

# Leadership Crisis: The Perfect Storm

*A particular confluence of factors threatens effective leadership within organizations. Failing to recognize and plan for the coming storm could result in widespread damage to an organization's leadership capacity.*

*By Justin Ferrabee*

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## **AT A GLANCE:**

- ◆ In today's competitive environment, the leadership of an organization may be the most critical factor in the organization's success.
- ◆ Several factors are threatening the leadership capacity within organizations, including the exodus of Baby Boomers, the decrease in employee loyalty and commitment, and the decrease in employee training and development.
- ◆ Organizations need strategies for identifying, developing, and retaining their leadership capabilities in preparation for the impending storm.

# Leadership Crisis: The Perfect Storm

## THE COMING STORM

Setting out on one final fishing voyage before the onset of winter, the crew of the Andrea Gail, captained by Billy Tyne, were unaware that they were sailing into the biggest storm in recorded history, the “perfect storm”. Pushing the boat into the Flemish Cap off Nova Scotia, the Massachusetts crew were confronted by the storm. All of the crew, and their captain, were lost.

Wolfgang Petersen's adaptation of Sebastian Junger's best-seller tells the true-story of a monster storm that rocked New England in 1991.

The Perfect Storm was caused by three powerful elements occurring simultaneously – warm air over a cold sea leading to hurricane conditions, a cold front meeting strong upper air conditions creating a subtropical storm, and very low pressure producing heavy rainfall. Had they occurred separately, the three storms would have been far less destructive, but the confluence of three hurricane-like systems produced waves capable of enveloping a ten-story building and winds of over 78 miles per hour. The Perfect Storm was devastating, and left a path of death and destruction in its wake.

A similarly powerful combination of factors will soon confront organizations, impacting both their leadership capacity and their leadership capability:

- ◆ **Fewer Leaders** - As more and more Baby Boomers retire, there will be fewer people available to take on positions of leadership;
- ◆ **Under-development of Talent** - Organizations are not building the skills necessary to develop future leaders; and
- ◆ **Shifting Aspirations** - With a desire for more balance between work life and personal life, many would-be leaders are not motivated to attain positions of leadership.

Taken separately, each of these factors has the potential to hinder the success of an organization. Taken in combination, these factors equate to the *Perfect Leadership Storm*, and potentially have the power to destroy the future viability of an organization.

## A LEADERSHIP EXODUS

The inevitable reality is that our workforce is losing leadership capacity as a result of the mass retirement of Baby Boomers, a group that represents approximately one-third of all North Americans. Currently, there are 76 million people in the United States and 10 million people in Canada between the ages of 44 and 62, and they occupy the majority of the executive ranks and leadership roles within organizations today. Not only do they occupy many of the leadership roles, but because the Baby Boom population is so large, they hold many of the positions two, three, and four levels down from the executive ranks as well. Those occupying leadership roles within organizations will retire, and as a result of the declining workforce growth rate, there will be a smaller pool of talent to choose from in order to fill those roles:

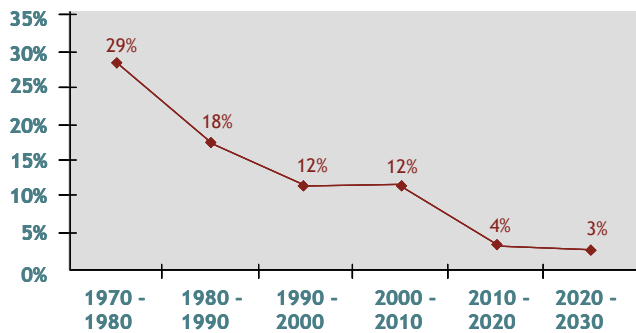
### *Mass Retirement of Baby Boomers*

The Employment Policy Foundation has predicted a shortage of 15 million workers in the U.S. by 2015, progressing to a shortage of 35 million workers by 2030. Baby Boomers have already begun to enter retirement and over the next 20 years, this disproportionately large group will no longer be available to lead organizations nor will they be a part of the potential leadership talent pool.

## Declining Workforce Growth Rate

As shown in Figure 1, the overall workforce growth rate in the U.S. has been steadily declining since the 1970s. The U.S. Bureau of Labour Statistics expects the workforce growth rate, currently growing at a rate of 12%, to fall to 4% by 2010 and 3% by 2020. More

Figure 1: Growth Rate of United States Workforce



Source: U.S. Bureau of Labor Statistics

specifically, according to the Conference Board, there are 45 million Americans between the ages of 35 and 44 -- the age group where companies typically look for new senior leaders -- and only 37 million people between the ages of 25 and 34 -- those in the target age range in ten years. This is a trend mirrored across the developed world. In effect, a mass exodus of leadership and talent, exacerbated by a smaller talent pool of future leaders, will cause a serious disruption to the workforce.

Organizations will not only lose people, but also the skills, knowledge, experience and relationships that leaders have developed over their careers. To make matters worse, many organizations are not adequately preparing themselves to face this challenge. According to a survey by the Society of Human Resources Management, one-third of American companies have done nothing to prepare themselves for the aging workforce and the lack of leadership capacity that they will soon face. Furthermore, leaders are not being sufficiently groomed to take on these vital leadership roles.

## ILL-EQUIPPED FOR THE TOP JOB

The long-term success of an organization depends on the organization's ability to ensure that future leaders are equipped with the "right" skills. Business is becoming increasingly complex and future leaders need to be better equipped than their predecessors. Along with the declining number of workers available, there will also be a shortage of skills to face increasingly complex demands.

The knowledge worker is heavily influenced by leadership. Organizations that value knowledge workers, therefore, will not only need to compete for fewer workers, but will also need to recognize the importance of leadership and their leadership style. A recent

McKinsey study suggests that knowledge workers make up 35% of the average workforce in the developed world, and generate up to three times more profit than do other employees. The variation in performance of knowledge-intensive companies operating within the same industry suggests the difficulty in extracting value from these types of workers. An organization’s ability to identify those workers with a high-value potential is becoming increasingly important. In addition, developing the “right” skills for future leaders requires the “right” training – a combination of education and experience.

*Inability to Identify Future Leaders*

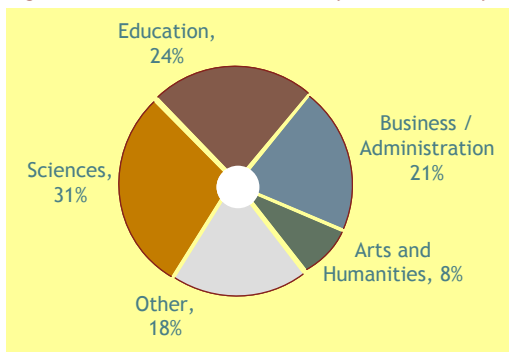
As organizations evolve and their priorities change, leadership requirements also change, which makes identifying tomorrow’s leaders today a difficult task. Only 14% of respondents to a McKinsey survey said they could identify potential leaders -- those deemed “high fliers”. Organizations have difficulty identifying future leaders namely because the skills required of leadership positions are generally soft skills that are difficult to measure. Such skills include critical thinking, people management, self awareness, and facilitation. Many of these skills are neither developed through the formal education system nor through organizational development programs.

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*Little Focus on Leadership Education*

Skill development starts in the formal education system at colleges and universities across the country. However, these institutions tend to over-emphasize the development of technical skills at the expense of softer skills required for leadership. A forum led by the Canadian Association of Career Educators and Employees cited a lack of soft skills as having a negative impact on the productivity of organizations. In addition, technically-focused fields of study like science generate higher enrollment levels than the softer fields like humanities and arts, as depicted in Figure 2. Thus, universities invest more resources in these fields, further hindering the development of soft skills in the formal education system.

Figure 2: Graduate Enrollment by Field of Study



Source: Council of Graduate Schools

## *Ineffective Leadership Development Programs*

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Likewise, leadership training in organizations today generally focuses on the more technical business and management skills. Despite the massive amounts of money being poured into training and development programs, organizations are not producing a pipeline of leaders with the right skill sets of managing momentum, building high performance cultures and driving large scale change. Research conducted by the Conference Board of America estimates that \$50 billion was spent on leadership education and development in 2000. However, only 3% of nearly 6,000 executives surveyed by McKinsey agreed that their organizations developed talent effectively.

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***Too many of today's organizations think that leadership development will happen in a classroom training program.***

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What organizations fail to realize is that classroom training programs provide only one piece of a complex puzzle. Leadership development is a process that includes work and life experience, coaching and mentorship, relevant training and personal reflection.

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*Thirty years ago, when a promising employee joined a large firm and was identified as a potential leader, organizations would set out a career plan, provide training, and place the employee in a cross-section of departments for a broad organizational view.*

Thirty years ago, when a promising employee joined a large firm and was identified as a potential leader, organizations would set out a career plan, provide training, and place the employee in a cross-section of departments for a broad organizational view. The employee would be exposed to and mentored by senior executives and would be provided with opportunities to lead high-profile projects. Today, with many competing priorities, organizations have become distracted from the ever-important task of identifying, developing, and grooming future leaders. By not focusing on developing the right skills for those younger workers with leadership potential, organizations are at risk for allowing potential talent to walk out the door unmotivated, unsatisfied, and uncommitted.

## LEADERSHIP RESPONSIBILITIES, NO THANKS

A significant shift has occurred since the Baby Boomers entered the workforce. With the democratization of wealth, today's workers are choosing a better work-life balance than their Baby Boomer predecessors. To combat the lack of motivation to attain positions of leaders, organizations need to better engage their employees, yet this is currently not being done effectively and many workers feel little loyalty and little connection to organizations and their leaders.

### *Democratization of Wealth*

The younger generation of employees operates within a new reality, in which both income needs and personal responsibilities can be met without moving into the more senior leadership positions. In the old reality, employees aspired towards management positions in order to increase their salaries. Due to the democratization of wealth, knowledge workers today are less motivated to attain leadership positions. For example, today a strong programmer can make a high salary, own equity, and receive bonuses without taking on a management role.

### *Demand for Work-Life Balance*

40% of respondents to a recent McKinsey survey attest to having difficulty balancing work and home life and yet more and more are less willing to let their work responsibilities prevail. The younger generation is not willing to devote their lives to the interests of an organization like their parents did. Their parents entered the workforce at a time when there was respect for those who chose to take the responsibility of stewardship and leadership within an organization. Leaders were required to help build the basics of our society and organizations reciprocated with long-term commitment. The next cohort of leaders is dealing with a different set of challenges, including commitments to caring for both children and aging parents. Many among the younger generation are more motivated to attain work-life balance than to attain leadership positions.

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***If an organization can not meet this need for work-life balance, it will prove difficult to attract and retain a pool of future leaders.***

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## *Less Employee Development Means Less Employee Loyalty*

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Organizations that do not actively focus on developing their workforce are putting themselves at risk for losing potential leadership talent. Since the 1980s, organizations have increasingly thinned out the management ranks in an effort to reduce overhead and increase cost competitiveness. With increasing demands on their time, managers may be responsible for as many as 20 workers. As a result, the responsibility for professional development and career management has shifted from the organization to the workers themselves. Most knowledge workers pay their own training expenses, chart their own path, seek out their own mentors, and pay for their own coaches. They often enroll in and fund their own education and international experiences.

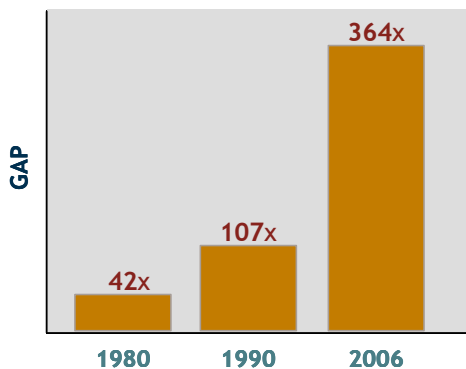
With organizations focusing less on development, many knowledge workers feel a reduced sense of loyalty to organizations that do not meet their needs. According to a McKinsey study, the learning curve within an organization tends to flatten out after two to three years. The younger generation, however, seeks to continue learning throughout their career through various work assignments. As a result, on average, the younger generation spends three to five years with one organization, at which point capable future leaders start to look for new challenges. While current organizational leaders need to play a large role in engaging the younger workforce, the short organizational lifespan of the younger generation creates a disincentive to invest any time or effort into their development.

### *Little Connection between Leader and Worker*

In addition, there are fewer leader role models to encourage workplace commitment among the younger generation of talent. Over the past decade, we have seen examples of scandals resulting from leadership greed, an increasing distance between leaders and their workforce, and a decreasing leadership lifespan within organizations.

Scandals like that at Enron, Worldcom, or Tyco demonstrate the vulnerability of leaders to the lure of unbridled greed. The desire for power, money, and status create a distance between leaders and their organizations. As shown in Figure 3, CEOs currently make 364 times more income than the average worker, up from a gap of 42 times in 1980. Furthermore, executives are staying with organizations for shorter periods of time. The average tenure for CEOs in 2005 was just five years, down from a long-term average of ten. The distance created by the salary gap between leaders and workers, combined with the short organizational lifespan of leaders further reduces any sense of engagement felt by future leaders to an organization and its leader.

**Figure 3: Ratio of CEO salaries to salaries of average worker**



Source: *The American Federation of Labor and Congress of Industrial Organizations*

## IN PREPARATION FOR THE STORM

As organizations confront these potentially destructive challenges, they will require leadership to guide them through the storm. Today's leaders will not only need to create the change required to increase an organization's leadership capabilities and capacity, but will also need to cope with changes resulting from the loss of leadership.

## *Keep Retirees Involved*

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*A survey conducted by AARP/ Roper found that many Baby Boomers, nearly 80% of those surveyed, plan to continue working at least part-time during their retirement, yet more than half of U.S. employers do not actively attempt to retain them.*

Retaining key older workers can lessen the effects of the mass leadership exodus caused by the Baby Boomer retirement. A survey conducted by AARP/ Roper found that many Baby Boomers, nearly 80% of those surveyed, plan to continue working at least part-time during their retirement, yet more than half of U.S. employers do not actively attempt to retain them. By creating a more flexible and less time-consuming work environment for retired leaders, organizations can continue to draw on the expertise of former leaders while easing the transition for future leaders. A cautionary note for organizations going through large-scale transformation is that the identification and retention of older workers has to be balanced with the need for organizational innovation. In some circumstances, retention of an dominate cohort can result in maintenance of old ways of working.

## *Focus on Development through Coaching*

Organizations that are effective in developing the “right” skills for future leaders are led by CEOs who are completely committed to identifying, growing, and retaining talent. These organizations see the developing leaders as a real and significant source of competitive advantage. Research conducted by the Conference Board in the U.S. suggests that effective leadership development programs include a combination of succession planning, developmental assignments, job rotations, action learning, and coaching.

The coaching process, specifically, is unique in that more and more organizations are realizing the importance of coaching and the attention required by those being coached. High potential leaders are being coached by an industry of seasoned and experienced coaching practitioners in order to realize the full benefits of the process. In addition, future leaders will require cross-cultural leadership skills in order to meet the demands of an increasingly complex and global business environment. The effective identification, growth, and retention of talent will become a source of competitive advantage for organizations that master it as a competency.

## *Provide Opportunities to Learn*

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While the younger generation may not aspire to leadership positions, organizations can create work environments conducive to commitment in which future leaders feel engaged, fulfilled, and valued. According to the Hay Group, a human capital research and development firm, the single most important factor in increasing employee commitment is the opportunity to learn new skills, which includes fresh assignments, internal career changes, on-going training, and the opportunity to learn from current leaders through mentoring programs. By increasing employee commitment levels, organizations can also increase employee motivation levels to aspire further up the leadership ranks.

Leadership has a strong effect on an organization's performance. According to a study by MIT, leadership accounts for more than 40% of the variance in performance in some markets. Organizations cannot avert the impending storm entirely, however, those that fail to plan for the leadership challenges are putting the very viability of their organizations at risk.



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