



INSTITUTE *for* HEALTH *and* HUMAN POTENTIAL

## **What Will You Do When You Run Out of Leaders?**

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*In this era of the  
disappearing  
leader, what  
are you doing  
to develop your  
next generation  
of leaders?*

# What Will You Do When You Run Out of Leaders?

The most frequently asked question put to the Society of Human Resource Management is: "How do we keep talent from jumping to our competitors?"

There is good reason, the U.S. Bureau of Labor Statistics, the Organization for Economic Co-Operation and Development (OECD), and the Rand Corporation all agree on one thing: "whether in the form of labor or talent or skill or knowledge shortages, we are about to face a battle for talent that has no parallel in recent history".<sup>i</sup> David Calhoun is one of those scarce knowledge workers so highly prized by organizations. He is a talented leader who had profit and loss and responsibility for a large part of the General Electrics (GE) business. He left his job at GE to head up privately held VNU, a Dutch outfit which own AC Nielson research business, *Billboard* Magazine, and other media properties. [*Fortune Mag Sept 2006*]

What is significant about Calhoun is not that he was rewarded with upwards of 100 million dollars to make his move but that he represents a picture of what is the single biggest issue of the coming decade: retaining and engaging your best leaders. More specifically, what Calhoun's case demonstrates is that business will have to rethink how to keep top talent because *the battle will be brutal*. And obviously, not everyone has the kind of money that a privately held company like VNU has in getting top talent like Calhoun.

## What Does the Leader of Your Future Look Like?

This article will focus on the *kinds of leaders* you want to retain in your organization. What do they look like? What do they do? What financial impact do they have? And, most importantly, how ready are your potential leaders to step up and fulfill your not so distant future leadership needs. Let's start with readiness.

## Bench Strength: The Glaring Weakness of Most Organizations

A significant percentage of newer and younger leaders do not have the necessary skills and personal qualities to take on

the demands of the new economy. A recent study estimated that almost one-third of current managers and executives are severely lacking in management abilities<sup>ii</sup>. Being a leader requires an uncommon ability to demonstrate a combination of business sense and interpersonal savvy. Many leaders simply are not qualified and do not have the right mix of skills.

This lack of readiness shows up in the reasons why leaders 'fail'. Most experience failure not because of problems with task or strategy or knowledge, they fail because they lack the personal qualities or interpersonal skills<sup>iii</sup>. The Center for Creative Leadership found that senior executives were most likely to experience failure when they had poor working relations, low adaptability, and the inability to build an effective team<sup>iv</sup>. These "derailers" describe personal and interpersonal qualities that are outside the domain of technical job competence. In fact, many of these interpersonal and personal qualities appear in individuals with strong Emotional Intelligence. Emotional Intelligence or Quotient (EQ) is the capacity for effectively recognizing and managing our own emotions and those of others.

## The Leaders You Want to Retain and Engage

Not surprisingly, it is these same qualities of Emotional Intelligence that differentiate the leader you want to retain and engage in the future. Not just because they are nice to have around but, as this white paper illustrates, because they achieve results: they perform at a significantly higher level and they retain and engage your other valued employees at a higher level.

## EQ and Performance

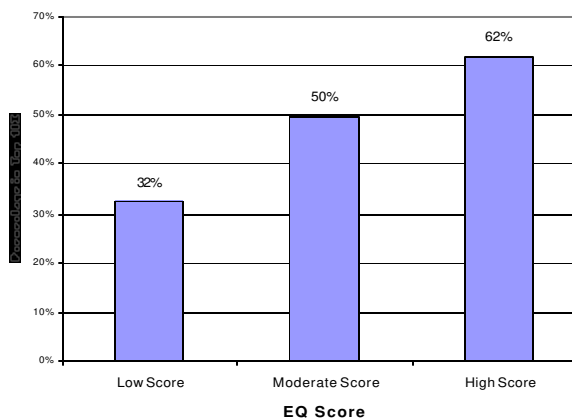
In our studies of high performers at the Institute for Health and Human Potential (including over 119,000 individuals who have participated in our assessment center) the difference in performance is clear: Emotional Intelligence can make the crucial difference in leadership performance.

### The Top Ten Percent

One way to look at the data is to examine the top ten percent of performers and correlate that with levels of EQ. Our analyses show that 62 percent of leaders with a high EQ rank in the top ten percent of performers in their organizations (see Figure 1). While, only 32 percent of leaders with low EQ scores are in the top 10 percent of performers.

This means that leaders in the top 10 percent of performers in their organization are twice as likely to have high EQ scores

Figure 1: EQ Score and Performance



### What Part of EQ Matters Most?

We correlated ratings of the 11 EI360™ factors (a fully web-enabled, multi-rater tool that assesses individual strengths and developmental needs in the core competencies of EQ as well as at the team level) with job performance and found statistically significant relationships for every factor. In other words, all of the EI factors are meaningful predictors of success on the job.

### EQ Factors with the Strongest Relationship to Performance Figure 2:

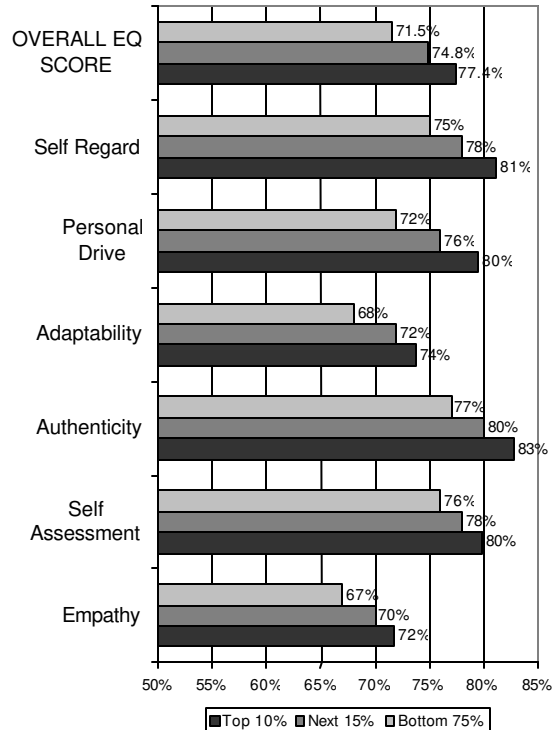


Figure 2 shows the factors as a group that represents the strongest predictors of overall job performance. Each of these factors accurately distinguishes between high and low performers.

See Appendix 1 for competency definitions and descriptions.

### Our research reveals that:

All components of the EI360™ are correlated with high performance. The EI360™ accurately distinguishes between high and low performers and helps leaders, when receiving EI360™ feedback understand how they compare and where they need to work to become more effective.

The difference between a high and average EQ leader equates to \$21,600 per year; for an organization with 2,000 leaders this figure multiplies to \$43.2 million in human capital asset value per year.

### Financial Return for EQ

High performing leaders like David Calhoun also bring financial return to organizations. Calculating an economic value requires converting observed differences into dollar values. Using this method, we can convert differences in performance attributable to EQ into financial terms. Based on the current research, we know that leaders with higher EQ are more valuable for the organization (i.e., they are more productive and have greater human performing leaders is to base value on overall salary).

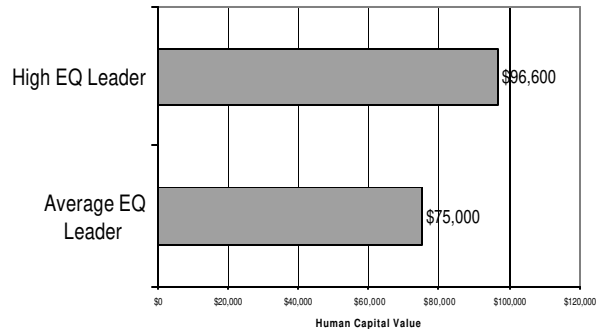
In a sense, leaders are human assets that an organization “leases” to run its business. When you have a more capable leader, you have a more valuable human asset. Leaders should return to the organization a level of value in proportion to what they are paid.

We started by looking at the average *effect size* between top 10 percent and lower 75 percent of leaders. The *effect size* metric is a standardized method for calculating the magnitude of the difference between the two groups. The difference between high and lower EQ leaders is 0.72, a large difference<sup>v</sup>.

Using methods based on Spencer’s (2001)<sup>vi</sup> recommendations, we determined the value in performance differences between high and low EQ leaders. Assuming an average leader salary of \$75,000 per year, the difference between a high and average EQ leader equates to \$21,600 per year. For an organization with 2,000 leaders this figure multiplies to \$43.2 million in human capital asset value per year. While this is a large number, it still does not account for the human capital asset value improvement experienced by leaders’ direct reports. Leaders’ value extends far beyond their individual contributions

Therefore, leaders with high EQ are likely to have more productive employees that will magnify the overall contribution of their skills. These leaders are also more likely to retain and engage employees over a longer period of time – the very issue that Bureau of Labor Statistics, the Organization for Economic Co-Operation and Development (OECD), and the Rand Corporation are ringing the alarm bells for.

### Human Capital Value of High and Lower EQ Leaders



Based on the data from Figure 3, even a slight improvement in EQ would lead to large benefits for an organization. For example, a program yielding a one percentage point improvement in leader EQ would provide incremental human capital value of \$2,160. Even if this program cost the organization \$500 per person, the ROI (Return on Investment) would be 332 percent. Clearly, investments in improving EQ have the potential for dramatically improving the productivity and value of leaders in organizations.

### The Value of Getting Your Future Leaders Ready

With the number of external candidates for leadership positions dwindling, wise organizations today are focusing more intensely than ever on developing their own people for future leadership roles. The question, however, is can leaders learn these valuable skills? One study evaluated a program where leaders went through the following intervention: an initial one-to-two day diagnostic assessment and feedback session followed by a coaching phase, which involved one day of training per month for the next six months.

Specific behavioral learning objectives were developed for each individual. These objectives were defined in terms of expected on-the-job behaviors. Each person’s goals were unique, based on an integration of the organization’s description of the person’s needs and the results of the diagnostic assessment. Ratings of each behavior were collected from the participant, the coach, and the participant’s supervisor before coaching. These ratings were compared with scores immediately after training and six months after training was completed.<sup>vii</sup>

Results of the evaluation indicated that all three ratings—before, just after, and three days following the program—showed improvement on behaviors targeted for coaching.

Interestingly, bosses actually perceived *more positive change* than did participants, and the changes persisted through the six-month follow-up.

### Summary

Organizations that are not identifying and developing their next generation of leaders will lose in the marketplace. The battle for leaders will only get more brutal as the demographic shift hits and good people become even scarcer. Emotional intelligence plays a key role in the development of the kinds of skills and competencies required to be a top ten percent performer- and these qualities, given the right training, can be developed. The economic value a top ten percent leader brings to an organization is not only measurable, it is significant.

### Appendix 1

**Self Regard**— The ability to maintain a strong sense of identity and purpose that is characterized by confidence, conviction, and decisiveness.

People with high scores in self-regard tend to have strong sense of who they are and what they stand for. They are willing to accept their true selves and do not aspire or pretend to be anything more or less than who they are. Self-regard is critical for high performance because it makes individuals feel confident and keeps them focused on the task at hand instead of trying to manage their own insecurities.

**Empathy**— The ability to tune into others feelings, listen effectively, and see things from others' perspectives.

People with high scores in empathy are great listeners and most people feel comfortable opening up to them and sharing their feelings. They are very good at sensing changes in others moods and will often ask others how they are feeling. When employees believe that their leader understand them and listen to what they are saying, they are more likely to develop a sense of trust and build good relationships. Empathy helps employees to resolve unwanted tension and confusion that evokes difficult to manage emotional responses.

**Adaptability**— The ability to respond to change with an open mind, consider alternative paths of action, and modify behavior to fit the demands of the situation.

People with high adaptability/flexibility scores respond openly and positively to change and consider it to be a natural and expected part of life. They don't mind situations with high ambiguity and they are comfortable "waiting in limbo" until the right path of action becomes apparent. Change triggers an emotional response because it's uncertain. When leaders suddenly feel unsafe and feel like we can't get things done, they clam up and are projective. People who are able to adapt to change can manage their emotional reactions better.

**Personal Drive** — The ability to maintain high levels of energy and commitment to tasks, even when faced with challenges.

People with high personal drive seem to have a real zest for life and remain committed and unwavering in their pursuit of goals. When a group is faced with a challenging task, these individuals are usually the first people to volunteer their time. Leaders with personal drive are high performers because they are focused on action and enjoy stimulating challenges. They have learned to translate their aroused emotional states into fuel for accomplishing goals.

**Self Assessment**— The ability to objectively assess one's strengths and weaknesses and the willingness to make adjustments, listen to feedback, and share self-perceptions.

People with high scores on this competency tend to be introspective and accurately assess their ability to perform tasks based on their current skills. They regularly seek out feedback from others and try to gain information about their performance. With their keen understanding of themselves, people with high self-assessment scores don't get emotionally hijacked when they run across information that is inconsistent with their own perceptions. They can take feedback from their employees and are good listeners.

**Authenticity**— The ability to express oneself openly and honestly in a consistent and forthright manner.

People with high scores in authenticity are willing to address issues directly without sugarcoating or pushing hidden agendas. Coworkers describe these individuals as being "down to earth" or "what you see is what you get." Employees often think that leaders with low authenticity are hiding something. This creates a negative emotional state that diverts employees' attention away from their work as they try to figure out what their leaders are thinking.

- <sup>i</sup> [Introduction to the Special Issue on Employee Retention and Engagement Journal article by Fredric D. Frank; Human Resource Planning, Vol. 27, 2004]
- <sup>ii</sup> Research finds management skills lacking among managers and executives (2004, December). HRFocus, 81(12), 9.
- <sup>iii</sup> Bernthal, P.R., & Wellins, R.S. (2005). The Global Leadership Forecast. Development Dimensions International: Pittsburgh, PA
- <sup>iv</sup> Leslie, J.B., & Van Velsor, E. (1996). A look at derailment today: North America and Europe. Center for Creative Leadership, Greensboro: NC.
- <sup>v</sup> Cohen, J. (1988). Statistical Power Analysis for the Behavioral Sciences, 2nd ed. Hillsdale, NJ: Erlbaum. According to Cohen (1988) <sup>iv</sup>, an effect size of .20 as small, an effect size of .50 as medium, and an effect size of .80 as large.
- <sup>vi</sup> Spencer, L.M. (2001). In Cherniss, C. and D. Goleman, eds. The Emotionally Intelligent Workplace: How to Select for, Measure, and Improve Emotional Intelligence in Individuals, Groups and Organizations. San Francisco, CA: Jossey-Bass/Wiley.
- <sup>vii</sup> See Model Programs, El Consortium and Peterson, D.B. (1993a, April). Measuring Change: A Psychometric Approach to Evaluating Individual Training Outcomes. Paper presented at the annual conference of the Society for Industrial and Organizational Psychology, San Francisco.



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