



The Leadership Deficit

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Research Champion

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APQC would also like to thank the Center for Creative Leadership (CCL) for sending survey invitations to its contacts. CCL and its contacts were not compensated for their participation.

Prologue

A number of years have passed since APQC conducted its last large-scale research study on the topic of leadership. Yet the research report from that study, [World-Class Leadership](#), is still one of our most downloaded human capital management content items. In 2013, we set out to update APQC's body of knowledge on leadership. Our goal was to design a research study that would address the most pressing leadership issues today and do so in a way that would build upon, rather than simply repeat, the existing body of quality research on this topic. This report is the first to present findings from our survey, The Current State of Leadership.

WHY THIS SURVEY NOW?

Over the past decade numerous surveys have shown that CEOs, Chief Human Resource Officers (CHROs), and workers in general are concerned about a shortage of leaders. In recent years, surveys have revealed that CEOs fear a shortage of leaders across the globe will impede their plans for growth. Yet business press and business research show the leadership deficit is continuing unabated. This survey aimed to explore why the leadership deficit endures and to discover what organizations can do to put this issue to rest.

WHAT MAKES THIS SURVEY DIFFERENT?

Many surveys show organizations reporting a significant shortage of leaders. Some surveys have identified which leadership skills are most important, yet least available. Others have detailed leadership development best practices. Yet little survey research has been conducted to isolate potential drivers behind the deep concern about a leadership shortage and identify which fixes might prove most promising in addressing these drivers.

This survey aimed to build on existing leadership survey research by seeking answers to the following questions.

1. To what degree are organizations experiencing a leadership shortage?
2. What is driving organizations to experience leadership shortages?
3. What organizational practices might effectively minimize leadership shortages?

We used predictive analyses to help answer these questions, revealing the most powerful factors associated with leadership shortages and identifying leadership solutions associated with smaller skills gaps. We hope that APQC members will find these survey findings to be particularly relevant today. And we hope the findings will serve as a practical extension of what previous surveys have revealed about organizations and leadership.

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Introduction

What is the state of leadership in organizations today? Is there a leadership skills deficit? If yes, what are some of the contributing factors related to this leadership shortage and what can be done to lessen the gap?

APQC conducted a survey in 2013 to find answers to these questions. This report details the survey findings. It reviews:

- ▶ key terms used throughout the report,
- ▶ demographic information of participants,
- ▶ a summary of the results,
- ▶ a discussion of the leadership problem,
- ▶ an examination of the factors associated with the leadership problem, and
- ▶ a presentation of potential solutions to the leadership issue.

KEY TERMS

Listed below are key terms that are frequently referred to in this report.

Key Terms

Term	Definition
Leadership style	a type of leadership behavior
Skills/competencies	the skills, knowledge, abilities, and attributes required to perform a specific task
Leadership skills/competencies	the skills, knowledge, abilities, and attributes required to lead
Leadership practices	the manner in which leaders are selected, developed, and rewarded
Leadership selection	the criteria used to select leaders
Leadership development	the process through which leadership skills are cultivated
Leadership compensation	the manner in which leaders are paid

Figure 1

PARTICIPANT INFORMATION

Five hundred forty-seven participants completed a survey on the current state of leadership at their organizations. Figure 2 includes some basic demographic information on the participants.

Average Demographics for Leadership Survey Participants

Demographic	Average
Age	47
Gender	Females: N=143 Males: N=338 Decline to say: N=66
Education	Some graduate school, but no degree
Level of job role	Director/manager
Levels of hierarchy in organization	6.49
Number of countries in which organization resides	23
Years employed at current organization	9.33
Years in the work force	23.51
Total annual revenue of organization	\$1-5 billion

Figure 2

These results show that the average survey participant is a college degree holder, has been in the work force for more than two decades, holds a manager- or director-level position, and has nearly a decade of tenure at his or her current employer. Additionally, more than twice as many males responded to this survey than females. We were not able to ascertain from the data whether fewer females chose to participate in the survey or whether more males received survey invitations.

Results Summary

HOW BAD IS THE LEADERSHIP DEFICIT?

The survey results suggest that there is indeed a leadership skills gap. We asked participants about 23 different leadership skills and the results suggest that leadership skills are heavily needed yet according to participant responses, leadership skill deficiencies are large and numerous.

Leadership Skills Needed

The top leadership skills needed for organizations to succeed, based on participants' average ratings on the importance of each leadership skill using a five-point scale (1=not at all; 3=moderately; 5=extremely), are:

- ▶ results focus,
- ▶ teamwork,
- ▶ collaboration,
- ▶ strategic planning,
- ▶ cost focus, and
- ▶ listening.

Looking at this data another way, 85 percent of participants rate results focus as a skill that is “quite a bit” or “extremely” important to their organizations' success. Other skills rated as “quite a bit” or “extremely” important include: teamwork (82 percent), collaboration (78 percent), listening (77 percent), and strategic planning (77 percent).

Leadership Skills Possessed

The top leadership skills that employees currently possess, based on participants' average ratings using a five-point scale (1=not at all; 3=moderately; 5=extremely), are:

- ▶ results focus,
- ▶ cost focus,
- ▶ analytical,
- ▶ competitor,
- ▶ mission driven, and
- ▶ teamwork.

Looking at this data another way, 63 percent of participants agree that the skill results focus is possessed “quite a bit” or “extremely” by employees at their organizations. Other skills rated at

the “quite a bit” or “extremely” level include cost focus (58 percent), analytical (52 percent), authoritative (49 percent), and mission driven (48 percent).

Leadership Skills Gaps

Though participants report that some leadership skills that are needed for success are currently possessed by employees, there is a significant skills gap for each leadership skill on the survey. The largest skills gaps occur for:

- ▶ strategic planning,
- ▶ change management,
- ▶ knowledge sharing,
- ▶ listening, and
- ▶ emotional intelligence.

The smallest skills gaps occur for delegating tasks and being a competitor. Survey respondents report employees are lacking in all leadership skills surveyed except for authoritativeness; respondents say that employees possess authoritativeness more than their organizations need it for success.

WHAT’S DRIVING THE LEADERSHIP DEFICIT?

The survey results suggest that current leadership and business trends contribute to the leadership skills gap.

Leadership Trends

Participants were asked to rate on a 5-point scale (1=not at all; 3=moderately; 5=extremely) how much they agree with a number of leadership trends. Receiving the highest average ratings are:

- ▶ current business challenges require a different leadership style;
- ▶ different generations have different leadership style preferences;
- ▶ organizations are underinvesting in leadership development; and
- ▶ leaders are resistant to changing their leadership styles.

We also looked at the percentage of participants that agree with each leadership trend “quite a bit” or “extremely.” Receiving the most “quite a bit” or “extremely” ratings are the following trends: current business challenges require a different leadership style (79 percent); different generations have different leadership style preferences (70 percent); organizations are underinvesting in leadership development (66 percent); and leaders are resistant to changing their leadership styles (66 percent).

Although participants indicate that leadership trends affect their organizations, these trends may or may not be associated with the skills gap. The top four leadership trends that APQC found to be significantly associated with the largest leadership skills gap are:

- ▶ selection, development, and reward practices encourage an outdated leadership style;
- ▶ leaders are resistant to changing their leadership styles;
- ▶ organizations are underinvesting in leadership development; and
- ▶ current business challenges require a different leadership style.

Though these survey findings suggest that organizations can benefit from investing more in leadership development, our findings also show that at participants' organizations leadership development is currently ineffective and a low priority for improvement. Only 21 percent of organizations say that their leadership practices are "quite a bit" or "extremely" effective. Forty-six percent of organizations say that there is no priority or a little priority placed on leadership development.

Business Trends

In addition to leadership trends, certain business trends are driving the need for a different leadership style. The business trends that participants rate on a 5-point scale (1=not at all; 3=moderately; 5=extremely) as affecting their organizations the most are:

- ▶ unpredictable events,
- ▶ technologic innovation,
- ▶ growing importance of knowledge work, and
- ▶ importance of ideas and innovation.

We also looked at the percentage of participants who respond that their organization is "quite a bit" or "extremely" affected by these business trends. Receiving the most "quite a bit" or "extremely" ratings are the following trends: unpredictable events (58 percent), technologic innovation (56 percent), growing importance of knowledge work (54 percent), and importance of ideas and innovation (53 percent).

Though participants may cite these business trends as impacting their organizations, it is important to investigate whether these trends are actually associated with the skills gap. The top four business trends we found to be associated with the largest leadership skills gap are:

- ▶ unpredictable events,
- ▶ reduced employee tenure,
- ▶ aging work force, and
- ▶ emergence of generation Y/millennial work force.

WHAT WILL FIX THE LEADERSHIP DEFICIT?

Participants in this survey are concerned about the leadership skills deficit. However, some interventions may be more helpful in closing the leadership skills gap than to others.

Commitment to Effective Leadership

When asked to rate how concerned they are over a skills gap today, in 1 to 2 years, in 3 to 5 years, and in 5 to 10 years, survey respondents report that they are moderately concerned about a leadership skills gap, and this concern increases over time.

Out of the participants who respond that they are “quite a bit” or “extremely” concerned over a leadership skills gap, 35 percent are very concerned about a leadership skills gap today and 46 percent of participants are very concerned about a gap in the next 1 to 2 years. Over half of participants are very concerned about a leadership skills gap in the next 3 to 5 years and the next 5 to 10 years. The more effective that participants rate their leadership practices, the lower their concern over a leadership skills gap today, in 1 to 2 years, in 3 to 5 years, and in 5 to 10 years. Higher priority placed on leadership development is related to lower concern over a leadership skills gap in 3 to 5 years and in 5 to 10 years.

Leadership Practices

The leadership practices that participants rate on a 5-point scale (1=not at all; 3=moderately; 5=extremely) as being present in their organizations most are:

- ▶ there is a significant difference between leader and employee compensation;
- ▶ senior leaders select individuals to fill junior leadership positions;
- ▶ leadership is based on a recently proven ability to deliver results; and
- ▶ compensation is based on performance.

We also looked at the percentage of participants who agree that each leadership practice is “quite a bit” or “extremely” present in their organizations. The following practices receive the highest number of “quite a bit” or “extremely” ratings: there is a significant difference between leader compensation and compensation of other employees (61 percent); senior leaders select individuals to fill junior leadership positions (57 percent); leadership is based on a recently proven ability to deliver results (33 percent); and compensation is based on performance (28 percent).

We examined whether each leadership practice is associated with a larger or smaller leadership skills gap. The four leadership practices related to the smallest skills gaps are:

- ▶ leadership capabilities are developed in all employees;
- ▶ a leadership competency model is used to select and develop leaders;
- ▶ employees selected as having leadership potential take part in a formal leadership development program; and
- ▶ compensation is based on performance.

The only leadership practice that is significantly associated with a larger skills gap is: there is a significant difference between leader compensation and compensation of other employees.

Chapter 1: How Bad is the Leadership Deficit?

To what degree are organizations experiencing a leadership skills shortage? To find out, we asked participants how much their organizations need certain leadership skills in order to succeed and how much the employees at their organizations currently possess these leadership skills. The results show that leadership skills are heavily needed, but skills deficiencies are big and many.

WHAT LEADERSHIP SKILLS DO ORGANIZATIONS NEED TO SUCCEED?

In the survey, participants were asked to rate on a five-point scale (1=not at all; 3=moderately; 5= extremely) how important each leadership skill is to their organizations' success.

Figure 3 shows the percentage of participants who rate each skill as "quite a bit" or "extremely" important to their organizations' success. Eighty-five percent of participants rate results focus as a skill that is "quite a bit" or "extremely" important to their organizations' success. Other skills rated as "quite a bit" or "extremely" important include: teamwork (82 percent), collaboration (78 percent), listening (77 percent), and strategic planning (77 percent). These skills appear to reflect the changing nature of leadership; rather than relying solely on traditional leadership practices, these results suggest that newer, more dynamic and transformational leadership skills may be needed to navigate the current business environment.

Percentage of Participants Who Agree “Quite a Bit” or “Extremely” that Leadership Skill Is Needed to Succeed

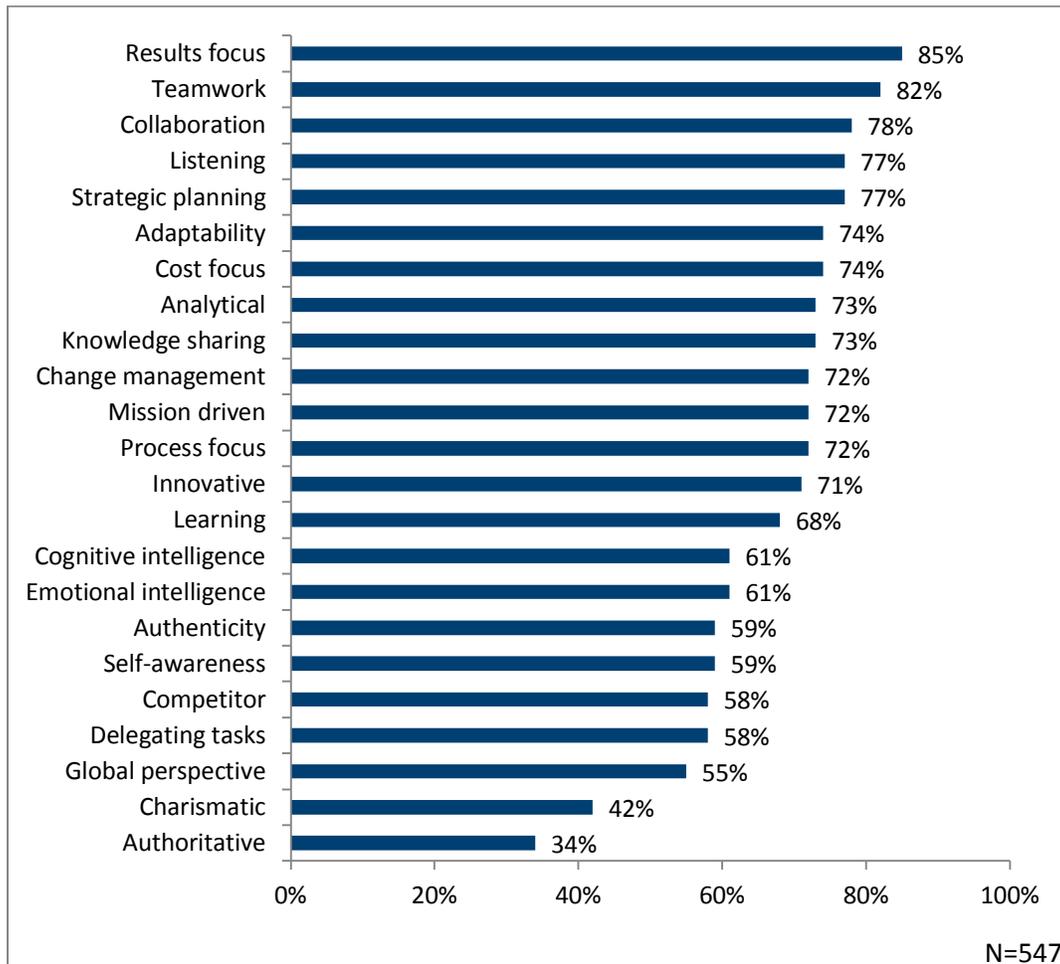


Figure 3

WHAT LEADERSHIP SKILLS DO EMPLOYEES CURRENTLY POSSESS?

We also examined the percentage of participants who agree “quite a bit” or “extremely” that employees at their organizations possess each leadership skill. Sixty-three percent of participants agree that results focus is a skill possessed “quite a bit” or “extremely” by employees at their organizations. Other skills rated at the “quite a bit” or “extremely” level include cost focus (58 percent), analytical (52 percent), authoritative (49 percent), and mission driven (48 percent). Generally speaking, these skills are more traditional in nature, which may reflect a need for employees to adopt new skills such as collaboration and adaptability.

Percentage of Participants Who Agree “Quite a Bit” or “Extremely” that Leadership Skill Is Currently Possessed by Employees

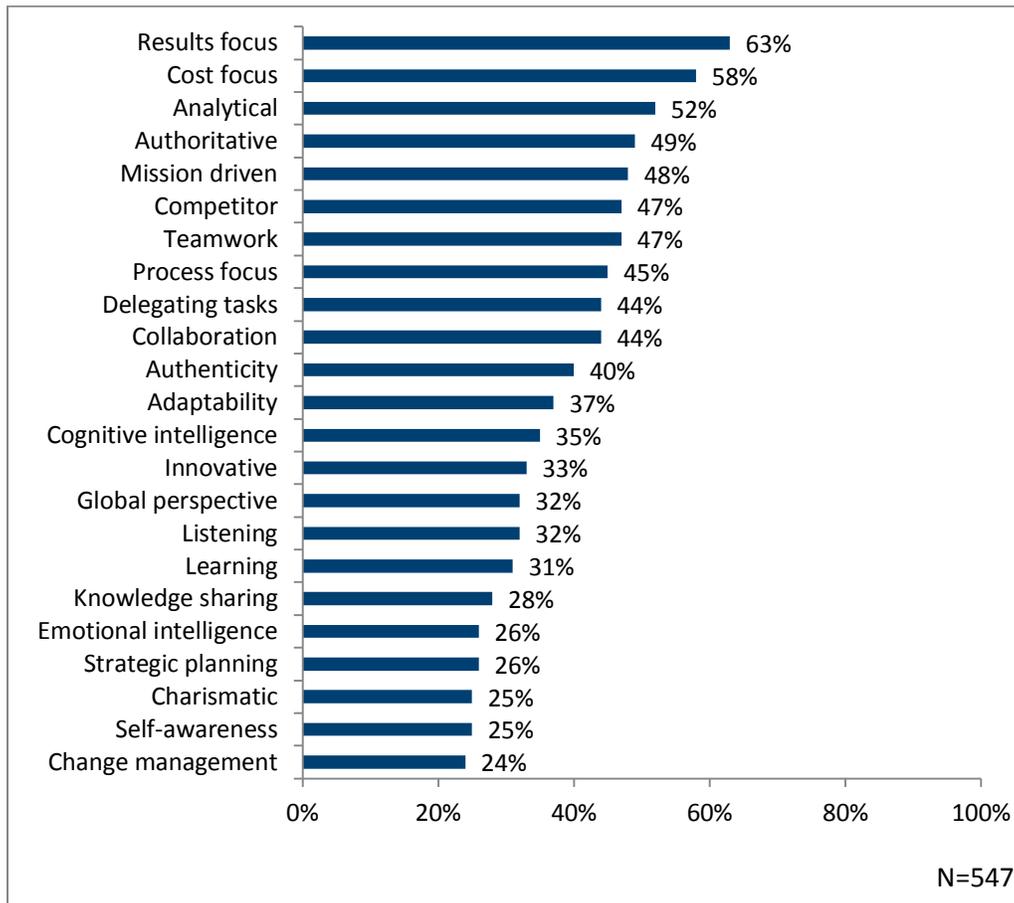


Figure 4

HOW BIG ARE THE LEADERSHIP SKILLS GAPS?

To determine the size of the leadership skills gaps, we averaged participants’ ratings on the skills that their organizations need to succeed and the skills that their organizations’ employees currently possess. Figure 5 indicates the average values for each leadership skill on these survey questions. Average values were calculated based on participants’ rating for each leadership skill on a five-point scale (1=not at all; 3=moderately; 5= extremely).

Average Ratings—Leadership Skills that Organizations Need to Succeed and Currently Possess

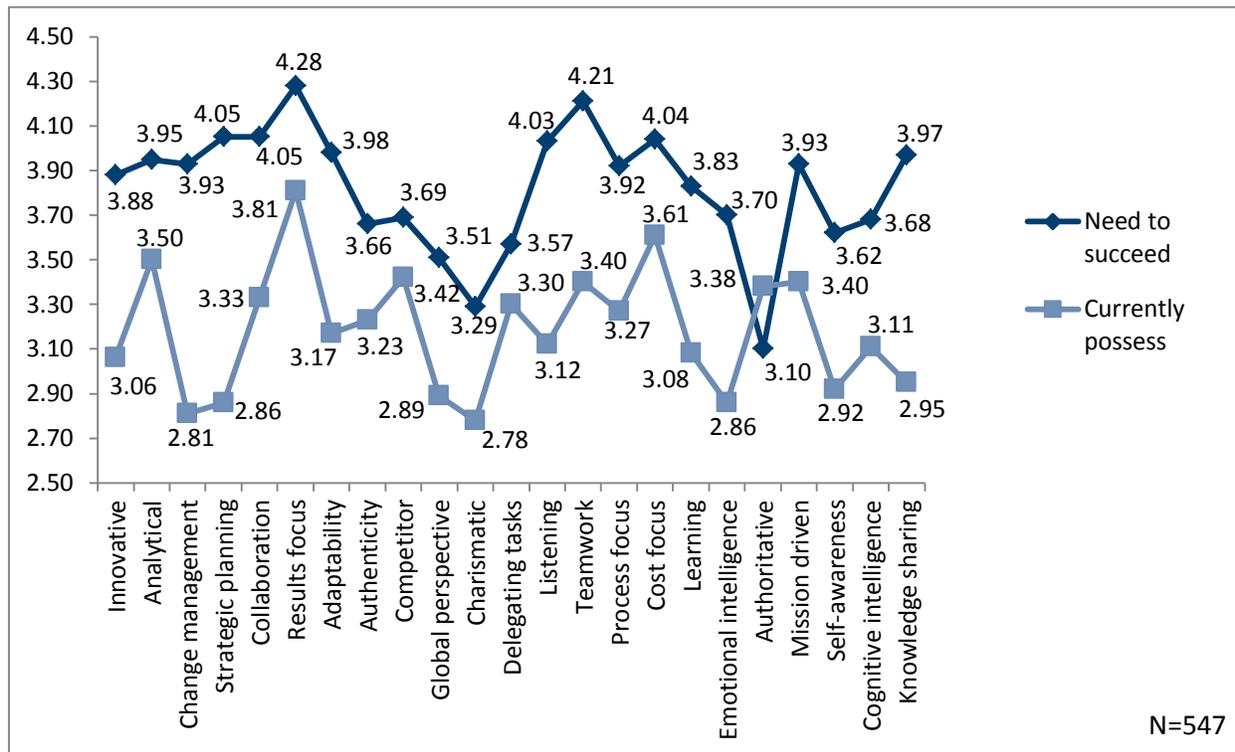


Figure 5

According to participants’ average ratings on the different leadership skills from Figure 5, the top skills needed for organizations to succeed are results focus, teamwork, collaboration, strategic planning, cost focus, and listening. However, the top skills that employees currently possess are results focus, cost focus, analytical, competitiveness, mission driven, and teamwork (Figure 6)¹. These results indicate that there is a disconnect between the skills that organizations need and the skills that employees have.

¹ Figure 6 ranks the skills according to their average scores, with the skills with the largest averages at the top of the chart. Skills listed on the same line have the same average rating.

Top Leadership Skills—Needed to Succeed versus Currently Possessed

Need to Succeed	Currently Possess
Results focus	Results focus
Teamwork	Cost focus
Collaboration, Strategic planning	Analytical
Cost focus	Competitor
Listening	Mission driven, team work

Figure 6

WHICH LEADERSHIP SKILLS HAVE THE LARGEST GAPS?

Next, we examined the different leadership skills that have the largest gaps. The results specify that there is a significant gap for each leadership skill^{2,3} assessed in the survey. The largest skills gaps occur for strategic planning, change management, knowledge sharing, listening, and emotional intelligence. The smallest skills gaps occur for delegating tasks, competitiveness, authoritativeness, and cost focus (Figure 7). Survey respondents report employees are lacking in all of the leadership skills except for authoritativeness; respondents said that their employees possess the authoritativeness skill more than their organizations need it for success.

These findings show that the largest skills gaps occur for soft skills (i.e., knowledge sharing, listening, emotional intelligence) and skills that require a mixture of hard and soft skills (i.e., strategic planning, change management). Change management is a good example of a skill that has both hard and soft elements. It involves transitioning employees and whole organizations

² The leadership skills gap was calculated using the scores from Figure 5. A positive value indicates that respondents find the leadership skill to be important to the success of their organizations, but their employees are currently lacking the skill. A negative score indicates that the leadership skill is not as important to their organizations' success and their employees currently have more of the skill than is required. Figure 7 shows the average skills gap for each competency; the skills gaps are ranked from largest to smallest.

³ Please refer to the Appendix for more information on these statistical calculations.

from a current state to a desired future state. Though it requires much planning, strategy building, and coordination, leaders involved with change management also need to acknowledge the human side of change and get the buy-in of other organizational leaders and employees.

Leadership Skills Gap

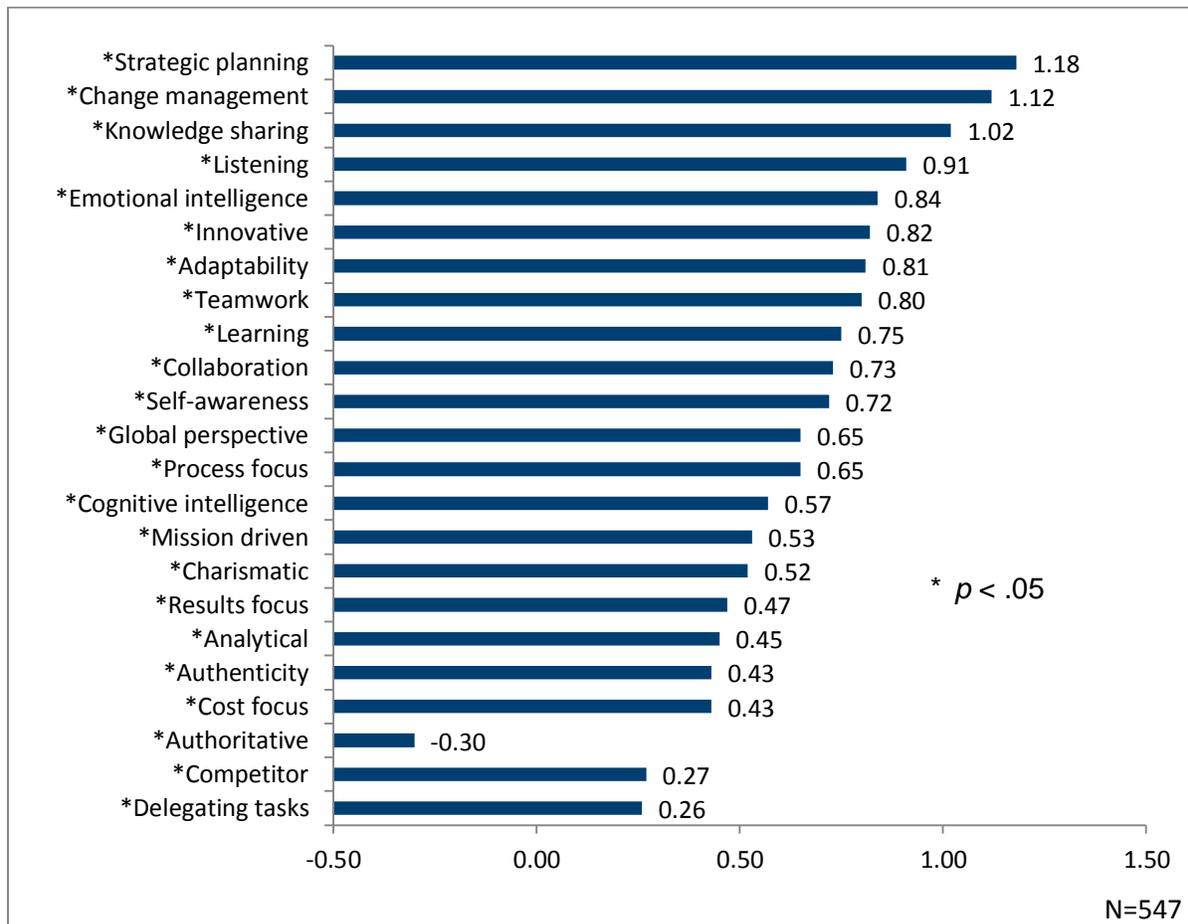


Figure 7

The smallest leadership skills gaps are in delegating tasks, competitiveness, authoritative, and cost focus. Interestingly, these skills are typical of traditional leadership models. It may be that employees have had more time to develop these skills since they have been emphasized more and for a longer period of time than softer leadership skills, which have been the focus of organizations' attention in recent years.

Chapter 1: Summary

How Bad Is the Leadership Deficit?

To recap, survey participants report that the top skills their organizations need to succeed are: results focus, teamwork, collaboration, strategic planning, cost focus, and listening.

The top skills that employees currently possess are results focus, cost focus, analytical, competitor, mission driven, and teamwork.

However, when looking at the actual leadership skills gaps, the largest skills gaps occur for strategic planning, change management, knowledge sharing, listening, and emotional intelligence.

It is recommended that organizations take steps towards minimizing the gaps in the skills that are most important to organizational success.

In particular, there should be a focus on minimizing the gap for soft skills as well as strategic planning. Strategic planning is considered a top skill that organizations need to succeed, but it has the largest skills gap.

In the next section, we explore potential drivers of this leadership deficit.

Chapter 2: What's Driving the Leadership Deficit?

What are some of the contributing factors to the leadership skills shortage? Certain leadership and business trends may be impacting the problem.

LEADERSHIP TRENDS

Participants were asked to rate on a five-point scale (1=not at all; 3=moderately; 5=extremely) how much they agree that various leadership trends describe their organizations. The leadership trends with the highest average ratings are the following (Figure 8):

- ▶ current business challenges require a different leadership style;
- ▶ different generations have different leadership style preferences;
- ▶ organizations are underinvesting in leadership development; and
- ▶ leaders are resistant to changing their leadership styles.

Average Level of Agreement that Leadership Trend Describes Organization

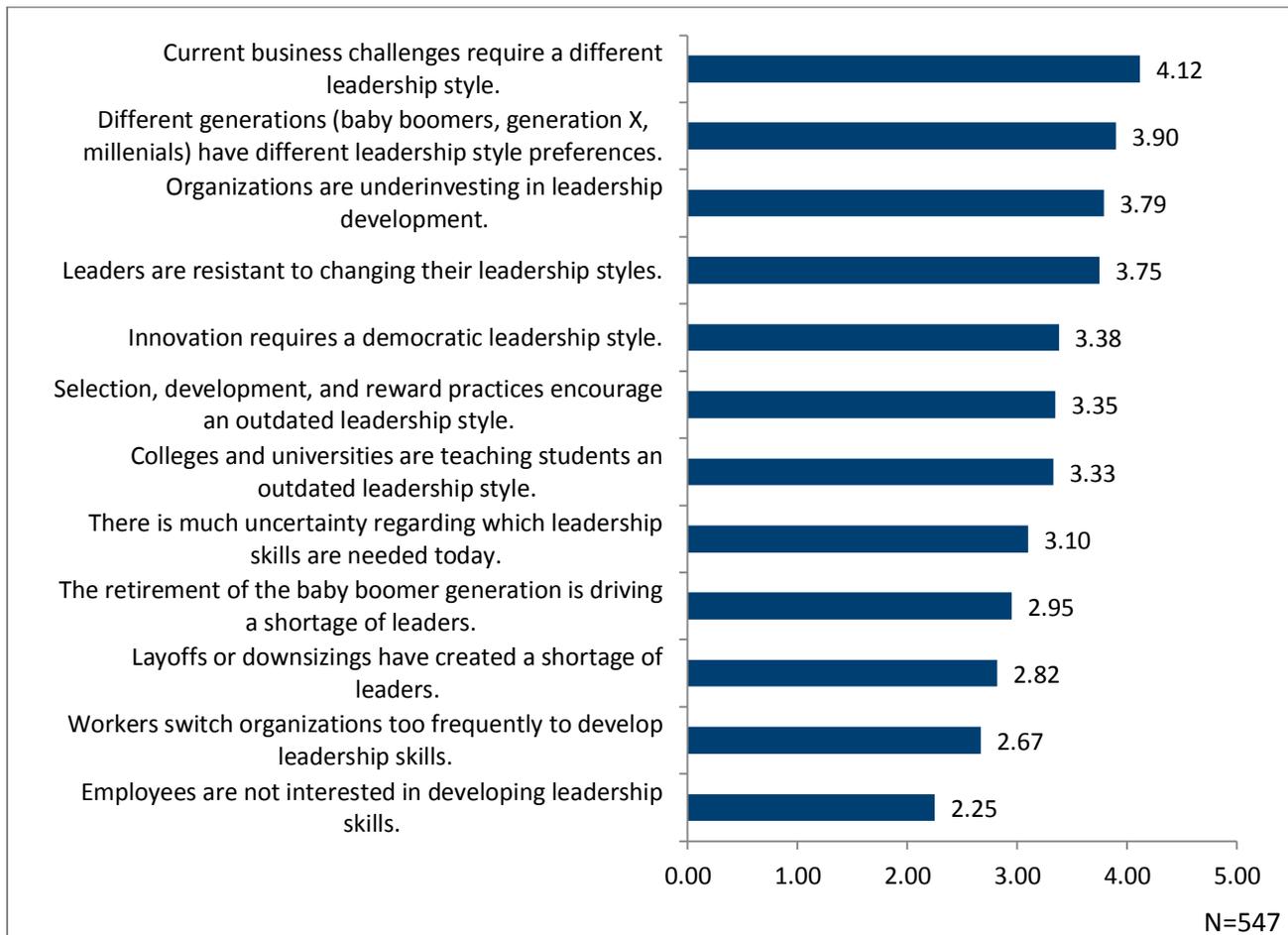


Figure 8

Depicting these ratings another way, Figure 9 indicates the percentage of participants who agree that each leadership trend describes their organization “quite a bit” or “extremely.” Receiving the most “quite a bit” or “extremely” ratings are the following trends:

- ▶ current business challenges require a different leadership style (79 percent);
- ▶ different generations have different leadership style preferences (70 percent);
- ▶ organizations are underinvesting in leadership development (66 percent); and
- ▶ leaders are resistant to changing their leadership styles (66 percent).

Percentage of Participants Who Agree “Quite a Bit” or “Extremely” with Leadership Trends

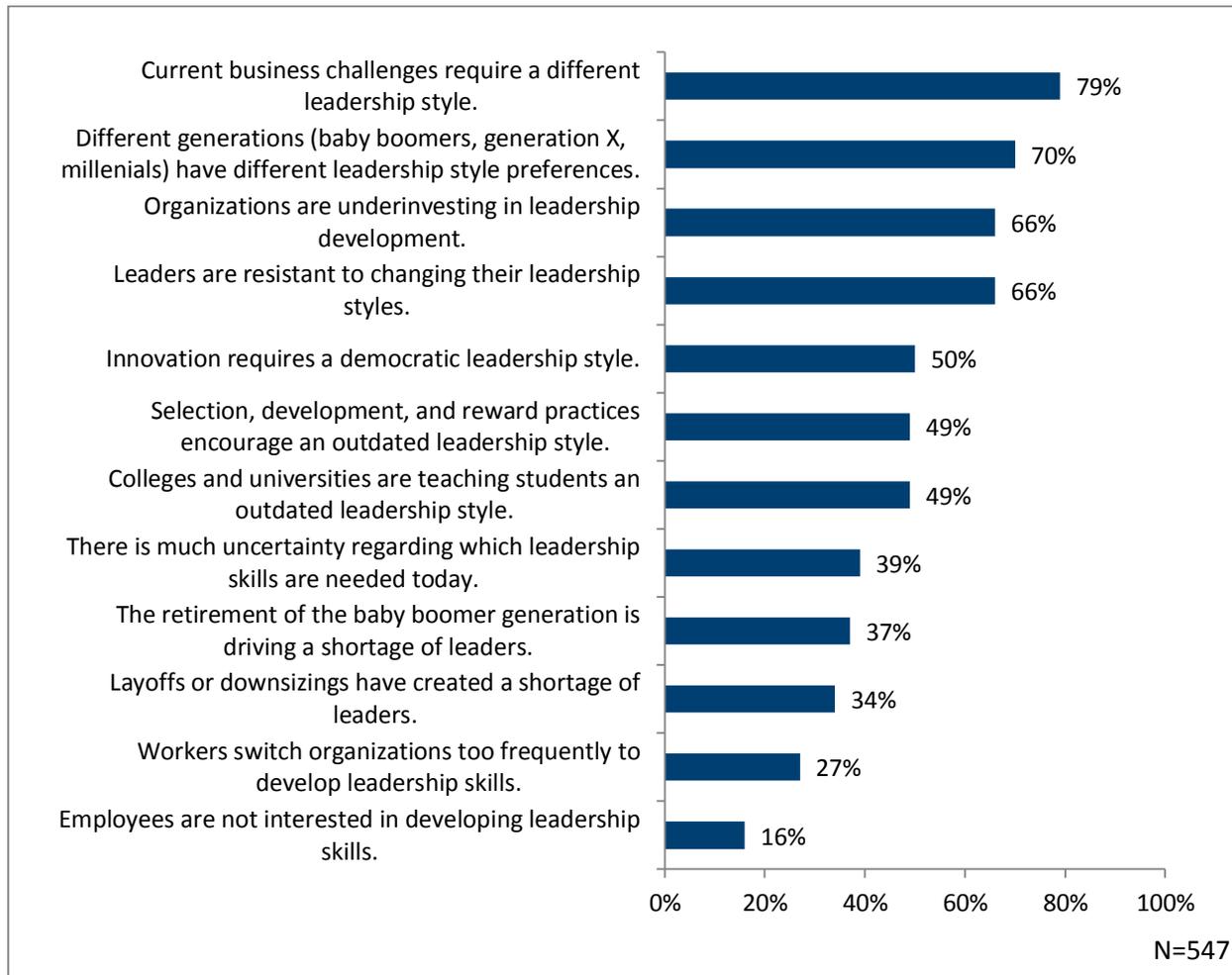


Figure 9

The results suggest that certain leadership trends are more prevalent than others, but are these leadership trends actually related to the leadership skills gap? In other words, are these trends associated with a smaller or larger skills gap? To determine this, we created a total score of the leadership skills gaps. We then investigated the relationship between the different leadership

trends and this total leadership skills gap. Figure 10 represents statistically significant relationships between the leadership trends and the skills gap⁴⁵.

The top four leadership trends that are significantly associated with larger leadership skills gaps are:

- ▶ Selection, development, and reward practices encourage an outdated leadership style.
- ▶ Leaders are resistant to changing their leadership styles.
- ▶ Organizations are underinvesting in leadership development.
- ▶ Current business challenges require a different leadership style.

Association Between Leadership Trends and the Leadership Skills Gap

Leadership Trend	Skills Gap
Selection, development, and reward practices encourage an outdated leadership style.	Larger skills gap
Leaders are resistant to changing their leadership styles.	Larger skills gap
Organizations are underinvesting in leadership development.	Larger skills gap
Current business challenges require a different leadership style.	Larger skills gap
Innovation requires a democratic leadership style.	Larger skills gap
Employees are not interested in developing leadership skills.	Larger skills gap

Figure 10

⁴ The leadership trends that predict the largest skills gap are placed in the figure in descending order. Only statistically significant associations are reported.

⁵ Please refer to the Appendix for information on these statistical calculations.

Underinvestment in Leadership Development

Though these survey findings suggest that organizations can benefit from investing more in leadership development, our findings also show that leadership development is currently ineffective and a low priority for improvement. In this survey, participants report how effective their organizations’ leadership practices are. Our results indicate that current leadership practices are not very effective. Only 21 percent of organizations say that their leadership practices are quite a bit or extremely effective (Figure 11), 31 percent say that their leadership practices are not at all or only a little effective, and another 48 percent of organizations report that their practices are moderately effective.

Effectiveness of Organization’s Leadership Practices

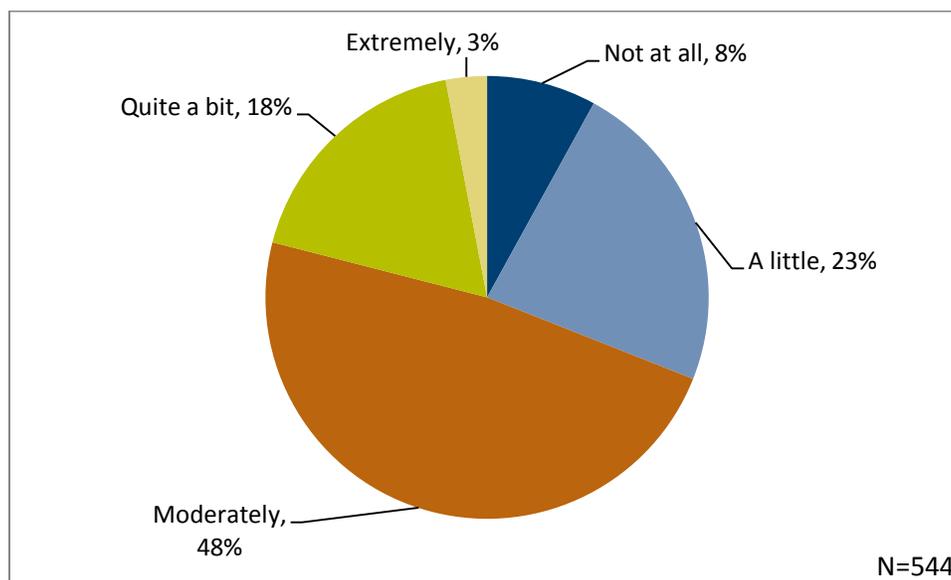


Figure 11

Though respondents report that their organizations’ leadership practices are not very effective, leadership development is still a low priority for many organizations. Forty-six percent of organizations say that there is no priority or a little priority placed on leadership development while only 25 percent of these organizations report that their organizations place quite a bit or places an extreme priority on leadership development (Figure 12).

Degree of Priority Placed on Leadership Development by Organization

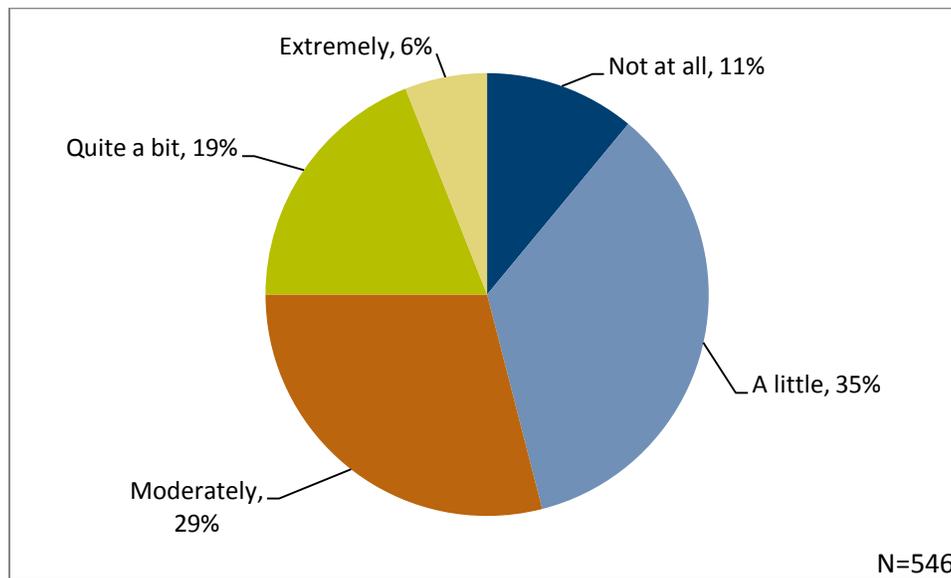


Figure 12

Examining their average ratings (based on a 1-5 scale with 1=not at all; 3=moderately; 5=extremely) on the effectiveness of leadership practices and the priority placed on leadership development, on average, survey participants report that their organization places less than a moderate degree of priority on leadership development. They also report that their organizational leadership practices are less than moderately effective (Figure 13).

Average Ratings for Organizational Leadership Development

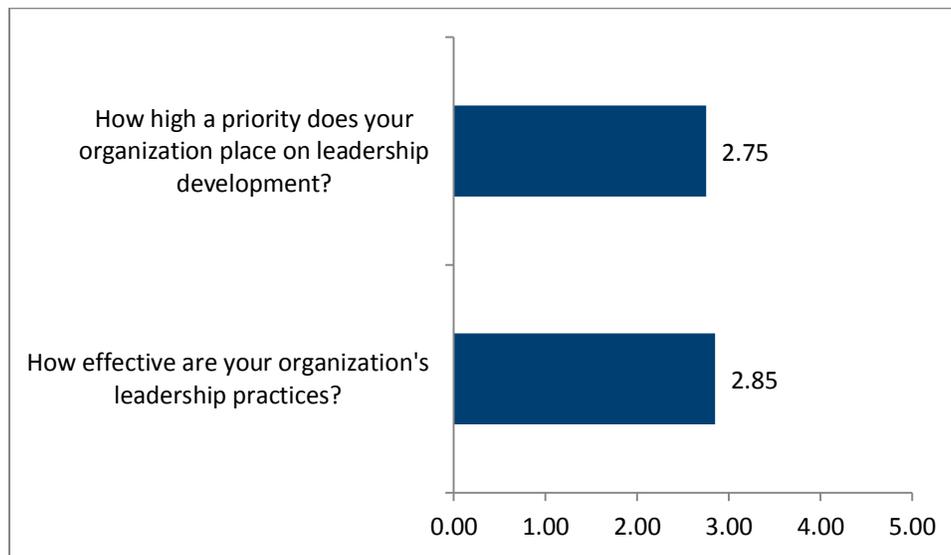


Figure 13

Selection, Development, and Reward Practices Encourage Outdated Leadership Style

These results suggest that organizations could benefit from investing more in leadership development. Investing more in leadership development is a good step, but if organizations are investing in the wrong practices, they may continue to contribute to the leadership skills deficit. A review of current organizational leadership practices should be done to make sure that leadership practices lead to the desired leadership state; if they do not, organizations should consider changing their practices.

In addition, organizations should review their human resource practices to ensure that these are encouraging, and not hindering, the leadership behaviors that the organization needs most. For example, organizations can review promotion practices at all levels of the organization to ensure that promotions are based on both an ability to deliver results as well as an ability to listen and share knowledge, for example. Similarly, compensation and rewards practices for employees at all levels of the organization can be reviewed to ensure that they are encouraging the achievement of business results through listening, knowledge sharing, and change management skills, for example.

A Different Leadership Style Is Required, but Leaders Are Resistant to Change

The findings also show that the current business environment may require a different leadership style and that leaders are resistant to changing their leadership style. These findings are important because these trends are related to a larger skills gap. One way that organizations can address these trends is to ensure that leaders are compensated and rewarded for embracing the leadership behaviors and style that the organization needs most. Another way is through culture change. For example, organizations can figure out what leadership styles their employees work best with and train current business leaders to adopt some of these traits. For employees who are not yet in leadership positions, these styles and skills can be cultivated so that if these individuals find themselves in leadership positions, they will be prepared to lead effectively. It is important to understand that this is a process that needs continuous improvement; organizations should actively survey whether current leadership styles are effective and seek the emerging leadership trends that are more effective than the current styles. In this fashion, organizations can keep styles that work with their employees and change the ones that hinder progress.

BUSINESS TRENDS

In addition to leadership trends such as leaders resisting change and a lack of investment in leadership development, business trends can contribute to the leadership skills deficit. In a fast-paced and changing world, challenges can arise overnight. In order to handle potential problems, organizations need to understand the challenges that they are facing and the ones that affect them the most. Only then can organizations effectively tackle issues that may arise.

When survey participants are asked to rate how much their organizations are affected by certain business trends, respondents report that the top business trends affecting their organizations today include (Figure 14):

- ▶ unpredictable events,
- ▶ technologic innovation,
- ▶ growing importance of knowledge work, and
- ▶ importance of ideas and innovation.

Receiving the lowest ratings are reduced employee tenure and flattening of organizational structures.

Average Level of Agreement that Business Trend Impacts Organization



Figure 14

Depicting the results another way, Figure 15 indicates the percentage of participants who respond that their organizations are “quite a bit” or “extremely” affected by these business trends. Fifty-eight percent of participants say their organizations are “quite a bit” or “extremely” affected by unpredictable events, while 56 percent cite technologic innovation. Fifty-four percent of participants are “quite a bit” or “extremely” affected by the growing importance of knowledge work, and 53 percent are affected by the importance of ideas and innovation.

Percentage of Participants Who Agree “Quite a Bit” or “Extremely” that Organization Is Affected by Business Trend



Figure 15

Though participants may cite these business trends as impacting their organizations, it is important to investigate whether these trends are actually associated with the skills gap. When we examined whether these business issues contribute to the leadership skills gap, we found the following four trends to be associated with the largest skills gap (Figure 16)^{6,7}:

⁶ The business trends associated with the largest skills gap are placed in the figure in descending order. Only statistically significant associations are reported.

- ▶ unpredictable events;
- ▶ reduced employee tenure;
- ▶ aging work force; and
- ▶ emergence of generation Y/millennial work force.

Association Between Business Trends and the Leadership Skills Gap

Business Trend	Skills Gap
Unpredictable events	Larger skills gap
Reduced employee tenure	Larger skills gap
Aging work force	Larger skills gap
Emergence of generation Y/millennial work force	Larger skills gap
Growing importance of knowledge work	Larger skills gap
Flattening of organizational structures	Larger skills gap
Sophistication of data analytics capabilities	Larger skills gap

Figure 16

The results of our analysis show that “unpredictable events” is the business trend associated with the largest leadership skills gap; participants in this study understand that unpredictable events are affecting their organizations, as noted by their survey responses and the significant relationship with the leadership skills deficit. Unpredictable events may encompass a variety of situations. Unpredictable events can cause disruptions and instability, making it difficult for organizations to determine where they should go to market. These events may also be marked by complexity in that they have multiple causes and no single solution. Because of unpredictable events, it may be difficult for organizational leaders to come up with resolutions. These events

⁷ Please refer to the Appendix for information on these statistical calculations.

may also make it difficult for organizations to know exactly which leadership skills they need to develop in their employees.

Several of these results suggest that many organizations are not attuned to the new business trends that affect their operations. For example, reduced employee tenure, the emergence of a millennial work force, and an aging work force are significantly related to a larger skills gap, yet participants do not score these business trends as highly as other trends. Organizations can benefit from focusing their attention on finding solutions to business trends, such as unpredictable events and reduced employee tenure that may drive a larger leadership skills gap. Different modes of leadership development and training may help alleviate this shortage.

Chapter 2: Summary

What's Driving the Leadership Deficit?

The analysis of our survey shows that contributing factors to the leadership skills deficit include certain leadership and business trends.

The findings indicate that leadership development is underfunded, many leadership practices are outdated, and current leaders are thought to be resisting new ways of leading people.

In addition to these leadership trends, business trends such as unpredictable events, reduced employee tenure at organizations, and the changing age demographics of the work force contribute to the leadership skills deficit.

In the next section, we review potential solutions to the leadership skills problem.

Chapter 3: What Will Fix the Leadership Deficit?

COMMITMENT TO EFFECTIVE LEADERSHIP

Our survey results show that current organizational leadership practices are ineffective, yet leadership development is not a high priority for most organizations. The leadership gap and the lack of focus on leadership development may be related to the level of concern that participants have over leadership shortages.

To find out whether organizations are concerned about the leadership shortage, we asked participants to rate on a five-point scale (1=not at all; 3=moderately; 5=extremely) how concerned they are over a skills gap happening today, in 1 to 2 years, in 3 to 5 years, and in 5 to 10 years. The results show that survey respondents are moderately concerned about a leadership skills gap today, and this concern increases over time (Figure 17).

Average Concern Over Leadership Skills Gap

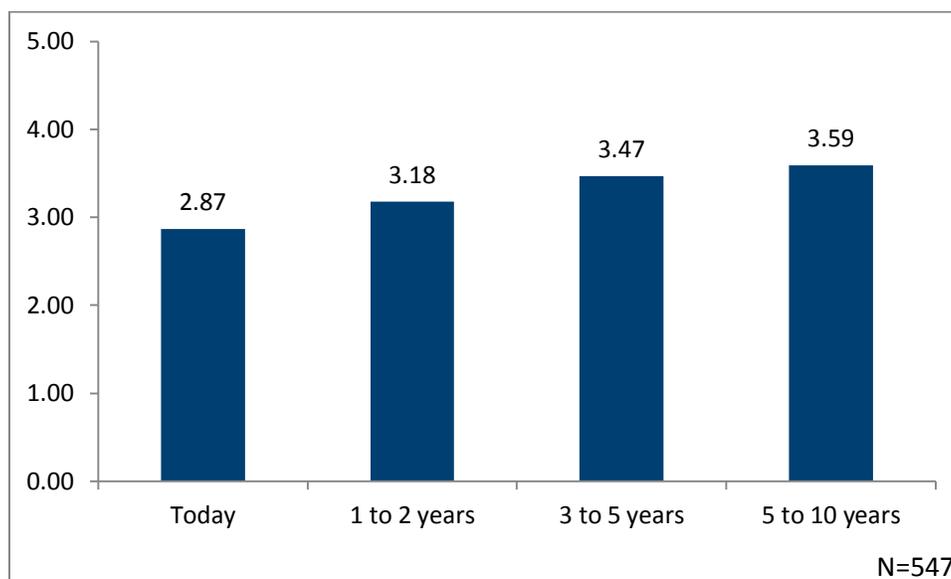


Figure 17

Depicting these results in a different way, 35 percent of organizations are “quite a bit” or “extremely” concerned about a leadership skills gap today while 46 percent of participants are “quite a bit” or “extremely” concerned about a gap in the next 1 to 2 years. This percentage rises to 55 percent in the next 3 to 5 years and 57 percent for the next 5 to 10 years (Figure 18).

These results indicate that many organizations are very concerned about a leadership skills gap forming in the upcoming future.

Percentage of Organizations That Are Very Concerned About a Leadership Skills Gap

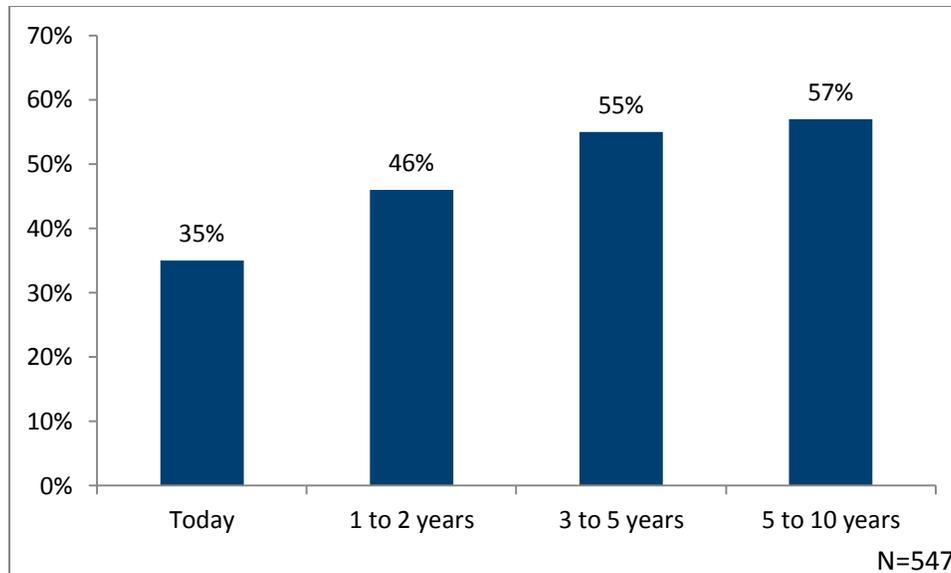


Figure 18

We investigated whether the effectiveness of leadership practices and the priority placed on leadership development are related to greater or lower concern about the leadership skills gap. Our results show that the more effective that participants rate their leadership practices, the lower their concern over a leadership skills gap today, in 1 to 2 years, in 3 to 5 years, and in 5 to 10 years. Higher priority placed on leadership development is associated with lower concern over a leadership skills gap in 3 to 5 years and in 5 to 10 years⁸. These results suggest that more effective leadership practices and greater organizational priority placed on leadership development alleviates concern over a skills gap.

LEADERSHIP PRACTICES

We have reported that there is a leadership skills deficit and that certain leadership and business trends contribute to this problem. Looking beyond placing a higher priority on and investing more in leadership development, what specific organizational practices might minimize leadership skills shortages? To find out, we asked participants to rate on a five-point

⁸ Please see the Appendix for regression statistics.

scale (1=not at all; 3=moderately; 5=extremely) how well a number of leadership practices describe their organizations (Figure 19). Receiving the highest average ratings are:

- ▶ there is a significant difference between leader and employee compensation;
- ▶ senior leaders select individuals to fill junior leadership positions;
- ▶ leadership is based on a recently proven ability to deliver results; and
- ▶ compensation is based on performance.

Average Rating on Extent that Leadership Practice Describes Organization

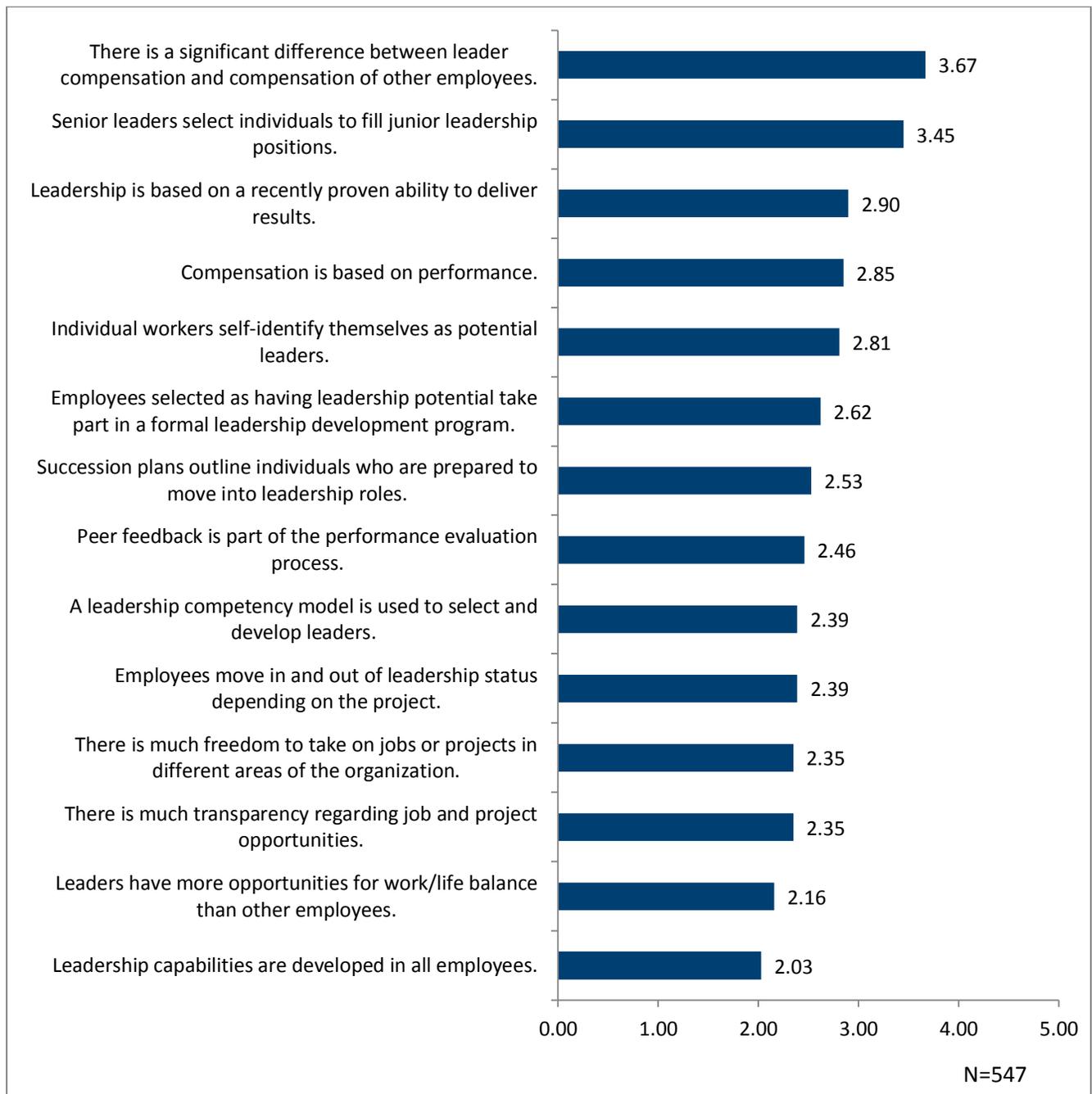


Figure 19

Depicting these findings another way, Figure 20 indicates the percentage of participants who agree that each leadership practice is “quite a bit” or “extremely” present in their organizations. Receiving the most of these high responses are the following practices:

- ▶ there is a significant difference between leader compensation and compensation of other employees (61 percent);
- ▶ senior leaders select individuals to fill junior leadership positions (57 percent);
- ▶ leadership is based on a recently proven ability to deliver results (33 percent); and
- ▶ compensation is based on performance (28 percent).

Percentage of Participants Who Agree “Quite a Bit” or “Extremely” That Leadership Practice Describes Their Organization

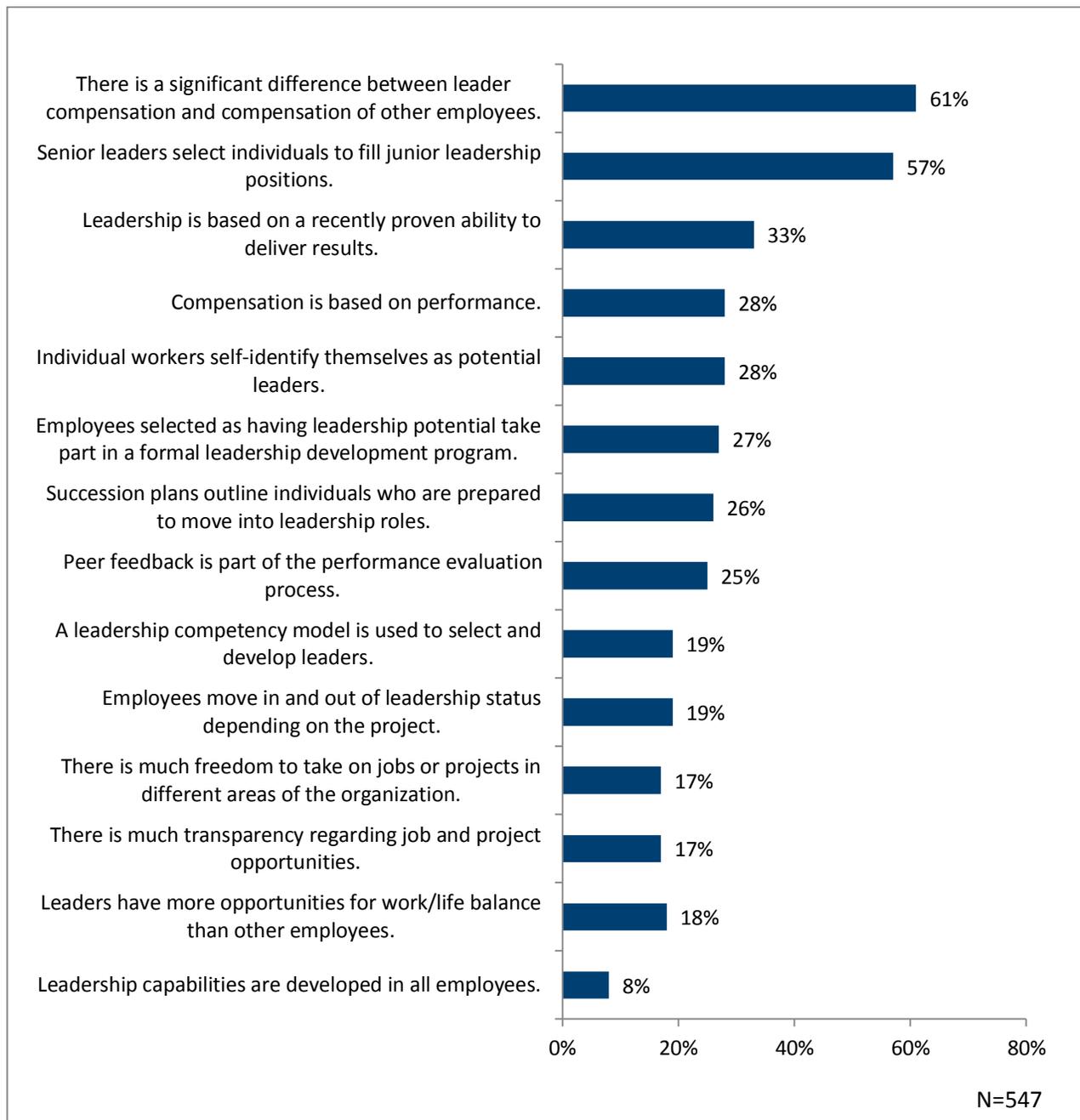


Figure 20

We also examined whether each leadership practice is associated with a larger or smaller leadership skills gap. Figure 21 indicates the statistically significant relationships between leadership practices and larger or smaller skills gaps^{9,10}. It shows that the top 4 practices associated with the smallest skills gaps are:

- ▶ leadership capabilities are developed in all employees;
- ▶ a leadership competency model is used to select and develop leaders;
- ▶ employees selected as having leadership potential take part in a formal leadership development program; and
- ▶ compensation is based on performance.

Only one leadership practice on our survey is significantly associated with a larger skills gap: having a significant difference between leader compensation and compensation of other employees.

The results suggest that leadership capabilities should be developed in all employees. Doing so provides a large base of employees from which organizations can choose when selecting candidates for formal, high-potential leadership development opportunities. This large base of potential leaders may prove especially beneficial given the uncertainty regarding when today's retirement-eligible leaders will choose to retire.

In addition, having all employees equipped with leadership skills positions enables an organization to respond more quickly and precisely to unpredictable events. Rather than taking time to communicate the need for changes through a formal leadership hierarchy and then wait for decisions to be made and passed down, employees will be equipped to make these decisions themselves as the need for change arises.

To support this mix of both all-inclusive as well as high-potential leadership development, organizations can use a leadership competency model. Leadership competency models can guide all leadership development efforts. They can be part of all employees' development plans as well as a tool used to select employees for inclusion in high-potential leadership development programs.

In addition to using a leadership competency model, organizations can also promote a culture that is supportive of leadership being developed in and exercised by all employees. Though there may be a number of employees who are not in formal leadership development programs, managers and directors can mentor these employees on-the-job and on different projects by asking for innovative ideas or allowing employees to lead smaller projects in order to develop

⁹ The leadership practices that predict the skills gap are placed in the figure in descending order from having the greatest impact. Only statistically significant associations are reported.

¹⁰ Please refer to the Appendix for information on these statistical calculations.

leadership skills. Without a culture that supports developing leadership capabilities in all employees, this leadership skill development may not take place.

Association Between Leadership Practices and the Leadership Skills Gap

Leadership Practice	Skills Gap
Leadership capabilities are developed in all employees.	Smaller skills gap
A leadership competency model (a list of skills leaders at your organization should possess) is used to select and develop leaders.	Smaller skills gap
Employees selected as having leadership potential take part in a formal leadership development program.	Smaller skills gap
Compensation is based on performance.	Smaller skills gap
There is much transparency regarding job and project opportunities.	Smaller skills gap
Succession plans outline individuals who are prepared to move into leadership roles.	Smaller skills gap
There is a significant difference between leader compensation and compensation of other employees.	Larger skills gap
Leadership is based on a recently proven ability to deliver results.	Smaller skills gap
Peer feedback is part of the performance evaluation process.	Smaller skills gap

Figure 21

One leadership practice that contributes to a greater leadership skills gap is a large difference between leadership and employee compensation. However, there may be many reasons for this gap in compensation. For example, leadership compensation could be much higher compared to other employees in organizations with larger skills gaps because resources in these organizations are given to leaders rather than being used to support leadership development of

other employees. On the other hand, these organizations may have performance-based compensation structures and leaders are compensated based on their work. It is important to note that paying people fairly for the work that they do is good for business, can increase employee morale, and promote retention, while large differences in compensation can lead employees to look for better offers elsewhere. Indeed, recent APQC research shows that the top reason for unwanted turnover is employees looking for higher compensation elsewhere¹¹. Taking a lesson from this research, compensation should be based on employee and leader performance, and organizations should benchmark against other peer organizations to ensure that their compensation packages are comparable. Additionally, monetary incentives for leaders should be aligned with organizational strategy. To accomplish this, organizations need to choose and measure the performance metrics that encourage the right behaviors in their leaders and the best outcomes for their organizations.

Chapter 3: Summary

What Will Fix the Leadership Deficit?

Taken together, the survey results suggest that organizations can benefit from using certain leadership practices over others.

Our results suggest a greater focus on both traditional and newer, dynamic leadership practices such as using leadership competency models and developing leadership capabilities in all employees may help alleviate the leadership skills gap.

¹¹ APQC. [Top Reasons for Unwanted Turnover](#). 2013.

Conclusion

The results of this survey indicate that organizations are facing a leadership skills deficit; organizations need certain skills to succeed but employees have not yet fully developed these skills. Survey participants also report that current leadership practices are ineffective yet leadership development is not a high priority. Contributing factors to the leadership skills deficit may be certain leadership trends such as organizations needing a different leadership style and business trends such as unpredictable events. These findings suggest that organizations may need to adopt a number of cultural changes to help alleviate the leadership skills shortage. Current leaders may need to change the ways that they are leading people and organizations may want to assess whether their culture is one that promotes leadership development in a rapidly changing business environment.

The findings also suggest that organizations may need to review policies and practices around hiring, promotion, compensation, and rewards. They should be modified if they do not support the development and practice of the leadership style that the organization requires for success.

In addition to cultural and HR changes, organizations can employ a number of leadership practices to alleviate the leadership skills shortage. Our research shows that developing leadership capabilities in all employees is associated with a smaller skills deficit and is something that most organizations can do with some planning. Organizations can also promote mentoring relationships and focus on informal leadership development in order to give all employees access to leadership training. By putting a greater focus on cultural changes and alternative methods of leadership development, organizations can thwart this leadership skills deficit.

Appendix

This appendix includes information on how the statistical analyses were calculated for this report. The analyses are presented in the order they appear in the body of the report.

To test whether the leadership skills gaps are statistically significant, we conducted one sample *t*-tests with the different leadership skills gaps to examine whether the gaps are different from zero. Figure 22 reveals the *t*-statistic (*t*), degrees of freedom (*df*), and *p* values for each skill gap.

Leadership Skills Gap: One Sample t-test Statistics

Skill	t	df	p value
Innovative	15.533	536	.001
Analytical	8.976	539	.001
Change management	20.527	532	.001
Strategic planning	21.734	536	.001
Collaboration	13.375	539	.001
Results focus	9.673	538	.001
Adaptability	15.350	537	.001
Authenticity	7.409	525	.001
Competitor	4.892	534	.001
Global perspective	11.683	529	.001
Charismatic	8.814	530	.001
Delegating tasks	4.674	529	.001

Figure 22

Leadership Skills Gap: One Sample t-test Statistics (continued)

Skill	<i>t</i>	df	<i>p</i> value
Listening	18.188	536	.001
Team work	16.781	535	.001
Process focus	10.664	537	.001
Cost focus	8.165	535	.001
Learning	14.730	532	.001
Emotional intelligence	14.555	523	.001
Authoritative	-5.179	531	.001
Mission driven	11.258	534	.001
Self-awareness	13.062	523	.001
Cognitive intelligence	11.286	520	.001
Knowledge sharing	18.655	532	.001

Figure 22

We tested whether the effectiveness of leadership practices and priority placed on leadership development are related to the leadership skills gap with a linear regression. We regressed concern over the leadership skills gap on the effectiveness of leadership practices and the priority over leadership development in the same model. Figures 23 and 24 give the regression statistics, namely the unstandardized coefficients (*B*), the standardized coefficients (β), the *t* statistic (*t*), degrees of freedom (*df*), and significance test values (*p* value) for both variables. Only statistically significant relationships are reported.

Regression Statistics for Leadership Practice Effectiveness and Concern Over the Skills Gap

Time Period	B	β	t	df	p value
Today	-.657	-.421	-8.623	508	.001
In 1-2 years	-.523	-.369	-7.513	525	.001
In 3-5 years	-.410	-.286	-5.682	511	.001
In 5-10 years	-.276	-.189	-3.628	494	.001

Figure 23

Regression Statistics for Leadership Development Priority and Concern Over the Skills Gap

Time Period	B	β	t	df	p value
In 3-5 years	-.120	-.100	-1.988	511	.047
In 5-10 years	-.169	-.138	-2.642	494	.008

Figure 24

To calculate whether the leadership trends, practices, and business trends we included on our survey are statistically associated with the leadership skills gap, we created a composite variable of all the leadership skills gaps to create one total score for the leadership skills gap. Then we ran linear regression analyses to investigate whether the trends and practices are associated with a smaller or larger skills gap. Figures 25, 26, and 27 show the unstandardized coefficients (B), the standardized coefficients (β), the *t* statistic (*t*), degrees of freedom (df), and significance test values (*p* value) when regressing the leadership skills gap on leadership trends, leadership practices, and new business trends. Only the significant associations are shown and are in the figure based on the standardized coefficients; trends and practices that are not statistically associated are left out.

Regression Statistics for Leadership Trends and the Skills Gap

Leadership Trend	B	β	<i>t</i>	df	<i>p</i> value
Selection, development, and reward practices encourage an outdated leadership style.	2.706	.201	4.165	411	.001
Leaders are resistant to changing their leadership styles.	2.618	.175	3.639	417	.001
Organizations are underinvesting in leadership development.	2.816	.170	3.529	418	.001
Current business challenges require a different leadership style.	2.686	.149	3.072	413	.002
Innovation requires a democratic leadership style.	1.376	.099	2.011	409	.045
Employees are not interested in developing leadership skills.	1.320	.092	1.888	415	.060

Figure 25

Regression Statistics for Business Trends and the Leadership Skills Gap

Business Trend	B	β	<i>t</i>	df	<i>p</i> value
Unpredictable events	3.005	.181	3.768	418	.001
Reduced employee tenure	2.312	.163	3.321	404	.001
Aging work force	2.081	.145	3.004	418	.003
Emergence of generation Y/millennial work force	2.171	.134	2.753	412	.006
Growing importance of knowledge work	1.948	.123	2.525	414	.012
Flattening of organizational structures	1.468	.105	2.133	407	.033
Sophistication of data analytics capabilities	1.174	.081	1.652	410	.099

Figure 26

Regression Statistics for Leadership Practices and the Skills Gap

Leadership Practice	B	β	<i>t</i>	df	<i>p</i> value
Leadership capabilities are developed in all employees.	-3.749	-.226	-4.727	415	.001
A leadership competency model (a list of skills leaders at your organization should possess) is used to select and develop leaders.	-3.358	-.242	-4.927	390	.001
Employees selected as having leadership potential take part in a formal leadership development program.	-2.805	-.209	-4.313	408	.001
Compensation is based on performance.	-2.582	-.175	-3.634	415	.001
Succession plans outline individuals who are prepared to move into leadership roles.	-2.142	-.158	-3.222	405	.001
There is much transparency regarding job and project opportunities.	-2.223	-.151	-3.105	414	.002
There is a significant difference between leader compensation and compensation of other employees.	1.696	.115	2.323	399	.021
Leadership is based on a recently proven ability to deliver results.	-1.633	-.111	-2.276	414	.023
Peer feedback is part of the performance evaluation process.	-1.322	-.104	-2.130	418	.034

Figure 27

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