	61%	16%	24%	18%	Publicly owned for-profit > Privately owned for-profit, nonprofit, government
CEO/President/Owner	20%	57%	46%	21%	Privately owned for-profit > Publicly owned for-profit, government Nonprofit > Publicly owned for-profit
Top HR staff in organization (Chief HRO, SVP of HR, etc.)	13%	7%	6%	9%	
Compensation and Benefits HR staff	0%	1%	1%	9%	Government > Privately owned for-profit
Outside consultant	0%	0%	1%	0%	

Note: Percentages are column percentages and may not total 100% due to rounding. Sample sizes of the organization sector categories are based on the actual number of respondents answering the organization sector question; however the percentages are based on actual numbers of respondents by organization sector who answered this question.
Source: SHRM 2006 HR Practices in Executive-Level Compensation Survey Report

members of the C-suite are more affected by the trend than others. In 2006 2,300 Chief Financial Officer (CFO) positions churned—a rise of 23% overall and 50% at businesses that had $1 billion or more in revenues. This increased churn rate is dropping the average tenure for CFOs by an average of 30 months. Along with CFOs, changes in Chief Operating Officer (COO) rates are also occurring; though instead of job churning, the main finding was an ongoing decline in the number of companies with COOs. The reasons for increased turnover for C-suite positions is often linked to issues that affect a specific profession alone, such as tighter regulations and filing deadlines for CFOs, but much of the turnover appears to be the generalized effect of more intense competition and greater shareholder pressure for more corporate accountability and transparency.

Along with factors that affect some C-suite positions more than others, some industries seem to be more susceptible to C-suite job churn. This can be related to industry changes, the competitive landscape and the economy—for example, turnover of CEOs of private-equity-owned companies seems to be increasing as financial conditions tighten. Increased job churn at the top will make it more challenging for business leaders who are facing increased pressure from boards and shareholders, and also for employees who are faced with a lack of continuity that may increasingly result in a leadership vacuum.

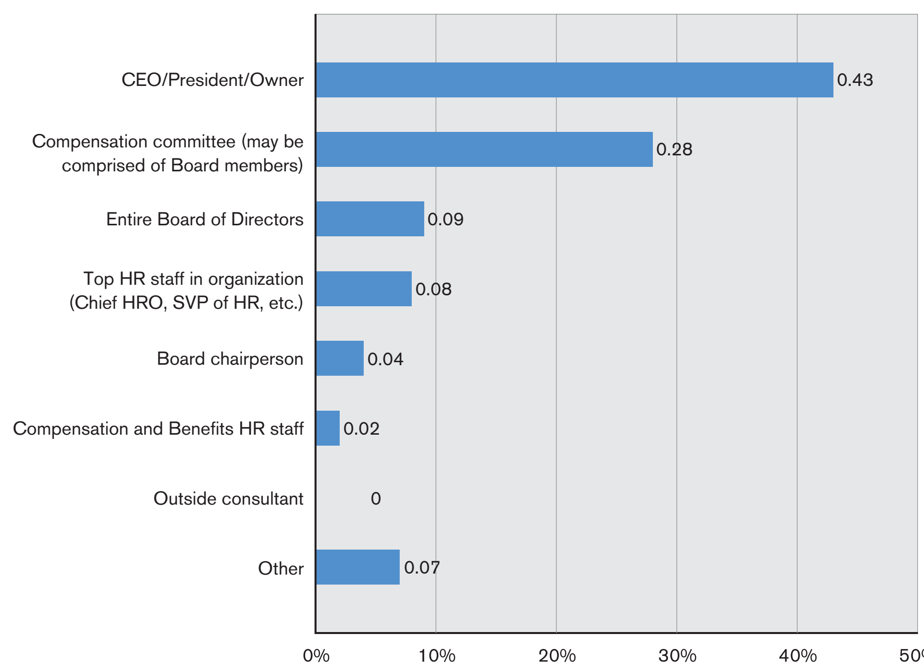
Executive compensation

High turnover of senior corporate leaders also highlights the increase in executive pay because of high-profile exit packages, especially in the wake of scandals or poor performance. According to the Corporate Library, in 2006 the average CEO of a Standard & Poor's 500 company received $14.78 million in total compensation, an increase of 9.4%over the previous year. The stock options backdating scandal that resulted in U.S. Securities and Exchange Commission (SEC) investigations at as many as 160 companies appears to be behind several of the CEO exits over the past year, but some of these departing CEOs were still entitled to receive substantial pay packages upon their departure even where they were involved in the scandal. Concern about excessive executive pay and severance packages and new SEC disclosure rules will continue to draw attention to the issue of executive pay. New government legislation has also been proposed. Congressman Barney Frank (D-Mass) has introduced "say on pay" legislation that requires a nonbinding vote when a company gives a not-yet-disclosed "golden parachute" during negotiations to buy or sell a company.

Trends in executive compensation may influence attitudes toward senior executives and, as a result, some aspects of business leadership. This may be particularly true if disparities in the ratio of the compensation of corporate leaders, especially CEOs, and their employees grow. The growing gap between CEO pay and that of the average worker is well-known; less often discussed is the growing divide between CEO pay and that of other senior executives only a few rungs down the ladder. According to a recent study, CEOs at the largest U.S. companies in the 1960s and 1970s earned an average of 80% more than the third-highest-paid executives. This average has now risen to about 260% (Frydman and Saks).

There are many potential reasons behind this change. Some economists argue that the main reason is the greater demand for executive talent and fewer companies promoting executives from within to the CEO position. This leads to more competition between companies for existing CEOs, and drives up executive pay primarily at the CEO level. Others believe the key driver behind rising CEO pay is simply larger and more profitable companies. According to the *SHRM 2006 HR Practices in Executive-Level Compensation Survey Report*, CEOs themselves may be one of the main reasons behind the gap between CEO and other C-suite executives' compensation as CEOs/presidents/owners

Figure 1 | Primarily Responsible for Determining Executive-Level Compensation at Organizations (n = 340)



Source: 2005 U.S. Census

The need to build effective teams of senior leaders even as it becomes more difficult is drawing attention to theories on team-based leadership at the very senior level.

are most likely to be primarily responsible for executive-level compensation strategies within organizations (see figure 1); though in publicly-owned for-profit companies the responsibility is most likely to be held by a compensation committee that may be composed of board members (see table 1). For many HR compensation experts, the way that compensation committees are organized and whether this sets up incentives to recommend higher CEO pay packages is an area of key concern. Most organizations that have compensation committees include HR staff on the committee. As businesses continue to deal with the competing pressures of greater public and shareholder scrutiny of executive pay and the need to attract and retain top leadership talent, some are beginning to examine if the gap between CEO compensation and all other employees' pay impacts both the motivation and engagement of ordinary workers and the leadership and authority of non-CEO executive team members. HR will be involved in all of these debates, whether as part of the compensation committees setting pay, through building senior recruitment strategies, or by dealing with any fallout that growing pay disparities have on organizational culture and employee motivation and satisfaction.

Senior leadership teams

Corporate boards are facing more turbulence as turnover also increases among board members and as shareholders and the media more closely examine and question board decisions, especially those involving scandals or extreme CEO pay packages. At the same time, increasing turnover among the ranks of corporate leaders and greater disparities in compensation among top-ranking executives are making it much more difficult to build effective and cohesive senior leadership teams. The challenges brought about by less stable senior leadership teams are not only the result of a lack of consistency as the members of the C-suite change more rapidly but also because with so much pressure, senior executives may be more likely to have opposing agendas, especially when it is unclear how their roles and responsibilities relate to one another and as they compete for resources and jockey for position.

A senior management team where members are more frequently in opposition is considered by management experts to be one of the most significant barriers to the effective execution of strategy. Yet as competitive pressures mount, no single leader can manage every aspect of organizational leadership. This creates an even greater need for effective team-based leadership from senior executive teams and corporate boards. The need to build effective teams of senior leaders even as it becomes more difficult is drawing attention to theories on team-based leadership at the very senior level.

Managing rapid change and greater organizational complexity are two issues of particular importance to senior teams. Some management experts believe that the need to respond more rapidly to change and uncertainty is creating the need for a new kind of senior leadership team. Doz and Kosonen (2008) describe this as a "new deal at the top" that emphasizes collective responsibility for corporate performance and more interdependence among unit heads to integrate corporate strategy. Rather than narrowly defined areas of functional and unit-specific expertise, this style of senior team leadership relies on overlapping expertise and responsibility. Because so much depends on the team that sets strategy working collaboratively, this style of team leadership emphasizes a strong system of shared values. HR strategies are central to the development of this kind of organization, especially organizational changes that encourage more mutual dependence and cooperation between units as well as the communication of organizational values.

A more integrated and collaborative senior leadership team with a greater overlap of responsibility and expertise among its members also emphasizes the concept of *complementary leadership*. Miles and Watkins (2007) describe four types of complementary leadership situations:

- *Task complementarity*—the division of management tasks as a result of greater levels of complexity and uncertainty.
- *Expertise complementarity*—the differences in knowledge and experience that are used to create effective senior leadership teams where different members contribute their own specific expertise.
- C*ognitive complementarity*—the difference in the way that individuals process information such as an ability to see the big picture versus the ability to capture details.
- *Role complementarity*—involves the different social roles individual leaders play. This may be particularly important to strategic HR objectives because of its influence on culture building. At the same time, it is one of the more challenging kinds of complementarity to support because it is so tied to the unique personality characteristics of individual leaders.

Complementary leadership roles may be particularly important to consider when making succession plans and may help leaders to deal with the increasing pressures of senior executive roles. They do however require the ability to agree on organizational priorities and careful communication so that roles are clear. Once again, many of the strategies and organizational behaviors that help to create effective complementary leadership teams involve HR. According to Miles and Watkins, many of the challenges can be managed by establishing a strong common vision, common incentives, effective communication and trust—all important parts of HR's organizational development and culture building responsibilities. As a result, a shift to more collaborative and complementary senior management teams, while potentially more challenging to build and manage, represents a leadership opportunity for HR professionals to be not only part of a new kind of senior leadership team, but also one of its chief architects.

The way a leader thinks

In addition to changes to business practices, organization and execution among senior leaders and senior leadership teams, the research and understanding of the internal characteristics, thought patterns and decision making styles that make someone an effective leader are also advancing. New studies in areas such as cognitive psychology are shedding light on what makes leaders stand out. In the past, much of the emphasis in management studies was on execution and on the behaviors of successful leaders. Increasingly, however, there has been a trend toward looking beyond behavior to study the way that leaders work through problems cognitively and how they make decisions. Aside from more advanced neuroscience technologies that support more detailed studies of brain behavior and thought patterns, one reason behind the shift from studying leadership *behavior* toward studying the way leaders *think* is that as the pace of change speeds up, behaviors that have worked in the past might no longer be appropriate, or decisions that were successful in one context are not at all successful in another. This is particularly relevant in relation to globalization because actions taken in one cultural setting may not work in another.

Similar to the trend toward more integrated and interdependent leadership teams, much of the research on the "leadership mind-set" involves more integrated thinking styles because this way of processing information, coming up with solutions and making decisions is primed to deal with constant change in the environment, find creative solutions and see more possibilities for innovation. According to a recent study by Canadian and U.S. psychologists published in the *Journal of Personality and Social Psychology*, brain-based executive intelligence testing could soon help recruiters identify the leadership candidates most likely to succeed. They calculate that adding executive-function tests to employee interviews could result in up to a 33% gain in productivity per hired employee. The tests are based on activity in the prefrontal cortex, which is believed to enhance the skills described as "executive functions." These include the ability to plan for the future, deal with multiple ideas simultaneously, avoid impulsive action, and deal with new situations. Neuroscience applications could lead to totally new approaches to management and recruitment—and possibly to completely new staffing management and organizational development roles as potential leaders are identified much earlier in their careers through the use of brain-based executive intelligence testing.

Leadership brand

Another area of academic study on leadership that seems to be drawing more attention recently is the notion of leadership brand, which is somewhat related to the concept of employer brand. Because employer branding attempts to convey the values and performance standards of the organization to both external and internal audiences, it is beginning to play an important role in leadership development, as business leaders are now expected to embody these values in their interactions with employees, customers and other business stakeholders. Research by Ulrich and Smallwood (2007), based on a study of 150 successful "leader feeder" firms of various sizes, investigates how some companies are bringing together both the strengthening of individual leadership capacity-building and the establishment of a strong employer brand to actually build a recognizable "leadership brand". They define this as "a reputation for developing exceptional managers with a distinct set of talents that are uniquely geared to fulfill customers' and investors' expectations." Taken together, these managerial talents reinforce the brand promise of the organization to its customers. A company that has an organizational brand that emphasizes innovation and design may therefore develop a leadership brand that is based on leaders known for creativity in developing new products and services. In the future, more organizations may attempt to gauge how well their leadership brand aligns with the overall brand promise they offer their customers and their overall employer brand.

Global leadership and corporate social responsibility

Leadership across borders is also being studied due to the greater need to understand how best to lead a globally dispersed workforce. Global leadership efforts may increasingly involve corporate social responsibility (CSR). CSR has become an increasingly important force in creating perceptions of company brand at the global level and may increasingly be used to counteract negative views of the United States that spill over into brand perceptions of U.S.-based companies. According to a global poll of 45,000 people by the Pew Research Center, the U.S. is viewed negatively in many countries around the world and even by majorities in countries most Americans consider "friendly," such as Germany (66%), Spain (60%) and France (60%). In the so-called BRIC emerging markets that are viewed as the key to future global growth, negative views of the U.S. are also common—Brazil (51%), Russia (48%), India (28%) and China (57%). This negative perception appears to be particularly prevalent among younger people. Young people are also the group that seems to be most responsive to socially responsible business practices. For this reason, global corporate leaders may need to become much more involved in CSR activities; not only because they will need to act as a counterweight to negative percep-

For many students who plan to obtain advanced degrees, the main barrier may increasingly be the high cost of higher education.

tions that could increasingly be influencing brand perceptions, but also because CSR initiatives are becoming much more tightly integrated into business strategy.

Leadership development

All of these factors may be leading to new approaches to senior leadership development and a much more serious interest in leadership development as a central business strategy by CEOs and other business leaders. The need to develop better leaders more quickly is leading more businesses to invest in rigorous leadership development programs. *Fortune* recently published its ranking of the world's Top Companies for Leaders, and many companies are benchmarking their own leadership development practices against these leading "academy companies"—those companies known the world over for their ability to develop exceptional leaders. The drive toward more effective leadership development programs is coming from the top as more CEOs recognize that human capital really is the most important factor in determining business success and from employees themselves who know that their own success depends on constant development. *Fortune* outlined nine practices that all of the top-ranked companies shared:

1. *"Invest time and money"*—this includes the time of very senior executives and even the CEO in promoting and participating in leadership development programs.
2. *"Identify promising leaders early"*—many of the top-ranked companies are beginning to assess leadership potential far earlier in employees' careers than in previous years. An emphasis on future talent appears to be growing and could be partly driven by employee demand especially among younger workers as well as concerns about future labor shortages.
3. *"Choose assignments strategically"*—many of the companies strategically placed rising leaders in multiple and varying assignments to give them a more integrated view of the business. This is in line with the trend toward more integrated leadership teams and ways of thinking.
4. *"Develop leaders within their current jobs"*—though this may also involve new assignments, the need to counteract increased turnover means that many assignments are short-term in order to benefit from new leadership development opportunities while maintaining stability within the leader's existing division.
5. *"Be passionate about feedback and support"*—Constant evaluation and feedback is considered one of the best ways to help leaders develop their capabilities as they continually integrate this feedback into their approaches to work.
6. *"Develop teams, not just individuals"*—With team-based leadership becoming much more important, more top-ranking companies are looking to team-based leadership development strategies.
7. *"Exert leadership through inspiration"*—Many of the top-ranking companies emphasize the growing importance of employee engagement. Engagement is a difficult issue to measure and many management researchers specializing in engagement have found that extrinsic motivators of engagement are particularly difficult to develop, making this one of the most challenging factors to support but also potentially one of the most important in future years.
8. *"Encourage leaders to be active in their communities"*—This ties back to the greater importance of social responsibility and the need to balance multiple stakeholders in business decisions. Leaders can do this only when they are involved in the communities where they do business and can understand how their organizations impact these communities.
9. *"Make leadership development part of the culture"*—HR's involvement in this final practice may be one of the most significant factors in determining HR's future strategic role. It will require leadership development to be fully integrated into all organization decisions, processes and objectives and will depend on HR to communicate this commitment to employees.

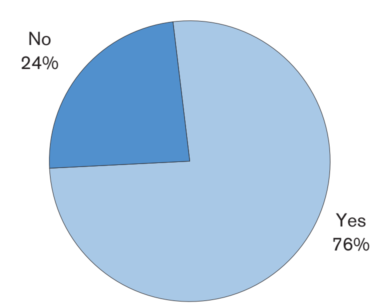
As these factors more tightly integrate leadership development into all aspects of organizational structure and culture, they could dramatically elevate the strategic importance of the human resource management function.

Leadership from the bottom up

Though much emphasis is put on senior business leaders, issues of leadership are changing at all levels within organizations and talent management initiatives have become a top priority for businesses (see figure 2). One result of rapid advances in technology is that innovation can and often does occur from the bottom up as employ-

Figure 2 | Talent Management Initiatives are a Top Priority

n=203



Note: Excludes organizations who indicated they do not have talent management initiatives in place.
Source: SHRM 2006 Talent Management Survey Report

ees with the most interaction with specific processes and technologies are best placed to come up with ideas and innovations that add value to products and services. Leadership issues across the wider spectrum of employees also involve changing expectations of the kinds of leaders that individuals and teams want to work for. This may become more apparent as younger generations begin to make up more of the workforce because of their greater diversity and the likelihood that they will begin to constitute a less traditional workforce. These two changes—the way that employees work and add value to their organizations, and the demographics of future employees—are likely to have a significant influence on leadership strategies in the years ahead.

Team leadership and leading collaboratively

Though senior leadership teams have become central to organizational leadership strategies, the implications of collaborative working and the importance of team-based leadership may be even more profound for employees who are lower in the organizational hierarchy. Studies of creative thinking and innovation emphasize the value of teams because of their ability to represent multiple viewpoints and dimensions of expertise. As more teams are assigned leading roles in innovating around existing products or creating new ones, the ability to put together effective teams and use them to develop leaders will be crucial. The human resource management dimension in this process is paramount. HR is involved in putting together the talent makeup of official divisions and departments as well as putting the mechanisms in place that support the growth of informal teams and cross-divisional working. HR is also responsible for building a diverse workforce, which is one of the factors that innovation researchers have found to be most significant in building progressive teams. Diversity of perspectives, backgrounds and experience appear to promote more and better combinations of ideas and approaches. Experts and researchers believe that a culture of openness and respect also supports innovation, because new ideas are welcomed no matter where they come from.

Education and leading a nontraditional workforce

One of the most interesting characteristics of the youngest demographic groups of workers is the reversal in education rates by gender that started with Generation X and continues with the youngest workers in Gen Y. In a knowledge economy where high levels of education are the foundation of competitiveness, those workers who have the highest levels of education are extremely valuable. Increasingly, these workers are women. If this educational shift translates into greater leverage for educated women in the workplace, the workforce may become less traditional overall. The education imbalance favoring women will also make the challenge of supporting women in leadership more significant because businesses will need women to assume more leadership roles. Currently only 2% of Fortune 500 CEOs are women and only 15% of members of boards of directors are women. Research into leadership barriers to women may increasingly be used to create leadership development strategies within organizations as companies struggle to build leadership talent in new generations of workers. Issues of leadership style, resistance to women's leadership and work/life balance are all likely to be reassessed if businesses find themselves without a ready pipeline of educated workers.

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This risk becomes more apparent when considering other recent education trends. The percentage of 25- to 29-year-olds with at least a bachelor's degree has actually fallen in the current decade. Though Gen X is considered the most highly educated generation in U.S. history, many education specialists are very concerned that the generations that follow are likely to be less educated. If this trend continues, it could not happen at a worse time, when both economic factors and demographic trends indicate that the need for young educated workers has never been greater. A shortage of educated workers will make employers even more likely to devise ways to accommodate a nontraditional workforce as a means to attract and retain in-demand knowledge workers, many of them women. The implications this could have on both organizational design and culture could be revolutionary. Once again, HR will be centrally involved in meeting this challenge by redesigning recruitment and retention efforts as well as spearheading training initiatives that attempt to bridge the skills gaps.

Conclusion

The shift to more integrated leadership strategies and an emphasis on leadership teams, even as the focus on short-term results continues to single out the most senior executives, especially CEOs, are likely to continue to influence the design of business leadership strategies. So many factors are involved in creating the environment where great leaders flourish that it is difficult to predict where the best leaders will come from; but regardless of how the trends in the management of talented leadership develop over the coming years, it appears likely that HR professionals will demonstrate not only their ability to identify and support leaders within their organizations, but also their own capacity to lead at the most strategic level.

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