

The Leadership Pipeline

How to Build the Leadership Powered Company

Ram Charan, Steve Drodner, Jim L. Noel

Chapter 1: Six Leadership Passages

An Overview

The six turns in the pipeline that we'll discuss here are major events in the life of a leader. They represent significant passages that can't be mastered in a day or by taking a course. Our goal here is to help you become familiar with the skills, time applications, and work values demanded by each passage, as well as this particular leadership gestalt. Once you grasp what these passages entail and the challenges involved in making each leadership transition, you'll be in a better position to use this information to unclog your organization's leadership pipeline and facilitate your own growth as a leader. Going through these passages helps leaders build emotional strength as they take on tasks of increasing complexity and scope. The following six chapters will provide you with ideas and tools to achieve full performance at all leadership levels in your organization.

As you read about each passage, you'll naturally apply it to your own organization and may question how we've defined and divided each turn in the pipeline. The odds are that you'll immediately think of at least one (and probably more) leadership transitions that apply to your own company that we have not addressed in the Leadership Pipeline model. While there certainly are other transitions, they are too small or incomplete to qualify as a major passage. For instance, many global companies have business general managers at the country level and regional executives with responsibility for several countries. These regional executives report to a person with a title such as global consumer products head. Although this global consumer products head manages group managers (the regional executives in this case), she isn't an enterprise manager because she reports to a CEO or president and has little accountability for corporate profit and loss matters. For our purposes here, we would categorize her as a group manager, even though she may have responsibility for other group managers.

Similarly, you may wonder why the transition from team member to team leader isn't worthy of its own passage. First, this is usually a subset of Passage One (managing self to managing others). Second, team leaders frequently lack the decision-making authority on selection and rewards that first-line managers receive. Third, team leaders usually focus on technical or professional matters (getting a project or program completed) and aren't tested in more general management areas.

Each organization is unique, and each probably has at least one leadership passage with distinctive aspects. It's likely, however, that you can fit that distinctive passage into one of our six passages. As you become more attuned to each of them, we believe you'll see how they apply to your own situation and organization. If there is a passage in your business that doesn't fit our model, create your own definition of the transition and tell us about it.

Passage One: From Managing Self to Managing Others

New, young employees usually spend their first few years with an organization as individual contributors. Whether they're in sales, accounting, engineering, or marketing, their skill requirements are primarily technical or professional. They contribute by doing the assigned work within given time frames and in ways that meet objectives. By sharpening and broadening their individual skills, they make increased contributions and are then considered "promotable" by organizations. From a time application standpoint, the learning involves planning (so that work is completed on time), punctuality, content, quality, and reliability. The work values to be developed include acceptance of the company culture and adopting professional standards. When people become skilled individual contributors who produce good results-especially when they demonstrate an ability to collaborate with others-they usually receive additional responsibilities. When they demonstrate an ability to handle these responsibilities and adhere to the company's values, they are often promoted to first-line manager.

When this happens, they are at Passage One. Though this might seem like an easy, natural leadership passage, it's often one where people trip. The highest-performing people, especially, are reluctant to change; they want to keep doing the activities that made them successful. As a result, people make the job transition from individual contributor to manager without making a behavioral or value-based transition. In effect, they become managers without accepting the requirements. Many consultants, for instance, have skipped this turn, moving from transitory team leadership to business leader without absorbing much of the learning in between. The result, when business leaders miss this passage, is frequently disaster.

The skills people should learn at this first leadership passage include planning work, filling jobs, assigning work, motivating, coaching, and measuring the work of others. First-time managers need to learn how to reallocate their time so that they not only complete their assigned work but also help others perform effectively. They cannot allocate all of their time to putting out fires, seizing opportunities, and handling tasks themselves. They must shift from "doing" work to getting work done through others.

Reallocating time is an especially difficult transitional requirement for first-time managers. Part of the problem is that many neophyte managers still prefer to spend time on their "old" work, even as they take charge of a group. Yet the pressure to spend less time on individual work and more time on managing will increase at each passage, and if people don't start making changes in how they allocate their time from the beginning, they're bound to become liabilities as they move up. It's a major reason why pipelines clog and leaders fail.

The most difficult change for managers to make at Passage One, however, involves values. Specifically, they need to learn to value managerial work rather than just tolerate it. They must believe that making time for others, planning, coaching, and the like are necessary tasks and are their responsibility. More than that, they must view this other-directed work as mission-critical to their success. For instance, first-line knowledge managers in the financial services industry find this transition extremely difficult. They value being producers, and they must learn to value making others productive. Given that these values had nothing to do with their success as individual contributors, it's difficult for them to make this dramatic shift in what they view as meaningful. While changes in skills and time applications can be seen and measured, changes in values are more difficult to assess. Someone may appear as though he's making the changes demanded by this leadership turn but in fact be adhering to individual-contributor values. Value changes will only take place if upper management reinforces the need to shift beliefs and if people find they're successful at their new jobs after a value shift.

Passage Two: From Managing Others to Managing Managers

This leadership passage is frequently ignored, especially relative to the previous passage (where the transition to new responsibilities is more obvious). Few companies address this passage directly in their training, even though this is the level where a company's management foundation is constructed; level-two managers select and develop the people who will eventually become the company's leaders.

Perhaps the biggest difference from the previous passage is that here, managers must be pure management. Before, individual contributions were still part of their job description. Now, they need to divest themselves of individual tasks. The key skills that must be mastered during this transition include selecting people to turn Passage One, assigning managerial and leadership work to them, measuring their progress as managers, and coaching them. This is also the point where managers must begin to think beyond their function and concern themselves with strategic issues that support the overall business.

All this is difficult to do if a given manager at this passage still values individual contributions and functional work to the exclusion of everything else. Too often people who have been promoted to manager-of-manager positions have skipped Passage One; they were promoted to first-line managers but didn't change skills, time applications or work values. As a result, they clog the leadership pipeline because they hold first-line managers accountable for technical work rather than managerial work. Because they themselves skipped the first passage and still value individual contributions above managerial ones, they poison the managerial well. They help maintain and even instill the wrong values in those individuals who report to them. They choose high technical achievers for first-line managerial spots rather than true potential leaders; they are unable to differentiate between those who can do and those who can lead.

Managers at Passage 2 need to be able to identify value-based resistance to managerial work, a common reaction among first-line managers. They need to recognize that the software designer who would rather design software than manage others cannot be allowed to move up to leadership work. No matter how brilliant he might be at software design, he will become an obstacle in the leadership pipeline if he derives no job satisfaction from managing and leading people. In fact, one of the tough responsibilities of managers of managers is to return people to individual-contributor roles if first-line managers don't shift their behaviors and values.

Coaching is also essential at this level because first-line managers frequently don't receive formal training in how to be a manager; they're dependent on their bosses to instruct them on the job. Coaching requires time—they need to go through the instruction-performance-feedback cycle with their people repeatedly before lessons sink in—and some managers aren't willing to reallocate their time in this way. In many organizations, coaching ability isn't rewarded (and the lack of it isn't penalized). It's no wonder that relatively few managers view coaching as mission-critical.

Passage Three: From Managing Managers to Functional Manager

This transition is tougher than it seems. While on the surface the difference between managing managers and functional management might appear negligible, a number of significant challenges lurk below the surface. Communication with the individual-contributor level now requires penetrating at least two layers of management, thus mandating development of new communication skills. What is just as significant, functional heads must manage some areas that are outside their own experiences. This means they must not only endeavor to understand this "foreign" work but also learn to

value it.

At the same time, functional managers report to multifunctional general managers and therefore have to become skilled at taking other functional concerns and needs into consideration. Team play with other functional managers and competition for resources based on business needs are two major transitional skills. At the same time, managers at this turn should become proficient strategists, not only for their function but blending their functional strategy with the overall business strategy. From a time-application standpoint, this means participating in business team meetings and working with other functional managers. All this takes away from time spent on purely functional responsibilities, thus making it essential that functional managers delegate responsibility for overseeing many functional tasks to direct reports.

This leadership passage requires an increase in managerial maturity. In one sense, maturity means thinking and acting like a functional leader rather than a functional member. But it also means that managers need to adopt a broad, long-term perspective. Long-term strategy, such as state-of-the-art, futuristic thinking for their function, is usually what gives most managers trouble here. At this level, their leadership entails creating functional strategy that enables them to do something better than the competition. Whether it's coming up with a method to design more innovative products or reach new customer groups, these managers must push the functional envelope. They must also push it into the future, looking at sustainable competitive advantage rather than just an immediate but temporary edge.

Tom's experiences illustrate the challenges new functional managers face. Six months ago, Tom was named the director of plant operations. In this capacity he has five direct reports: four run large factories and one who runs purchasing of raw materials. Although Tom's experiences have made him appreciative of sales, financial, and other functional areas, Tom has trouble planning beyond immediate functional requirements and keeping in touch with line workers where the action is. Not only is it difficult for Tom to define the steps necessary for the plants to become a more integrated manufacturing facility, but he's also finding that he's lost touch with many of the workers he used to communicate with on a regular basis. At many organizations, a guy like Tom would just muddle through, and his strengths would compensate for his weaknesses, at least on the surface. But upon closer inspection, Tom would not be a full performer in his leadership position. For instance, it's important that Tom develop the skill of skip-level communication; he needs to know, without diminishing the authority of the plant managers and the first-line manager, what individual contributors are working on and how well they're being managed. If Tom doesn't develop this skill, he may alienate the plant manager and the first-line managers by usurping their authority or he may be out of touch with how well his direct reports are supervising their people.

Luckily, Tom's organization has an assessment program in place that has identified his struggle with Passage Three and is providing him with coaching and the chance to attend a first-rate executive development program that will help him build the skills required at this leadership level.

Passage Four: From Functional Manager to Business Manager

This leadership passage is often the most satisfying as well as the most challenging of a manager's career, and it's mission-critical in organizations. Business managers usually receive significant autonomy, which people with leadership instincts find liberating. They also are able to see a clear link between their efforts and marketplace results. At the same time, this is a sharp turn; it requires a major shift in skills, time applications, and

work values. It's not simply a matter of people becoming more strategic and cross-functional in their thinking (though it's important to continue developing the abilities rooted in the previous level). Now they are in charge of integrating functions whereas before they simply had to understand and work with other functions. But the biggest shift is from looking at plans and proposals functionally (Can we do it technically, professionally, or physically?) to a profit perspective (Will we make any money if we do this?) and to a long-term view (Is the profitability result sustainable?). New business managers must change the way they think in order to be successful.

There are probably more new and unfamiliar responsibilities here than at other levels. For people who have only been in one function their entire careers, a business manager position represents unexplored territory; they must suddenly become responsible for many unfamiliar functions and outcomes. Not only do they have to learn to manage different functions, but they also need to become skilled at working with a wider variety of people than ever before; they need to become more sensitive to functional diversity issues and communicating clearly and effectively. Even more difficult is the balancing act between future goals and present needs and making trade-offs between the two. Business managers must meet quarterly profit, market share, product, and people targets, and at the same time plan for goals three to five years into the future. The paradox of balancing short-term and long-term thinking is one that bedevils many managers at this turn-and why one of the requirements here is for thinking time. At this level, managers need to stop doing every second of the day and reserve time for reflection and analysis.

When business managers don't make this turn fully, the leadership pipeline quickly becomes clogged. For example, a common failure at this level is not valuing (or effectively using) staff functions. Directing and energizing finance, human resources, legal, and other support groups are crucial business manager responsibilities. When managers don't understand or appreciate the contribution of support staff, these staff people don't deliver full performance. When the leader of the business demeans or diminishes their roles, staff people deliver half-hearted efforts; they can easily become energy-drainers. Business managers must learn to trust, accept advice, and receive feedback from all functional managers, even though they may never have experienced these functions personally.

Passage Five: From Business Manager to Group Manager

This is another leadership passage that at first glance doesn't seem overly arduous. The assumption is that if you can run one business successfully, you can do the same with two or more businesses. The flaw in this reasoning begins with what is valued at each leadership level. A business manager values the success of his own business. A group manager values the success of other people's businesses. This is a critical distinction because some people only derive satisfaction when they're the ones receiving the lion's share of the credit. As you might imagine, a group manager who doesn't value the success of others will fail to inspire and support the performance of the business managers who report to him. Or his actions might be dictated by his frustration; he's convinced he could operate the various businesses better than any of his managers and wishes he could be doing so. In either instance, the leadership pipeline becomes clogged with business managers who aren't operating at peak capacity because they're not being properly supported or their authority is being usurped.

This level also requires a critical shift in four skill sets. First, group managers must become proficient at evaluating strategy for capital allocation and deployment purposes. This is a sophisticated business skill that involves learning to ask the right questions, analyze the right data, and apply the right corporate perspective to understand which

strategy has the greatest probability of success and therefore should be funded.

The second skill cluster involves development of business managers. As part of this development, group managers need to know who among the function managers is ready to become business managers. Coaching new business managers is also an important role for this level.

The third skill set has to do with portfolio strategy. This is quite different from business strategy and demands a perceptual shift. This is the first time managers have to ask these questions: Do I have the right collection of businesses? What businesses should be added, subtracted, or changed to position us properly and assure current and future earnings?

Fourth, group managers must become astute about assessing whether they have the right core capabilities to win. This means avoiding wishful thinking and taking a hard, objective look at their range of resources and making a judgment based on analysis and experience.

Leadership becomes more holistic at this level. People may master the required skills but they won't perform at full leadership capacity if they don't begin to see themselves as a broad-gauged executive. By broad-gauged, we mean that managers need to factor in the complexities of running multiple businesses, thinking in terms of community, industry, government, and ceremonial activities. They must also prepare themselves for the bigger decisions, greater risks and uncertainties, and longer time spans that are inherent to this leadership level. They must always be cognizant of what Wall Street wants them to achieve in terms of the financial scorecard. Group managers can't take a specialist mentality into a realm that mandates holistic thinking. They need to evolve their perspective to the point that they see issues in the broadest possible terms.

We should also point out that some smaller companies don't have a group manager passage. In these companies, CEOs usually undertake a group manager's responsibilities.

Passage Six: From Group Manager to Enterprise Manager

When the leadership pipeline becomes clogged at the top, it negatively impacts all leadership levels. A CEO who has skipped one or more passages can diminish the performance of managers who not only report directly to him but individuals all the way down the line. They not only fail to develop other managers effectively, they also don't fulfill the responsibilities that come with this position.

The transition during the sixth passage is much more focused on values than skills. To an even greater extent than at the previous level, people must reinvent their self-concept as an enterprise manager. As leaders of an institution, they must be long-term, visionary thinkers. At the same time, they must develop operating mechanisms to know and drive quarter-by-quarter performance that is in tune with longer-term strategy. The trade-offs involved can be mind-bending, and enterprise leaders learn to value these trade-offs. In addition, this new leadership role often requires well-developed external sensitivity, an ability to manage external constituencies, sense significant external shifts, and do something about them proactively (rather than reactively). Again, CEOs value this outward-looking perspective.

Enterprise leaders need to come to terms with the fact that their performance as a CEO will be based on three or four high-leverage decisions annually; they must set these three

or four mission-critical priorities and focus on them. There's a subtle but fundamental shift in responsibility from strategic to visionary thinking and from an operations to a global perspective. There's also a "letting go" process that should take place during this passage if it hasn't taken place previously. Enterprise leaders must let go of the pieces—that is, the individual products and customers—and focus on the whole (How well do we conceive, develop, produce, and market all products to all customers?).

Finally, at this level a CEO must assemble a team of high-achieving and ambitious direct reports, knowing that some of them want his job and picking them for the team despite this knowledge. This is also the only leadership position in the organization where inspiring the entire employee population through a variety of communication tools is essential.

Leadership pipeline problems occur at this level for two common reasons:

- CEOs are often unaware that this is a significant passage that requires changes in values.
- It's difficult to develop a CEO for this particular leadership transition.

In terms of the latter, preparation for the chief executive position is the result of a series of diverse experiences over a long time. The best developmental approach provides carefully selected job assignments that stretch people over time and allow them to learn and practice necessary skills. Though coaching might be helpful as an adjunct to this development process, people usually need time, experience, and the right assignments to develop into effective CEOs.

The former point is a matter of will and conscious effort. We've seen too many CEOs fail because they didn't view this leadership turn as a necessary one to make—or to make fully. They sustain the same skills, time applications, and work values that served them well as group managers and never adjust their self-concept to fit their new leadership role. They behave as though they are running a portfolio of businesses, not one entity.

Adapting the Model to Small Business Requirements

This model was built primarily in large organizations, but we have used it successfully in medium-sized and small companies (some with as few as twenty employees). Essentially, this model reflects the hierarchy of work that exists in any company. Even small companies grow into this hierarchy as they become successful. We'd like to summarize how the model applies to smaller, growing organizations.

In a small company with less than twenty people, the only real leadership passage is a variation on our first one: from managing self to owner (instead of managing others). This owner-founder usually has to move from individual contributor to manager of other people. After designing a product or creating a service that is successful, she must hire more people, and thus begins this leadership passage. If the business is to survive, she must learn and allow time for and value skills such as coaching, planning, and rewarding employees. If she doesn't, people will either quit or (even worse) stay and perform poorly. A significant percentage of owner-founder enterprises fail to become large organizations. In many instances, their longevity is limited to one or two generations past the founder. In the venture capital funded companies, founders are frequently replaced by more experienced managers from larger companies sooner rather than later. Given all this, a small company's leadership passages are limited both by size and circumstance.

If the business evolves and more people and offices or stores are added, the owner must again go through a leadership passage. Because she can't be everywhere at once, she must appoint additional managers and hold them accountable for managerial work. She must ascertain that the work of the entire enterprise is integrated so that customers are properly served and resources are used efficiently. Essentially, this business owner is going through Passage Two: from managing others to managing managers. In this role, she must make sure the total effort is profitable and sustainable. Setting goals externally based on what customers want and what the competition is doing is another new responsibility.

Small businesses often fail when a new level of leadership-management must be added. We worked closely with a financial service institution that did acquisitions lending to small business, and they asked us to help them determine before the loan was made whether the borrowing company could manage a larger company post-acquisition. We studied almost fifty loans and found that the companies that failed to handle the increased size were headed by people who were reluctant to change their own work habits; they found it difficult to give up their hands-on involvement or trust a new layer of management. In other words, they were unable or unwilling to make a crucial leadership passage.

As a business continues to grow, understanding the passages in this expanding organization is crucial. We have worked with small company owners who have successfully adopted the following model: Figure 1.1.

The group level (managers of several businesses) doesn't apply to the small business model, and the work of the enterprise manager is done by the business manager (who runs the business for short-term and long-term results and deals with government agencies, key customers, and so on). Similarly, the functional manager in this small business model is usually absorbed by the manager-of-managers layer.

With these differences in mind, smaller companies can reap the same leadership development benefits as larger organizations.

Passages Through the Pipeline

Knowledge about each passage helps reveal "hidden" leadership problems at every organizational layer; this knowledge also provides a way to solve these problems. Too often, organizations don't realize that their leaders aren't performing at full capacity because they aren't holding them accountable for the right things. Companies focus only on the economic requirements of a given job rather than the skills, time applications, and values of a specific leadership level. As a result, a business manager is allowed to spend most of his time acquiring new customers rather than developing an effective business strategy. Or the business manager's boss, the Group Manager, never questions or explores what the business manager values about his work and whether those values are appropriate for the leadership the company requires from him. But when this manager's strategy is flawed and important goals aren't achieved, he isn't held accountable (or he isn't held accountable for the right thing).

If, however, the organization was acutely aware of these leadership passages, the problem could be quickly diagnosed and the manager developed accordingly. The organization would be aware that this business manager is still doing his job as though he's at Passage One, that he values face-to-face selling above all else, and that he has never acquired basic strategic skills crucial to his current leadership level. A development program could be created targeting these deficiencies. Concurrently, this

business manager's boss, the Group Manager, would be held accountable for developing the business manager and coaching him about the importance of strategic planning and how he should be allocating his time.

By establishing appropriate requirements for the six leadership levels, companies could greatly facilitate the succession planning, development, and selection processes in their organizations. Individual managers could clearly see the gap between their current level of performance and the desired level; they could also see gaps in their training and experience and where they may have skipped a passage (or parts of a passage) and how that's hurting their performance. The clarity of leadership requirements would also help the human resources function, in that HR could make development decisions based on where people fall short in skills, time applications, and values rather than relying on generalized training and development programs. In addition, an individual's readiness for a move to the next leadership level could be clearly identified rather than inaccurately tied to how well they performed in their previous position. These leadership passages provide companies with a way to "objectify" selection. Rather than selecting based on past performance, personal connections, and personal preferences, managers can be held to a higher, more effective standard. Organizations can select someone to make a leadership turn when he's clearly working at the level to which he is assigned and demonstrating some of the skills required at the next level. And of course, the Pipeline model provides organizations with a diagnostic tool that helps them identify mismatches between individual capabilities and leadership level and remove the mismatched person if necessary.

You should also be aware of three other benefits to the pipeline. First, having a leadership pipeline in place can reduce emotional stress for individual employees. When someone skips leadership passages and is placed in a position for which he lacks the skills, time applications, and work values it takes a large emotional toll. The Pipeline model makes skipping passages unlikely. Second, this model helps people move through leadership passages at the right speed. People who ticket-punch their way through jobs don't absorb the necessary values and skills; people who get stuck in a passage never "go" places where they can acquire new skills and evolve their leadership capacity. The Pipeline model provides a measurement system identifying when someone is ready to move to the next leadership level. Third, the Pipeline model reduces the typical time frame needed to prepare an individual for the top leadership position in a large corporation. Because the Pipeline model clearly defines what is needed to move from one level to the next, there's little or no wasted time on jobs that merely duplicate skills.

From a pure talent perspective, however, the most significant benefit of the Pipeline methodology is that you don't need to bring in stars to prime the leadership pump and unclog the pipeline. You can create your own stars up and down the line, beginning at the first level when people make the transition from managing themselves to managing others.

0-7879-5172-2