PSP

HUMAN RESOURCE DEVELOPMENT

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The RESOURCE

Addressing the Leadership Gap: Identifying NOW the Next Generation of Leaders

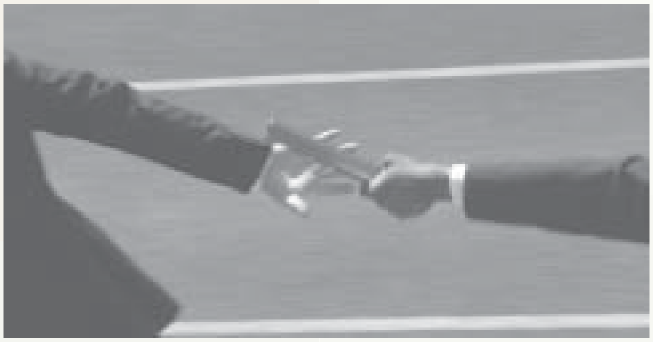
Seventy-five percent of corporate officers surveyed in McKinsey's *War for Talent* said their companies had insufficient talent or were chronically short of leaders across the board. It has been estimated that companies will need to replace 50 to 60 percent of their top management every ten years. How are you going to identify and develop the future leaders who can function effectively in a competitive, technologically driven global marketplace?

Identifying and developing the next generation of leaders must begin now if a company is to have a bench of reserves ready to step in when needed. The approaches used must be different from those used in the past. For example, an individual with the right competencies may be working in a different functional area than expected. Recently, a manufacturing company identified a talented individual in accounting and moved the person into a line operations role for future leadership development. The company was able to assess this individual's fit for the new position using the PSP assessment process.

There is no generally agreed upon definition of leadership. When selecting leaders, there tends to be a preference for quantifiable things: paper qualifications or breadth of experience. Performance appraisals are poor predictors of leadership ability because they focus on technical skills and present performance. The selection of leaders needs to be based on future potential and possession of the right behavioral skills for leadership as determined through testing, 360 surveys and behavioral interviewing.

The development of a competency model for leadership will help in identifying those who will be the most successful leaders. The model provides shared clarity about how the leader should operate and which behavioral skills are most important in achieving desired business results. For example, a company might look for continuous learners who seek challenges, who are willing to stand up for their ideas or those of others, and who are open-minded and respected by their peers for their fairness and teamwork. Possessing positive self-esteem with genuine humility and self-control is important for tomorrow's leaders. So is a sense of humor, an ability to laugh at oneself. New leadership competencies are required, with emphasis on the abilities to facilitate rather than direct and to work with a diverse group of individuals and organizations. A creative and entrepreneurial bent is also key for responding to tomorrow's challenges.

To successfully identify the next generation of leaders, companies need to conduct an expansive talent search for people who have the capacity to learn new skills and deal with change but who may now be only lightly challenged or not in visible roles. Leadership assessment through testing is the most objective, reliable method for identifying potential early.



Once a company has identified a cohort of leadership candidates, how can it provide the most cost effective development? The direction must come first and foremost from the needs of the business. The company's strategic direction provides the blueprint. Then, 70 percent of leadership is learned on the job. Give potential leaders real challenges outside of their normal realm of experience, allowing them to find ways to cope with and even benefit from challenges. Use real business-focused projects and provide genuine succeed and fail challenges. Being turned loose on small but meaningful projects can provide valuable experience for potential leaders while contributing significantly to immediate business results.

Successful executives seek feedback on how they come across to others and what they need to do to perform better. The importance of feedback for developing leaders cannot be overemphasized. Without corrective feedback obtained through 360 surveys and other objective performance management criteria, new leaders can never develop the understanding needed to correct problems and learn what works and what does not. Mentoring and positive modeling by the existing leaders are also important.

Today's leadership talent gap can no longer be ignored. Companies need to show more urgency in creating fast-track leadership development programs. These must be individualized, relying on a combination of assessment, performance management and feedback, in connection with mentoring and training. Companies that commit to this process will find their next generation of leaders and will be winners in the marketplace.

Managing the Twenty-Something Employee

For managers in their 40s, 50s, and 60s, managing the 20-something employee can be quite a challenge. Many members of this new generation of workers seem to have a different set of values, expectations and goals than older workers. This article highlights some of the differences between employees in their 20s and other workers and offers suggestions for bringing out the best in today's younger employees.

Employees in Their 20s Are Different

Employees who are now in their 20s grew up in a push-button world. As children, they watched Sesame Street while they played computer games; they watched MTV while they surfed the Internet. As a result, we have a generation that loves technology and has a short attention span. For them, the present tense is much more important than the future tense. Delaying gratification has no meaning for them because they have never had to do it.

Employees in their 20s often have unrealistic expectations for success. They are the self-esteem generation who often won trophies merely for showing up. They also never saw their parents pay the price for success, which often was achieved by the time these kids reached grade school. Consequently, the 20-something employees often have unrealistic expectations for rewards in life. They want it all right now, without paying their dues. To the rest of us, it looks like they want more money and less work.

“Balance” is a big word for the 20-something employees. They want at most a 40-hour workweek, good pay and lots of time off. They want a casual work environment with friendships and fun on the job, as well as training opportunities. Today's 20-something employees think nothing of bringing their personal lives to work with electronic tools such as e-mail, instant messaging and cell phones. They are willing to work hard only if there is plenty of time to play hard, sometimes during the workday itself.

Twenty-Something Employees Ask “Why?”

Twenty-something employees question everything. Perhaps because they are so highly educated, they ask the “why?” question more often than other employee groups. Moreover, they appear to have less respect for authority than previous generations. After all, their parents were more permissive with them than previous generations. These young workers also seem to have no sense of company loyalty. They learn what they can and then move on to the next job. This is particularly true in IT jobs, where employees in their 20s will change jobs every few years throughout their careers.

Bringing Out the Best

To manage the 20-something employee, it is important to understand the rewards they seek. For this generation, extra vacation days are more valuable than a pension. Flextime is more valuable than life insurance. Consequently, flexibility in work hours and time off from work are two important tools for managing younger workers.

Second, employees in their 20s love feedback, and the more frequent the better. They consider feedback to be a sign of interest in them. Infrequent feedback, such as the annual performance appraisal, is interpreted as a lack of caring and interest in the employee. Effective feedback for the 20-something employee includes regular visual feedback as well as oral feedback. This is consistent with the combination of visual and auditory learning styles with which they were educated, using television and computers.

Third, to bring out the best, managers need to learn to explain and justify their directives rather than dictate to younger employees. The “why?” question these employees ask is not necessarily a lack of respect or a challenge to authority. Many 20-somethings will do what you want them to do, but they genuinely want and need to know “why?”

Fourth, as newcomers to the organization, 20-something employees want to feel welcome. It is a good idea for managers to use the “buddy system” for these newcomers, assigning a slightly older employee to each newcomer in order to help them to learn the ropes and to provide mentorship. Twenty-something employees also seem to appreciate company sports teams, pizza parties and a drink together after work. Mixing social activities with work is part of the “quality of life” factor that younger employees seek.

Finally, it is important for managers to remember that not all 20-something employees are alike. Despite the group trends noted above, the 20-something age bracket has a variety of people. The heterogeneity of the 20-something labor pool makes accuracy in hiring more important than ever. In the end, what matters most is the job fit between the individual employee and the specific work requirements of a position. Taking time for careful screening of 20-something applicants pays off handsomely in subsequent productivity, camaraderie and employee retention.

Are Two-Thirds of Employees Above Average?

A recent article in the *Wall Street Journal* reported that nearly two-thirds of federal employees received merit bonuses or special time-off awards in 2002. This implies that the vast majority of federal workers are operating at above average levels. To some, this comes as quite a shock – "above average compared to what?", they might say. But to those who struggle with the annual performance appraisal process in business and industry, the federal statistic is no surprise at all. The open secret among managers today is that many performance appraisal systems are exercises in futility, having more to do with company politics and "halo effects" than with honest feedback about an individual's strengths or need for improvement.

Difficulties in Performance Appraisal

Performance appraisal in business and industry too often boils down to subjective 1-5 rating scales or unstructured narrative reports. The standards upon which these rating scales and narrative reports are based frequently are vague and amorphous. For example, one performance standard reads "gets along well with others." Just how is a manager to measure this? Even for performance standards that are well written and measurable, what is the practical difference between an employee who "exceeds standard" and one who is "outstanding"?

To counteract such problems, some managers have resorted to a technique called Direct Behavioral Observations (DBOs) so that they can give specific feedback to employees who question performance ratings or who want to make specific improvements. DBOs certainly have their place; they make abstract judgments more concrete and easier to understand. However, DBOs are limited to specific incidents based on supervisors' observations that are few and far between. The truth is that supervisors do not have time to collect enough observations to know if a given DBO is typical. Employees can then argue that ratings based on a few DBOs do not reflect routine performance, but rather catch them on a "bad day."

By using multiple raters and paired comparisons, large groups of employees can be rated quickly and objectively.

Other managers have taken the DBO concept and combined it with a 1-5 rating scale to create a Behaviorally Anchored Rating Scale (BARS). For example, with BARS an employee can be rated on cooperation from 1 (refuses to follow directions) to 5 (does everything the boss asks). This approach provides a bit more generalization than DBOs, but still opens up the manager to charges of subjectivity. An employee can always claim that the boss is playing favorites or is "out to get me." Moreover, BARS also invites debate on gradations in the rating scale: does a given employee deserve a rating of a 4 or 5, a 3 or 4, etc.

Finally, the overall rating with BARS is easy to manipulate. With a 1-5 rating scale, an overall arithmetic average is easy to calculate in advance. This undermines credibility in the process and opens up management to charges of rigging the system.

An Alternative Performance Appraisal System

At PSP, we have found that a different form of performance measurement minimizes the problems of subjectivity, generalization and manipulation. The Wyvern Performance Management System uses multiple raters rather than a single supervisor. Multiple raters can include the employee, peers and "customers" as well as the supervisor. Using multiple raters increases the objectivity of the ratings and minimizes the problem of rater bias and halo effects.

In addition to multiple raters, the Wyvern Performance Management System uses a "paired comparison" approach to ratings. In paired comparisons, employees are compared to one another rather than to an arbitrary 5-point rating scale. This approach prevents manipulation or rigging the outcome. With Wyvern, employees' rankings are based not on arithmetic averages but on relative standing compared to one another. A rater simply notes how employees rank on a given standard: who is strongest on "X," Bill, Jane or Fred?

Quick and Objective Ratings

By using multiple raters and paired comparisons, large groups of employees can be rated quickly and objectively. One manager said, "It used to take me all weekend to do ratings on my 17 people for 6 performance standards. With the Wyvern system, I was able to do it in 90 minutes with much better results." In addition, Wyvern provides individualized graphic printouts showing how each employee compares to the whole work group on each performance standard. The graphs are excellent feedback tools because they change an employee's focus from a criticism of the rating process to a discussion of strengths and needed improvements. This is especially valuable to supervisors and managers who don't like giving bad news to their employees, but who genuinely want to help their people perform better in the future.

For supervisors and managers who don't think that two-thirds of their employees are above average and who are tired of politics, quota systems and sugarcoated performance management methods, the Wyvern system deserves a close look.

WHAT'S NEW @ PSP

- Enabled a $390,000 reduction in new hire workers' compensation costs from previous years for an automobile supplier who has been using PSP testing services for the past three years.
- Helped a venture capital firm to gain an extra $10 million in return because of the strength of executives identified by PSP for a small manufacturing company.
- Facilitated selection of production and maintenance candidates, based on PSP assessments, who exceeded customer expectations for the important first phase of a new automotive parts plant startup in Alabama.
- Increased PSP staff size to handle increased assessment activity and to better serve our QRTS customer base.
- Introduced, through one of our longtime friends, PSP's ideas about leadership vs. management to an MBA class at one of America's leading universities.
- Expanded PSP's Online Testing System to include a complete Spanish web site, with six tests now available in Spanish editions.
- Developed a new PSP Survey of Mechanical Aptitude.
- Expanded PSP's presence in Australia by providing assessment services to one of that country's largest coal mining companies.

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Resources for Developing Leaders

In ***The Leadership Pipeline: How to Build the Leadership-Powered Company*** by Ram Charan, Stephen Drotter and James Noel, three experts show companies how to develop their own leaders and to ensure a full pipeline of leaders now and in the future.

Peter F. Drucker examines **"What Makes an Effective Executive"** in *Harvard Business Review* (June 2004). Drawing on lessons from his 65-year consulting career, Drucker reviews eight practices of effective executives, concluding that "effectiveness is a discipline. And, like every discipline, effectiveness *can* be learned and *must* be learned."

Successful leaders should personally cultivate leaders at all levels of their organizations, according to Noel M. Tichy and Eli Cohen in **"How Leaders Develop Leaders"** in *Training and Development* (May 1997). Tichy, a professor at the University of Michigan School of Business Administration, and Cohen, a business consultant, look closely at how respected leaders built large pools of talent at organizations such as General Electric and the U.S. Special Operations Command.

Sydney Finkelstein, a professor of management at Dartmouth's Tuck School of Business, presents the results of the largest research project ever devoted to leadership failure in ***Why Smart Executives Fail and What You Can Learn from Their Mistakes.***

In **"Succession Planning Without Job Titles,"** PSP's Dr. Stephen L. Guinn recommends a succession planning process based on key competencies, not job titles, to provide greater flexibility and a more strategic focus. The *Career Development International* article (May 2000) discusses the use of a competency model and evaluation methods to identify and develop individuals with the skills and talents to become the next generation of leaders.

For recommendations on training resources on any management topic, contact PSP directly.