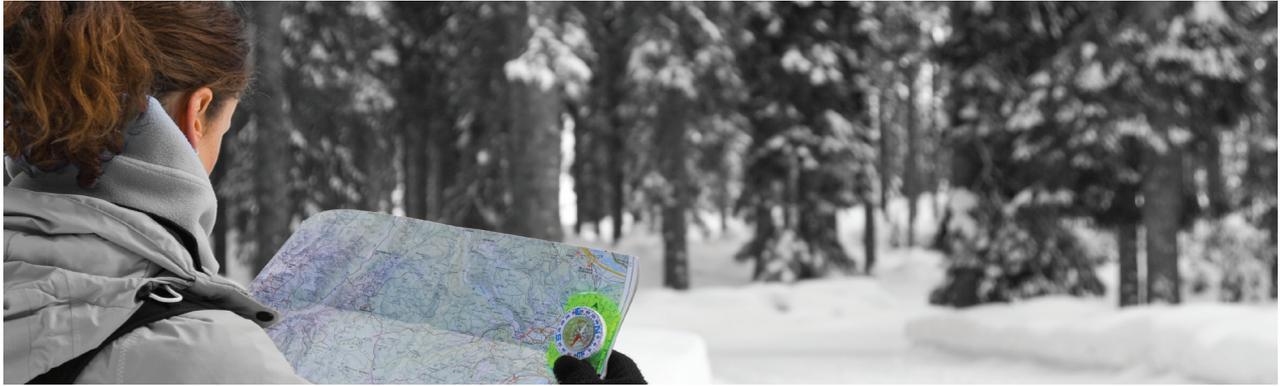


## Insights into organization



# How do I build leadership capabilities to drive business performance?

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## Article at a glance

### Why is this important?

Building leadership capabilities can create tremendous value by accelerating priority projects, driving major turnarounds, and continuously improving execution. Yet few organizations get it right: they struggle to link leadership development with their business goals and management processes. A much more systematic approach is needed.

### What do I need to know?

To make sure leadership development creates lasting impact, companies should use performance improvement opportunities within their organizations as the real-life context for learning; build deeper leadership qualities, not just functional skills, so leaders have the resilience to sustain major change; and build a “leadership engine” integrated with the organization’s broader norms and management processes.

### How do I make it happen?

Systematically upgrading leadership capabilities involves three steps: understanding the context and outlining the program’s building blocks; designing and implementing an integrated, experiential program; and building the mechanisms to sustain and monitor impact.

### What is it worth?

A chemical company used its leadership development program to help managers implement improvement initiatives worth over \$200 million. A pharmaceutical company developed a project-based leadership program focused on diagnosing customer needs and defining new value offerings – generating over €200 million in incremental profit. A transport and logistics organization trained its top 1,000 managers in leadership, commercial, and operational skills to drive competitiveness and boost operating profits by 17.5 percent.

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### **Building leadership capabilities**

is a powerful way to win competitive advantage. Targeted, business-oriented leadership development programs help companies accelerate priority projects, drive major turnarounds, and continuously improve their execution across the globe. Yet few get it right – in a recent survey, just 7 percent of executives believed their organizations were building leadership skills very effectively. Too often they default to off-the-shelf training programs with little relevance to their business goals. A much more systematic approach is needed, integrating learning with the company's strategy, management processes, and real-world performance challenges.

### **Have you asked yourself lately . . .**

- What's the return on the money and management time invested in my existing leadership training programs, and how can I improve it?
- How can I make sure my leaders learn the skills that are critical to my company's strategy – and apply them to achieve real business improvement?
- How do I cultivate leadership qualities such as resilience and energy, to turn authority figures into masterful role models?
- How do I build practical, business-relevant leadership skills throughout my organization – from the top team to the front line?
- Is there a more rigorous way to understand my company's capability-building needs, design leadership programs for impact, and manage their performance?

**. . . If so, then you might want to continue reading.**

# Why is this important?

Few doubt that good leaders matter, or that upgrading their capabilities is an investment worth making. In a recent survey of CEOs and senior executives, 76 percent of respondents agreed that it was important to develop the knowledge and skills of their leaders.<sup>1</sup> Yet the track record of leadership development is disappointing. In the survey, only 7 percent of executives believed their organization was doing it very effectively.

Why this chasm between aspiration and reality? There is no shortage of advice on leadership development – an Amazon search lists over 60,000 books on the topic. The problem is that organizations struggle to link their leadership development efforts to clear business goals, integrate them with broader management processes, or focus them on the fundamental leadership qualities that underpin enduring performance. All too often organizations default to off-the-shelf training programs that consume precious management time without achieving lasting impact for either the participant or the business.

A much more systematic approach is needed to develop leadership capabilities – not only at the top of the organization, but right through to the front line. The challenge is to build the right set of practical leadership skills and mindsets across a large group of people, in a way that improves performance of the broader organization in a sustainable, self-perpetuating way.

The prize is well worth striving for. Organizations that get leadership development right are able to accelerate priority projects, drive major turnarounds, and continuously improve their execution across the globe. While addressing current business needs, they also prepare themselves to respond to future challenges and opportunities.

<sup>1</sup> “Developing the Global Leader of Tomorrow” (2008), Ashridge Business School

# What do I need to know?

To make sure leadership development achieves lasting impact, organizations must adopt three core approaches and avoid three common pitfalls. First, they should use performance improvement opportunities within their organizations as the real-life context for learning – and avoid generic, off-the-shelf programs. Second, they need to build deeper leadership qualities, not just functional skills, so leaders have the resilience and self-awareness to sustain major change. Third, they should shape a “leadership engine” that integrates capability-building with the organization’s broader norms and management processes – as opposed to a series of one-off, disconnected interventions.

## **Build leaders for a clear business purpose**

No organization should invest in building leadership capabilities without getting clear on the business reason to do so. Consider the Asian engineering and construction company that planned year-on-year revenue growth of 20-30 percent. Such an ambitious target demanded a new cadre of skilled managers who could run complex multi-year projects averaging \$1 billion in size. The company established a targeted “leadership factory” to produce 500 new leaders with these attributes within three years. The CEO championed the program, attendance was considered a privilege, and participants developed in tangible, high-impact ways. For instance, feedback from superiors and peers revealed that by improving their ability to delegate, participants spent more time on their own core tasks while increasing on-the-job learning opportunities for their direct reports.

Business-focused programs like this one have a much greater chance of producing sustainable impact than off-the-shelf, academic leadership training programs. By using participants’ real work issues (not abstract case examples) as material for application and practice, they not only generate immediate tangible benefits to the business, but also provide more sustainable learning. Why? It is well documented that after three months adults retain only 10 percent of what they have heard in lectures, presentations, demonstrations or videos, but when they learn by doing they retain about two-thirds of the content. And when participants practice relevant, business-tuned skills in the workplace, those new skills really stick.<sup>2</sup>

Weaving leadership development around business goals thus produces better results for both the individuals and the business. Indeed, one company took a firm stand in defining a flagship development program as a “strategy implementation program”, banning any reference to the words “leadership” or “training”, to underscore the delivery orientation of the work.

<sup>2</sup> IBM research referenced in John Whitmore (2009), *Coaching for Performance*

### **Strengthen who leaders are, not just what they do**

The most powerful capability-building efforts embed the deeper qualities of leadership at their core, including self-awareness, resilience and the ability to energize oneself and others. Without putting this foundation in place, there is a risk of solving the wrong problem or not sustaining improvements. For example, teaching techniques for creating a robust strategy will have limited impact if leaders struggle to convey direction to others in an inspiring way. Likewise, teaching performance management processes will achieve little if leaders do not also develop the emotional resilience needed for tough feedback conversations.

Building leaders requires delving deeply into the capabilities, mindsets, and behaviors of individuals and those they work with. It requires addressing, in a hands-on way, who leaders “are” in addition to their skills and knowledge.

Over many years, McKinsey has drawn on its unusually privileged access to senior leaders across geographies, industries and contexts, to systematically research how remarkable leaders are able to drive high performance in challenging environments. Extensive interviews, academic research and empirical testing have identified a set of capabilities that, in combination, we call “Centered Leadership”. Centered leaders have the resilience and emotional capacity to make change happen at scale. The skills they master include:

- **Meaning.** Finding and communicating personal meaning in work, and in turn enabling others to tap into their own sources of motivation and purpose
- **Framing.** Seeing opportunity in adversity, “framing” even the most difficult issues in a way that leads to constructive, creative solutions
- **Connecting.** Proactively building a web of internal and external relationships
- **Engaging.** Generating the confidence to step up and act, “engaging” themselves and others in the face of risk and uncertainty
- **Energizing.** Investing systematically in their energy levels – physically, mentally and emotionally – and creating the institutional norms and practices needed to energize others

Doing this deeper work requires time for reflection and practice. That takes some effort. In one program, leaders of a petrochemicals company embarked on a facilitated process that started with understanding how their behaviors, both positive and negative, were observed by others. They then explored the underlying values, beliefs, needs and fears that were driving these behaviors. In this way, they understood the roots of what they wanted to change and made lasting shifts in the

way they worked, rather making superficial changes that would not stick. In the words of a senior manager:

“The program was very pertinent to some of the things we needed to shift in our organization, like people being able to tell a compelling story and tap into their own personal meaning, like the ability to hold difficult conversations and techniques for how to do that.”

Such structured self-reflection, in the context of real work, creates the conditions for true insight. Yet some leadership programs shy away from the personal dimension altogether in favor of functional learning. Others go to the opposite extreme and address only the personal dimension, leaving participants wondering how the program will help them in their day jobs and feeling cynical about the “soft stuff.” The best efforts strike a balance between personal and functional development, weaving personal leadership capabilities around real business issues.

### **Build a “leadership engine”, not just a series of workshops**

To be sustainable, any effort to develop leaders must be deeply entwined with the organization’s talent and performance management processes, as well as with its broader vision, norms and strategy. In this way, a “leadership engine” can be built into the fabric of the organization – much more powerful than an outsourced, detached training program.

To build such as “leadership engine”, one oil and gas company started by collaboratively defining a four-part leadership model – an explicit articulation of the behaviors needed from their leaders – before holding workshops and coaching sessions to help leaders develop specific practices in line with that model. The four elements of the model – “delivering results”, “driving change”, “developing people” and “demonstrating passion” – were translated into observable behaviors, and then fleshed out with detailed examples of what “poor”, “solid”, and “outstanding” practice against each would look like. This gave a very clear foundation for designing the learning program.

The company’s leaders each agreed performance contracts based on this model, and performance was measured twice a year against these clear expectations. Performance review outcomes informed a systematic approach to matching talent with new leadership roles and critical projects. These processes ensured that leadership learning interventions had impact well beyond the end of any formal program. They also ensured that leadership development was not a one-shot investment, but reinforced continuously and informally through the language used to describe high performance and through each coaching and feedback conversation. This alignment between evaluation and development priorities removed the risk of there being mixed messages; too often leaders are asked to behave in one way but rewarded for behaving in another.

Moreover, the company monitored the impact of its leadership program – just as it would with any other investment – by tracking both observable shifts in leadership behaviors and the business outcomes associated with better leadership. In our experience, most organizations shy away from trying to measure anything that feels inherently “fuzzy”, and many do a poor job even of tracking how much is spent on leadership development. But by tightening performance management in this area, organizations can raise the return on their learning investment while building greater support among senior executives for the investment.

Last but not least, the best companies make leadership development a part of what all senior people do. For sure, such companies draw on a wide network of internal and external resources that can contribute to powerful leadership development experiences (including corporate universities, external faculty, industry experts, consultancies, and coaches). But they also insist that internal leaders play active roles as “faculty” in leadership programs. In this way, leadership development becomes an integral part of how the organization works, not a detached exercise.

### **Context matters – a lot**

Recent research on leadership has interesting implications for leadership development.<sup>3</sup> Researchers investigated whether leaders were “portable” by studying the impact of 20 former GE executives on the performance of the companies they joined. Would successful leaders at GE thrive elsewhere?

Those leaders whose skills and experience matched the strategic demands of their new organization had a positive performance impact of 14.1 percent in comparison to the market and similar firms. Where leaders’ skills did not match the new demands, the researchers found negative returns of minus 39.8 percent. These findings suggest that leadership success is related to the match between a leader’s capabilities and the demands posed by their particular company. While obvious with hindsight, this finding defies the popular notion of leadership as a universal set of behaviors or qualities that might be developed outside of the organization in a classroom.

To be effective, then, leadership development programs should respond to the specific circumstances of an organization and build these factors into the program’s design. On-the-job learning will be key; real leaders can’t be developed through classroom teaching alone.

<sup>3</sup> B. Groysberg, A. N. McLean, and N. Nohria, “Are leaders portable?”, *Harvard Business Review*, May 2006.

# How do I make it happen?

Systematically upgrading leadership capabilities involves three steps: understanding the context and outlining the building blocks of the program; designing and implementing an integrated, experiential program; and building the mechanisms to sustain and monitor performance.

## **Step 1: Understand the context and outline building blocks of the program**

Truly effective leadership development programs equip an organization to meet its most important performance challenges. So the first step is to diagnose current leadership assets and liabilities against organizational objectives. Does the organization need to increase productivity? Expand its global footprint, or manage it better? Foster customer-centricity or innovation? Against these goals, what do leaders do well and what must they do better? What skills, behaviors and mindsets will really make a difference?

Understanding the performance context provides a clear rationale and goals – vital if leadership skill-building is to be relevant and practical. Moreover, the interviews, surveys, and focus groups that take place during the “diagnostic” phase are often a valuable “intervention” in their own right, offering participants an opportunity to reflect on whether their capabilities are equal to the challenges they face.

**What do you need your leaders to be, do, know?** Typically, the starting point for program design is a company’s leadership model – an articulation of the capabilities and behaviors it most needs from its leaders given its strategic goals. Your organization might well have one already, but it is worth asking how well it will serve as the backbone of your leadership program. Does it fully reflect your organization’s strategic priorities, or is it a mere list of competencies? Do senior leaders feel a sense of ownership in this articulation of what great leadership looks like? How well defined are levels of performance against these expectations? If the answer to any of these questions is tentative, your leadership model may need some work.

**What’s really going on?** The diagnostic should go deep enough to review the internal culture, systems, processes, and rituals that support certain types of behavior and discourage others, to understand where the most powerful enablers and blockers might currently be. If you plan to boost innovation and entrepreneurial behavior among line managers, for instance, you need to make sure that your performance-review processes reward this.

**Who should participate?** The diagnostic phase should also determine who should participate in the leadership development program. Starting with the top 50 to 100 leaders is usually a good idea, as it establishes a set of role models for broader change. But beyond that, you need to move through the organization in a way that best supports your business needs. That might mean focusing on people in specific

change leadership roles or pivotal positions; or using diagnostic tools to identify “hidden” leaders who carry influence not reflected in their formal titles or roles. Many leadership development efforts task intact performance teams to work together on specific business objectives.

### **Step 2: Design and implement an integrated, experiential program**

Once you’re clear on “where you need to go”, the next step is to design the specific learning experiences that will best support leaders’ development. This includes making choices on the balance between group and individual work, and between technical and personal behavioral capabilities.

Evidence shows that adults learn best when they go through alternating periods of action and reflection over time. They learn readily when they are in charge of the process and can see the personal relevance of what they are learning, rather than having it delivered by “gurus”. And people have different learning styles – visual, auditory, kinaesthetic. To create an effective learning experience, then, you need to weave together a number of different interventions and learning modes. One very effective way to structure such interventions is an architecture we call “forum and field”.

In the “**forum**”, participants learn new tools and techniques in group settings and work with each other to practice and prepare to apply them in their everyday work. Forums are designed carefully to ensure that leaders experience the kind of “moments of truth” that make learning really stick, such as rehearsing a challenging performance dialogue and getting candid feedback from observers. They set up a safe, mutually supportive space for participants to help each other get to root causes and stretch each others’ aspirations.

Participants leave the forum with a personal action plan, shared with the broader group, to apply their insights in real-life situations in the “**field**” – which is where the bulk of the learning takes place. Such an action plan might include having a difficult conversation with a boss or direct report. Participants can also be tasked to work on “stretch” projects in groups. As part of a leadership program at a wholesale bank, for example, cross-functional teams were asked to design and launch customer relationship programs. As a result, they grew their fee-based income significantly.

Within the broad “forum and field” structure, companies can make design choices about the program’s content, length and intensity – including the nature of the fieldwork. However, there are three elements that greatly enhance the impact of any program:

- **Coaching** should be integrated into the fieldwork to get the most from the learning opportunities between forums. Depending on participants’ needs and seniority, this will be some combination of one-to-one, group, and peer coaching (in which participants work in pairs or small groups to coach one another).

- **Top management must visibly lead and role model** the program. For example, a change leaders program in a pharmaceutical company started with highly individualized interventions for the 20 top leaders. They then acted as faculty in a program for 200 high performers, who in turn coached change leaders across the global business.
- **Participants should be taken out of their comfort zone** in a way that is still tied to their business context. This can mean getting them to address challenges they have preferred to avoid, such as collaborating with a function they don't respect. Or it can be more creative – such as giving participants short-term secondments in a hospital.

### **Step 3: Sustain and monitor impact**

To embed the lessons learned and the new behaviors adopted, participants need to sustain the momentum long after the program ends. One way companies can encourage this is to align their leadership development programs with their performance evaluation systems, so people see that the organization teaches the same things it rewards.

Successful companies also make sure they build sufficient scale (including using a “train the trainer” approach) to implement their programs across different divisions and geographies. They invite previous program “graduates” to return as faculty to deepen the business relevance of the teaching. And they regularly update the program design to take into account participants' feedback and performance assessments, as well as new developments in the external environment and in learning technology.

Indeed, organizations adept at leadership development monitor the impact of their capability-building programs as rigorously as they would with any other investment – tracking both observable shifts in leadership behaviors and the business outcomes associated with better leadership. In this view, a program is judged a success when it not only “pays for itself” but goes well beyond that in terms of the business performance of individuals, their teams and the organization. For example, a large non-profit organization quantified the impact of its leadership development program on its key performance goals, including increased revenue; the program was found to have generated a fourfold return on its costs.<sup>4</sup>

<sup>4</sup> Jenny Cermak and Monica McGurk, “Putting a value on training”, *McKinsey Quarterly*, July 2010.

# What is it worth?

Having lost its leadership position in the chemicals industry, a global company began falling behind in innovation and saw profit margins decline. It developed a lean production approach and introduced leadership development programs to help managers at sites across the world conduct diagnostics and implement improvement initiatives. The company also launched a complementary workshop-based program to develop deeper leadership qualities. Equipped with new technical skills and leadership capabilities, leaders captured improvement opportunities worth over \$200 million.

A pharmaceutical company faced several challenges: expiring patents, changing customer and stakeholder needs, and a new go-to-market approach that required a transformation in sales force practices. The company developed a project-based leadership performance program focused on diagnosing customer needs, defining new value offerings, and designing pilots. Through a combination of workshops and field work, the program tackled immediate business challenges while developing participants' interpersonal and problem-solving skills. Participant teams started 20 new initiatives worth between €200 and €300 million in incremental profit for the following year.

A transport and logistics organization facing intense competition conducted a comprehensive diagnostic of its people-management practices and defined an approach to drive ownership and accountability and develop a more competitive mindset. It designed a new leadership competency model, conducted workshops to increase self-awareness, and trained its top 1,000 managers in leadership, commercial, and operational skills. To reinforce the shift, the organization revamped its performance management system. Substantially as a result of these actions, the company's operating profits rose by 17.5 percent.

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Now more than ever, highly effective leaders can be a powerful source of competitive advantage. Yet many attempts to improve leadership capabilities fail to make a material impact on an organization's performance. By linking leadership development tightly to performance imperatives, addressing deeper personal qualities alongside practical capabilities, and building a sustainable leadership engine, companies can unlock perhaps their greatest hidden asset: the transformative power of their leaders.

# Insights into organization

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