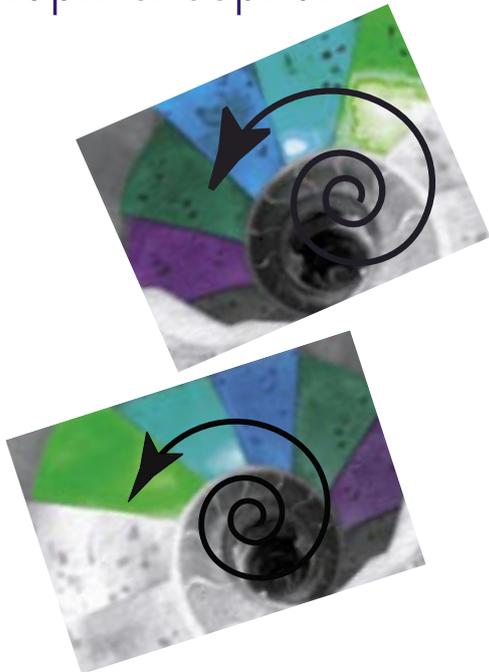


Spiral

# Stop Throwing Good Money after Bad – Breaking the wasteful leadership development spiral



Do you find yourself spending thousands on leadership programmes designed to fulfil your employees' expectations, rather than bring strategy to fruition? Square Peg has been taking a fresh perspective on the topic of investing in leaders and aligning them to strategic intent. Based on our research, global thought leadership forum, and input from our client review meetings we have been exploring the consequences of leadership development investment being divorced from strategy. Utilising the image of a spiral to outline five key stages where value can be eroded, we identify what is required to correct the erosion of investment in leadership, and start to challenge the paradigm of aligning leadership to strategy. The intent of this work is to challenge organisations to stop throwing good money after bad in their quest to develop leadership talent.



## Leadership development that builds value

So why is more research on leadership development relevant now? The issue has been around for ages but with the baby-boomers about to retire, increasingly onerous demands on corporate leaders and a whole industry focused on it, the problem of how to ensure leadership quality as efficiently as possible remains a priority for many. Our focus is on preparing individuals to lead organisations and not on the development of technical leadership skills. We believe that in this context people are needlessly looking for ever more complex solutions to the issue. The aim of this article is to cut through that complexity and to provide a frank, simple but, we believe, powerful foundation for leadership development that builds rather than erodes organisational value.

## Our Hypothesis : The Wasteful Leadership Development Spiral

Our work on this theme is based on a three-pronged hypothesis:

1. Firstly, a number of self-perpetuating factors can combine to make leadership development investment a wasteful spiral of activity – Square Peg research confirms the nature and extent of some of these factors.
2. However, the downward spiral can be broken – our findings suggest some ways to make that happen.
3. Finally, it is possible for the investment of resources in leadership development to positively drive value. We identify the means to create a virtuous circle.

## Our Research

### International

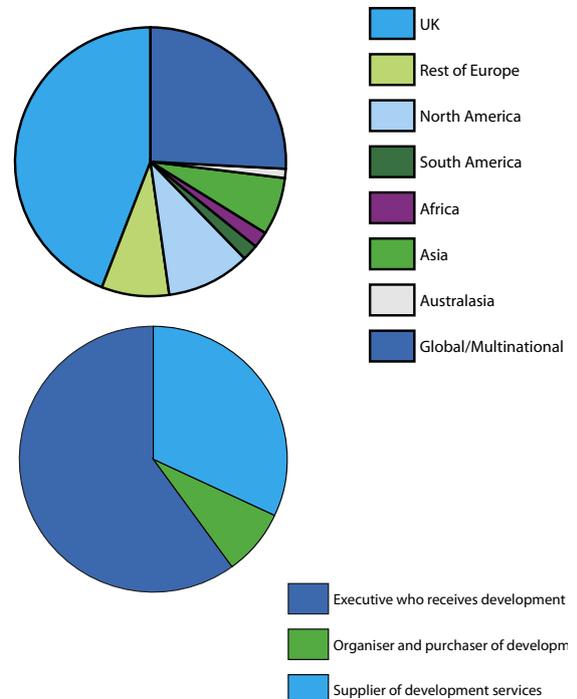
Participants in our online survey represented all five continents but importantly, over a quarter described themselves as 'global multinational'. These are the growing ranks of executives who lead cross-border teams on their Blackberries from airport lounges.

### Front Line Insight

The majority (60%) of our survey respondents were executives who have received leadership development - representing real insight into what is valued in the workplace, how current leadership development practice is perceived and what could be done better.

### Industry Dynamics

Given the diversity of stakeholders in leadership quality, participants also included both the organisational gatekeepers and purchasers of leadership development services and the suppliers of those services – allowing us to examine and challenge some of the dynamics at work in the industry.

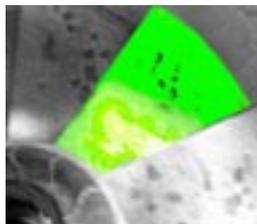


# Hypothesis: self-perpetuating factors can combine to make leadership development investment a wasteful spiral of activity when...

## Wasteful step 1. Leadership development becomes divorced from strategy

Our research confirms that strategy challenges are frequently not informing leadership development activity and are causing investment to be misdirected. One example of this misalignment: about a third of our respondents felt that 'poor co-ordination across diverse functions, geographies and businesses was the greatest threat to their business yet more than half did not see leadership development addressing this critical issue.

There are many possible causes for a weak link to strategy:



### **Unclear or inadequately communicated strategy**

Earlier Square Peg research has highlighted the huge communication and understanding gap that continues to surround strategy in organisations. <sup>1</sup>

### **Organisers and purchasers do not understand the strategy**

If the team responsible do not know what the strategy means in terms of the skills and behaviours required for success, then their hands are tied when it comes to building or commissioning something suitable.

### **The strategy itself might be shifting in response to external factors**

One organisation we know for instance has been acquired, had production shut down, borne the brunt of new legislation, been a pawn in a political debate and embarked on the acquisition trail, all within a relatively short three year period. Strategy has had to shift so frequently to keep up, that it's no wonder HR are left puzzling what skill-sets may be required from future leaders.

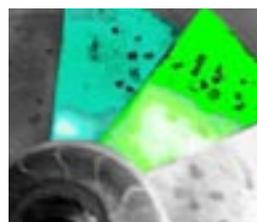
### **No strategy or strategic paralysis**

Another organisation we know has been part of a very lengthy takeover battle, in and out of the European competition authorities for well over a year now. In a situation like that there is a danger of a strategy vacuum and rabbit-in-the-headlights paralysis throughout the organisation.

While there is a need to align leadership development activity with strategy the link is not always linear or simple.

## Wasteful step 2. Leadership development becomes distorted by entitlement demand

In an environment where the link to strategy is weak or unclear, leadership development may be blown off course either by entitlement demand from individuals or by supplier push. If there is no clear direction guiding the effort then the organisation will have no criteria by which to measure the appropriateness of potential activities. In these circumstances industry fads and individuals' whims may too easily prevail.



### **Entitlement demand**

Whilst our survey found that organisations are clearly perceived to drive the leadership development effort, each group of respondents (including suppliers and purchasers) tended to overstate their own influence.

As far as individuals are concerned, it is future aspirations and prospects that make them seek development opportunities. The danger here lies in misalignment between the aspirations of the individual and the needs of the business. Key individuals can start to call the shots – for example holding the organisation to ransom for funding for personal development agendas.



## Supplier push

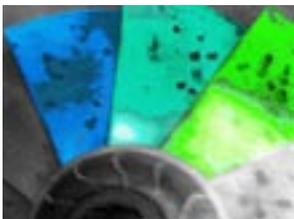
When supplier push prevails, a powerful industry (recent estimates put it at a \$6bn business in the US alone) can wield inappropriate influence over what is provided. Our findings suggest one example around the concept of qualification inflation. Only 3% of the executives surveyed believe individuals are motivated by gaining a leadership development qualification. Three times as many purchasers believe qualifications are a prime motivator (10%), and that figure rises to a full 15% among the suppliers. There is a kind of Chinese Whispers game going on, where, even with the best of intentions, suppliers and purchasers form a skewed view of demand. Though the numbers here are relatively low, that skewed perception is already starting to distort supply and contributing to the wasteful spiral.

What is the result? If it is too hard to link to strategy, leadership development can be distorted and HR can get caught between individuals requesting the course they fancy and suppliers pushing the intervention they have built.

One senior executive we know told us about a programme he had been dragooned onto 'to set a good example' and 'create demand for the programme'. This course targets attendance by 50 delegates over a twelve month period – an estimated annual cost of some 3/4 million dollars – without even considering the opportunity costs of attendance. No doubt the course material was of excellent quality, but the appetite and need for it had not been tested – a clear case of leadership development getting blown off course.

## Wasteful step 3. Leadership development becomes short-term and intervention-heavy

Our research uncovers another disconnect in the timescales required for successful leadership development. Executive respondents tend to think about leadership development as a long-term activity; for them its objectives should be attracting and retaining talent and succession planning. However, for suppliers and purchasers the focus is very much on the short term, they tend to believe leadership development's objective is primarily to meet critical needs now. We also found that nearly two-thirds of all the leadership development activity going on today is based in the classroom (including simulations).

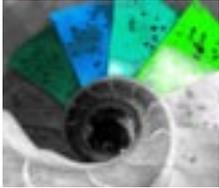


This highlights a fundamental misunderstanding of the nature of leadership. Unlike some, we do believe that leadership can be taught – it is a set of practices and behaviours that can be acquired over time. However, they take time to build and become authentic so a quick-hit course will never be enough. Developing leaders need to be given opportunities to practice without the protection of the classroom – otherwise they will never become the true, seasoned leaders they aspire to be. Falling into this trap can be compared to trying to train gladiators without letting them pick up their swords and fight.

Another factor driving the tendency towards an intervention-heavy approach in the real world is budgets. In fact, half of all our respondents cited lack of budget as the major reason for not offering leadership development. Where budget does exist, of course, shorter courses that are quicker and easier to plan and implement more easily attract finance. Which brings us on to step 4.

## Wasteful step 4. Leadership development is inappropriately evaluated

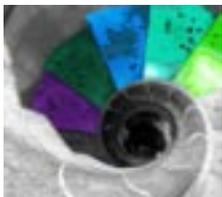
The short-term focus of many programmes is reflected in the measurement trends we have uncovered. 75% of measurement takes place only in the six months following an event. In addition there is an over-reliance on participant evaluation: in 54% of cases the most frequent means of evaluating a programme was participant feedback immediately on completion. Of course feedback forms can be useful, but by their nature they are subjective and used as a sole evaluation method they will provide an inappropriately shallow measure of success. In this context it's not surprising that bottom line impact hardly got a look-in, only 5% of respondents mentioned it. That's because measuring bottom line impact is tough.



Even assuming you are clear what your time horizon is, when you are talking about intangibles, how do you put a value on the expected benefit to the organisation over time – let alone start to discount it back to give a net present value? Faced with that kind of challenge a third of organisations will simply give up on developing their leaders if they believe it is too hard to measure the impact of activity. At this stage of the downward spiral the focus can all too easily shift from measuring the value to the organisation to the cost of a programme's input.

## Wasteful step 5. Leadership development becomes focused on benefiting individuals more than the organisation

A final step on the downward spiral is a situation where leadership development efforts benefit the individual more than the organisation. In the real world, of course, individuals will take all that they can get and we often hear tales of woe about the bright star who got her MBA then promptly left to work for the competition. It may be a challenge accurately to calculate the value of leadership development to an organisation but when the recipients walk, it hurts. What can organisations do to retain staff they have developed? CIPD research this year suggests that as many as 70% of employers are still imposing some form of conditionality on financial support for learning. Yet 40% believe that to do so is ineffective.<sup>2</sup>



So this raises the question of whether organisations should build leadership talent at all. We found a number of organisations (14%) that 'expect to hire leaders that can lead' already. During our thought leadership forum clients also demonstrated a sanguine approach to the war for talent; pointing out that 'what goes around comes around'. While they may lose some high performers to the market they can also hire leaders who have been developed to a high level at the expense of the competitors.

If the leadership development effort is not clearly focused on the organisation's requirements and dovetailing with its wider approach to selection and retention, then the investment may well appear to benefit primarily the individual – with all the attendant risks. And if the investment in leadership is perceived as throwing good money after bad it will be pushed down the corporate agenda, further weakening the credibility of future activities.

The findings support our hypothesis. The five wasteful steps of the spiral almost never happen sequentially, instead they are both mutually reinforcing and self-perpetuating, combining to make leadership development a continually wasteful endeavour. At rock-bottom the spiral is a depressing place to be and the impact is consistently negative:

- Where leadership development is not aligned to strategy the organisation flounders over time
- Where the organisation lacks control its development needs are not met
- Where there is a short-term focus succession planning suffers
- Where evaluation is inappropriate focus is diverted away from value
- Where individuals are the main beneficiaries organisations waste time and money.



<sup>2</sup> CIPD Factsheet July 2005. *Employer Support for Learning Qualifications.*

# Hypothesis: the spiral can be weakened and broken by...

## Starting one step at a time

All that is required to break this wasteful downward spiral is for leadership development to be done differently – and better – at “any one” of the five steps. A change at any level in the spiral is likely to reverberate as a positive effect into the other levels. For example lengthening the time horizon of expected benefit alters the measures used in evaluation, shifting the focus from short-term intervention to longer-term programmes. Such a change in thinking may support a stronger link to strategic intent as the business begins to clarify the leadership competencies it will require in its future state.

## Challenging the status quo

Challenging the status quo typically provokes emotionally charged responses. These can range from:

‘Leadership development is psycho-babble nonsense’ – Many people fail to see the value in leadership development and incline towards writing off further efforts.

To

‘Any leadership development activity is a good thing’ – Conversely many others believe that there can be no downside to leadership development, and if it keeps people happy there is scarcely a need for change.

To successfully shake the spiral requires an acceptance that neither position is necessarily tenable, nor a justification for inaction.

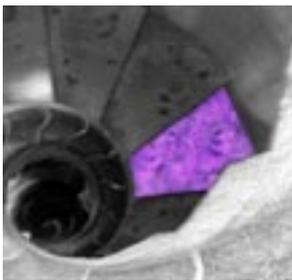
## Building momentum

But to create sustained improvement the objective is a change in “each one” of the five steps. The implication is a more holistic approach to leadership development, demanding a significant shift in thinking, activity and energy levels – climbing upstairs takes much more effort than tumbling down. The final prong of our hypothesis looks at how that can be achieved.

# Hypothesis: investment in leadership development can drive value if...

## Upward step 1. Leadership development is treated as a business strategy enabler

Effective leadership development is about equipping the business to achieve its goals – current and future. But as we have seen, strategy itself is not fixed because the world doesn’t stand still. Leadership development efforts need to have a built-in flexibility and future focus; looking ahead to define what is to be nurtured in the present.



### Battleship diagnostics

If the notion that leadership development should align with strategy is conceptually compelling and inarguable but simply not operationally relevant, what then?

New work from Berkeley Consulting Group, our associate firm in Canada, goes some way to addressing this tough question. Still in its infancy, the concept has been nick-named Battleship Diagnostics after the board game of trial and error, premised on locating the opponent’s battleships plotted on a grid. A player may correctly guess a grid reference of one ship and be rewarded by the call ‘hit’, however from his single reference point he has no way of knowing in what direction the rest of the craft lies or indeed what kind of vessel it is. Our developing approach is to adopt similar tactics in both identifying emergent strategy and inferring leadership development requirements. In this model a constant round of intelligence gathering, assessment, testing, refining and evaluation means strategy is developed in execution – strategy and execution are no longer separate undertakings.

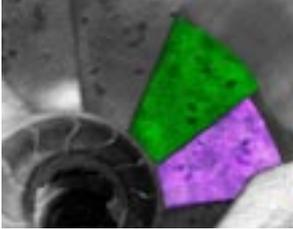
### Leadership capacity

In this context it swiftly becomes clear that organisations would do well to build broader leadership capacity in their chosen areas. Part of that capacity is itself the ability to develop strategy in real-time (or to play better battleships). For that the concept of Learning Quotient (LQ) – the ability to learn and to pass on learning – may be a key measure. When leadership capacity is the aim then this is best fostered in units throughout the organisation; helping groups and teams to work and learn better rather than concentrating efforts on a handful of high potentials.

## Upward step 2. The organisation is in the driving seat

When the organisation takes control of leadership development, strategy or strategic capacity become the touchstone for evaluating requests and offers from previously over-powerful individuals and suppliers.

### Tough decisions

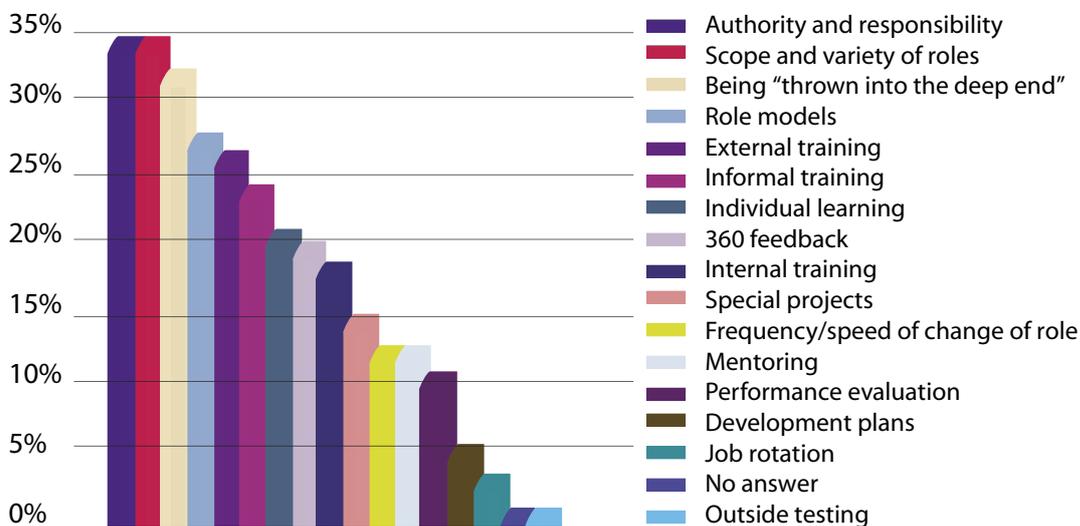


But if the organisation is in the driving seat someone has to be at the wheel. Taking control of this area is painful and requires tough decisions. If leadership development is truly to support succession planning for instance, then it needs to include an element of streaming. That means that not all shall have prizes and some individuals will feel disappointed as a result. Likewise if sending people on courses in the past has been a way of avoiding tough conversations about performance, then when leadership development efforts are focused and those conversations start happening it's going to be tough.

To take control of leadership development successfully requires rigorous and regular reviews of talent (which may mean establishing a culture of confidential discussion and a process of impartial assessment). This in turn should be supported by a reward system that is aligned to encourage grooming and the development of leadership talent. A robust leadership development effort will resist the distractions of individuals and suppliers.

## Upward step 3. The focus is on active learning

Our belief that active learning is key to successful leadership development was strongly supported by our survey findings and client review team. Participants were asked what had been 'absolutely essential' in their own development and the overwhelming response was in favour of active learning factors such as 'authority and responsibility' and 'being thrown in at the deep-end'. It's no surprise that learning-by-doing is so highly rated, what is striking is that 63% of all leadership development continues to be classroom based.



The Centre for Creative Leadership refers to leadership development as a three stage process that provides a good framework for our thinking about active learning:<sup>3</sup>

### 1. Assessment

Seeking a snapshot of current capability. Following the Battleships model this becomes a series of snapshots from differing angles producing a dynamic and multi-dimensional assessment.

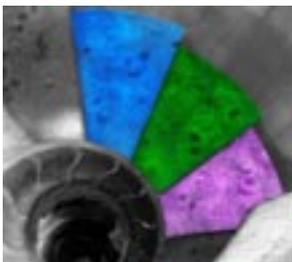
### 2. Challenge

Providing the catalyst for individuals' development. The catalyst might be a one-off course, an event or a longer-term stretch role or project assignment.

<sup>3</sup>The Centre For Creative Leadership: Handbook Of Leadership Development. McCauley, Moxley & Van Velsor.

Getting the challenge stage right means moving people out of their comfort zone – but not into panic mode. Active learning is uncomfortable; that's the whole point, and it should be a means of re-creating the white-water raft experience of all those outward bound courses within the context of the day-to-day work environment. Done well, the creation of a leadership cadre in-waiting will impact emerging strategy, grow LQ and strengthen the virtuous circle. It may also build some positive leadership tension and competition.

### 3. Support



Supporting leaders-in-training means giving them the tools, the resources and the latitude to take the risks they need to develop – all of which takes time. That support may take the form of an internal mentoring network or an external coach for example, but its aim is to allow the gladiator to flex his muscles.

When leadership development is viewed as a long-term undertaking the emphasis is on the *evolution* of individuals rather than on specific “events”. In light of this we prefer long-haul programmes to ‘interventions’, particularly if those programmes operate on a pick ‘n’ mix basis - allowing the organisation and individuals to blend the right activities over time in support of long-term development goals. Of course, there will be quick wins along the way, but developing true leaders takes time – a concept at odds with recent trends.

### Shifting the short-term mind-set

Anecdotal evidence from head-hunters indicates that many employers are simply not prepared to take a long-term view these days. The last few years have seen a fundamental mind shift away from stability and forward planning, resulting in an expectation that employees should be able to hit the ground running. Doug Ross, Square Peg International Managing Director and founding co-author of Watson Wyatt’s Human Capital Index points out a shifting trend. “A few years back there was clearly higher value for employers in buying talent rather than building it. These days the evidence points to a more balanced approach paying dividends”. Firms that fill roughly half of their non-entry level positions internally had a three year total return to shareholders of 56% .

## Upward step 4. Appropriate evaluation

Step 4 mirrors its opposite number on the wasteful spiral and concerns the appropriate use of evaluation. Here our watchword is ‘pragmatics before mathematics’.

### Tracking performance

Notwithstanding the popularity of participant feedback, our research encouragingly showed that the second most frequently used method of evaluating leadership development success was ‘individual performance as tracked in personal development plans’. We were heartened to see this item take the no.2 slot but disappointed that it received only half as many votes as participant feedback.

### ROI red herring

According to our participants, nominal and actual cost of leadership development activity is hardly ever used as a success measure. Nevertheless, any sophisticated calculation methodology for evaluating leadership development is likely to be premised on assumptions around cost. We are uncomfortable with this per se in that it undermines the concept of organisational value.

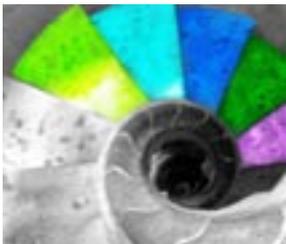


With that in mind we at Square Peg wonder whether measuring the return on investment of leadership development really is the Holy Grail it is often made out to be. Might it be a red herring? Could we more usefully consider leadership development as risk management, a means of averting disaster?

Rather than complex monitoring and cost-based calculations we recommend asking some more fundamental and hard-hitting questions such as: How is this activity helping us to achieve our goals (increase revenues, decrease costs or manage risks)? How is this activity helping us to operationalise strategy? Are we clear what the time horizons of our expectations are? Are we recalibrating those expectations periodically?

## Upward step 5. Shared responsibility

Given the implications for the business of getting leadership development right (and wrong) and the focus on active learning, it is inescapable that leadership development should be a shared enterprise between:



### Existing leaders – CEOs and their teams

This does not mean delivering an opening address at the leadership away-day, this means fostering a culture of grooming excellence, creating opportunities for stretch assignments and learning-by-doing, allowing people to try, experiment and importantly, fail in their attempts to become better leaders.

### Human Resources teams – traditionally the owners of this area

HR takes the initiative to ensure leadership development efforts meet the needs of the business and that the other parties in the equation are engaged at an appropriate level. In successful endeavours HR also takes a strong lead on the processes required to support the culture of grooming excellence, such as review and reward systems.

**Individuals** – truly developing oneself as a leader demands far more than creating a personal development plan, attending courses and ticking boxes. Nor is it about 'getting in touch with yourself'. The aim is to prepare people to lead, so that the organisation can achieve its goals. How can we make leadership development a truly shared undertaking? Traditionally HR teams have been fairly well engaged with the issue, it is the engagement of individuals and existing leaders that may take some additional effort.

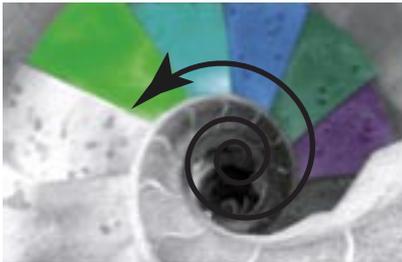
One way of grabbing attention might be to start talking about and accounting for leadership development as a profit and loss item, that is to say, as a cost of doing business, of equipping Ms Jones to do her job, rather than as a balance sheet item, an investment in assets. It is an idea guaranteed to stimulate some robust debate and one Square Peg will continue to investigate.

## A call to action

Our research, global thought leadership forum and input from our client review team all support our hypothesis of a wasteful leadership development spiral. Our work identifies a number of steps to reverse imprudent investment in leadership and challenges the paradigm of aligning leadership to strategy.

There are no magic answers, but with a simple, common-sense approach organisations can stop throwing good money after bad and ensure leadership development not only maximises the use of organisational resources but also drives future growth and success.

**We challenge organisations to immediately take the initiative to stop the downward spiral and invest in steps to create an upward virtuous cycle.**



## About Square Peg International Ltd.

Square Peg is an international boutique consulting practice that provides an integrating force in the alignment and effectiveness of organisations. Our services are based on the interrelationship between business strategy, leadership and HR – our focus is to help clients improve performance and drive value.

As business consultants focused on the people side of change, we support clients managing a variety of enterprise-wide changes such as M&As, establishing new mandates, and meeting new expectations.

We maximise productivity, performance and morale and drive value by accelerating results, ensuring their quality, and measuring their impact. From our offices in the UK and North America we assist companies to capture the full value of their investment in people.

### About the author

Phoebe Dunn is a Square Peg International Senior Consultant with a diverse background of line leadership roles in strategic planning, research and customer relationship management. Her cross-cultural business experience in Japan, Europe and Africa is complemented by her training as a linguist. Phoebe focuses her attention on supporting Square Peg clients in the areas of Strategy, Leadership and the People side of change – including project design and management and executive coaching.

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