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Seven Steps for Effective Leadership Development

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Introduction

The importance of business leadership is well articulated by this observation: A good leader can make a success of a weak business plan, but a poor leader can ruin even the best plan. That's why developing effective leadership by using a consistent talent management program at all levels across the organization can return significant business value. To identify, attract, fill, and retain corporate leadership talent, companies need leadership development programs focused on hiring strategies, employee development, and career and succession planning.

Currently companies are not well prepared to fill vacancies in their leadership roles. A 2008 study found that only 36 percent of the surveyed companies felt prepared to immediately fill leadership positions, as shown in Figure 1.

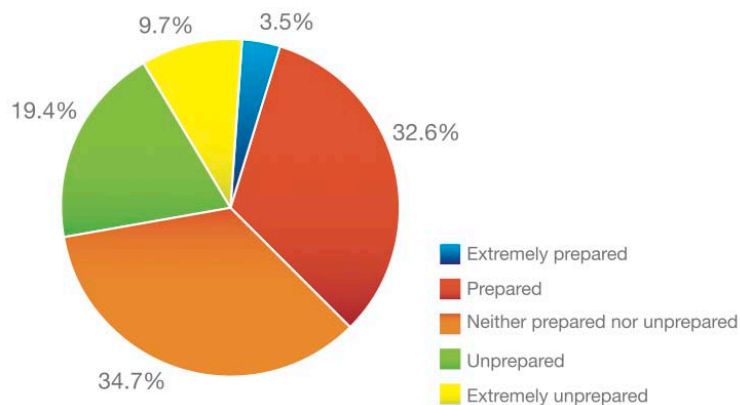


Figure 1. Companies are not prepared to fill leadership roles.

The impending retirement of the baby boom generation and the crisis in leadership during the economic recession have further elevated the importance of leadership development in the eyes of the boardroom and shareholders.

Companies face two major challenges in finding and developing leaders. They need to identify qualified candidates to fill current and future leadership roles, and they need to develop a comprehensive leadership program to cultivate and develop the leaders of tomorrow.

In the past, leadership development was focused on only a few individuals in the organization. First-generation systems to assist with leadership development were siloed and/or hard to use and were not widely adopted. Companies needed a system-enabled way to unify methods of assessing and selecting leaders, executing programs to develop skills, and measuring the success of these programs.

Now technology can be deployed to extend these practices across the enterprise and down into all levels of the workforce. This white paper explores leadership challenges and highlights the elements of a successful leadership development program that uses technology to support processes and practices.

Leadership Challenges in Business

From Enron to the prime loan mortgage crisis to AIG, leadership scandals a few years ago caused an erosion of confidence and a tremendous loss of faith in leadership of companies around the globe. In a *Harvard Business Review* poll, 51 percent of those surveyed said they had diminished confidence in business leaders at non-U.S. companies and 76 percent had less confidence in U.S. business leaders.

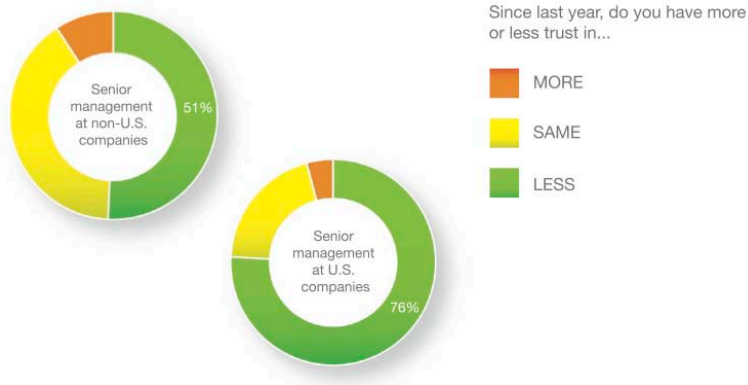


Figure 2. There is a tremendous loss of faith in the leadership of companies around the world.¹

In addition, building and retaining good leadership has been cited as a major area of concern. In the “2008 IBM Global Human Capital Study,” more than 75 percent of the survey respondents identified building leadership talent as their current and most significant capabilities challenge.

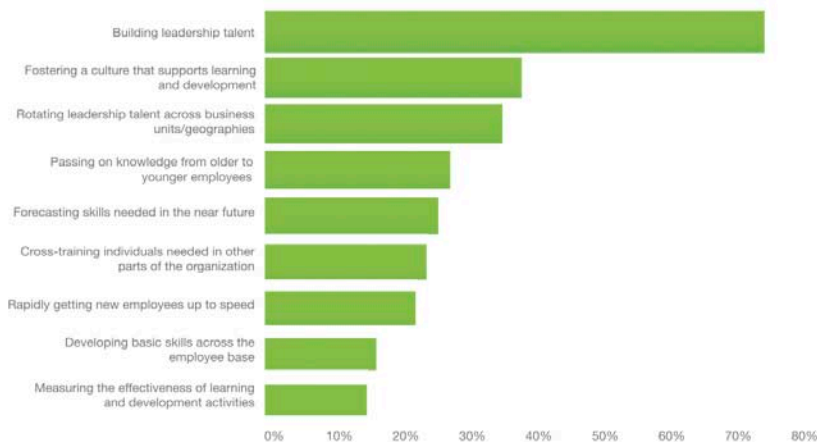


Figure 3. This graph shows the responses to this question: “Which are the most significant capability-building challenges facing your organization today?”²

¹ *Harvard Business Review*, June 2009

Even with the economic downturn, management and executive roles remained among the top five positions employers were having the most trouble filling around the globe as of 2009. This was consistent with the previous year's findings.³

The overall talent shortage has also led to challenges in leadership development, according to a global Taleo Research⁴ survey, which found that more than 80 percent of the 930 companies surveyed stated that talent shortages were hindering their leadership development efforts.

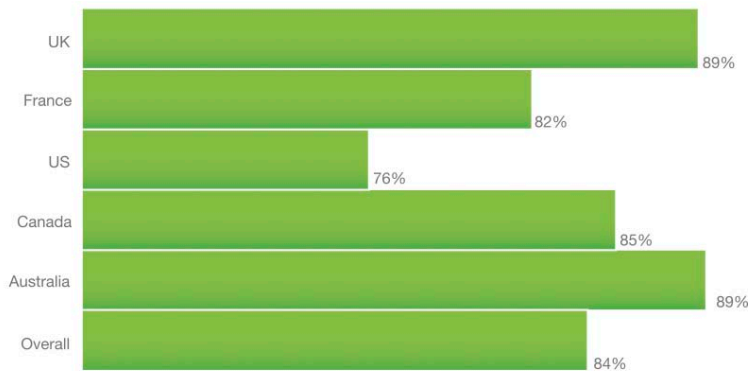


Figure 4. Global talent shortages hinder leadership development.

Filling the ranks of leadership positions will be an increasing challenge as the baby boomers retire. According to PricewaterhouseCoopers (PwC) Saratoga's "2008/2009 Human Capital Effectiveness Report," 19 percent of managers and 29 percent of executives are eligible for retirement by 2015. This anticipated baby boomer drain should raise a big red flag and propel succession planning to the front lines in the quest for future success.⁵

² "2008 IBM Global Human Capital Study"

³ "2009 Talent Shortage Survey," Manpower. Note: This survey of nearly 39,000 employers across 33 countries and territories gauged employers' ability to find the talent they needed.

⁴ Taleo was acquired by Oracle in June 2012.

⁵ "Human Capital Effectiveness Report 2008–2009," PwC Saratoga

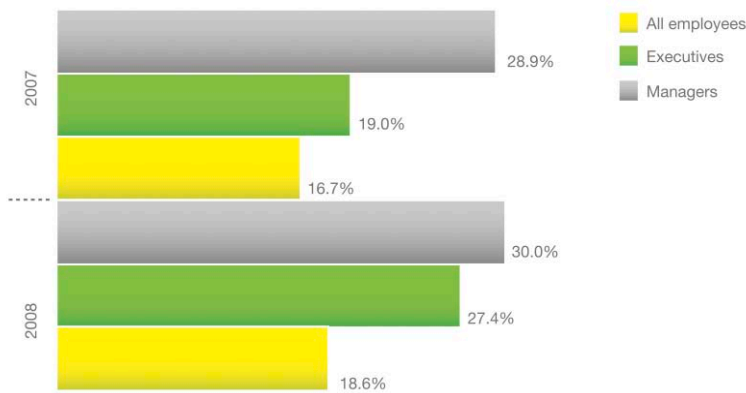


Figure 5. PwC found that 19 to 30 percent of executives and managers were eligible to retire by 2015.

The recession may have postponed retirement for many baby boomers, but this is just a temporary stopgap. Although these delays have bought companies time to create succession plans for their leaders, delivering on leadership development programs to fill these ranks will be a critical challenge in the next one to three years. So how do we recognize leadership potential and distinguish a good leader from a good manager?

Successful organizations need both leaders and managers, but there are fundamental differences between a manager and a leader. Whereas leaders influence, inspire, and drive people to a common goal, the role of a manager is to keep the day-to-day operations of an organization running smoothly. Employee development must reflect these differences and provide development of both sets of skills.

TABLE 1. FUNDAMENTAL DIFFERENCES BETWEEN THE ROLE OF A MANAGER AND A LEADER

MANAGERIAL FUNCTIONS	LEADERSHIP SKILLS
Plan and budget	Create vision and excitement
Coordinate, control, and execute activities	Set a direction and motivate and inspire people to follow
Organize and staff	Align people
Work within existing structure	Build new relationships and structures

Leadership is about influencing people so that they come to share common goals, values, and attitudes and work more effectively toward the achievement of the organization's vision.

– David Bartram, SHL, 2002

Elements of Leadership Development Programs

Major talent management functions all play a part in a comprehensive leadership development program and can be well supported by a unified talent management technology platform. These functions include

- Recruitment, to source leadership talent
- Assessments, to evaluate leadership capabilities both internally and externally
- Performance management, to monitor and make course corrections in developing leaders
- Succession planning, to avoid future leadership gaps
- Career planning, to enable employees to understand their leadership options and set development goals
- Development, to create a roadmap to fill skills gaps

A successful leadership development program begins with the alignment of leadership development with company strategy and an understanding of the type of leadership style(s) needed to execute that strategy. A continuum of steps positions an organization for current and future leadership needs.

TABLE 2. LEADERSHIP DEVELOPMENT CHECKLIST

STEPS	CHECKLIST FOR LEADERSHIP DEVELOPMENT
1	Determine the best leadership style for your organization
2	Identify current and potential leaders within the company
3	Identify leadership gaps
4	Develop succession plans for critical roles
5	Develop career planning goals for potential leaders
6	Develop a skills roadmap for future leaders
7	Develop retention programs for current and future leaders

1. Determine the Best Leadership Style for Your Organization

There are many theories about and techniques for determining the right leadership styles for an organization. The situational leadership theory, for example, argues that the best type of leadership is determined by situational variables and that no one style of leadership pertains to all given workplace situations.⁶ Identifying the leadership style for an organization by using this approach includes identification of the type of work, the complexity of the organization, and the qualifications of the followers.

The leadership style, for instance, that is required by a head of corporate security would obviously be vastly different from the leadership style of an art museum director: authoritative versus creative or charismatic.

Additional leadership styles include pluralistic leadership that revolves around group decision-making, a style that values the opinions of others. Whatever style is best suited for the CEO of an organization, a variety of leadership styles may be required to lead different groups such as manufacturing operations, marketing, finance, and creative services within a company.

One of the main reasons for the high failure rate of new CEOs—more than half never make it past the four-year mark—is poor organizational fit. Ability can take leaders only so far if they are not compatible with the company culture. Here are two ways to assess leaders' fit.

- **Get to know them better.** Psychological and behavioral assessments that are typically offered via assessment center exercises have been statistically linked to current and future success in leadership roles.
- **Understand the culture better.** Ask your board, employees, vendors, consultants, and others with connections to the organization for insight into what makes an effective leader in the company.

Use both sets of information to find alignments or disparities. If there is a glaring cultural conflict, be ready to find a better candidate who possesses the unique skills your organization requires.

2. Identify Current and Potential Leaders Within the Company

"Leaders are not born; they are grown."

– Peter Drucker (widely considered the "father of modern management"), *Harvard Business Review*, July 14, 2009

To evaluate potential leaders in the organization, a leadership program needs to identify the expected leadership skills and competencies.

⁶ P. Hersey and K. H. Blanchard, *Leadership and the One Minute Manager*, William Morrow, 1999

Competence Models

Competence models can be used to identify leadership potential during performance reviews and career counseling sessions. One model, developed by SHL, a leading assessment testing consultancy, uses SHL's Great Eight leadership competencies.

- Creating and conceptualizing
- Analyzing and interpreting
- Leading and deciding
- Interacting and presenting
- Adapting and coping
- Supporting and cooperating
- Enterprising and performing
- Organizing and executing

Whether companies develop a competence model of their own or use a model such as SHL's, they need to define the success measurements and build them into their performance management system. This will assist in setting the evaluation criteria and the competence standards from a must-know and must-demonstrate perspective.

Leaders can be found both internally and externally. Companies must weigh the cost and timing of developing internal leadership against the cost and availability of hiring from the outside.

Identifying Internal Leaders Through Performance Management

Based on key leadership competencies, capabilities are tested and evaluated during the performance management review process. During the performance appraisal process, managers can assess goals and development plans, solicit 360-degree feedback, and rate the individual's progress to date.

Figure 6 shows an example of a way for managers to rate the potential and performance of a leader. On the y-axis, potential is measured by the length of time it will take for a leader to be ready to assume a position. Across the x-axis are the measurements of how well the employee is performing in the role. The nine-box model in the middle tracks performance against potential. When an employee reaches a high level in both potential and performance, that person is ready for a promotion. Succession planning and career planning are also a key part of the performance review cycle.⁷

⁷ See Steps 4 and 5, respectively.

Potential/Performance Matrix				
Potential	Significant (move 1 or more levels in the next 2-5 yrs)	Counsel	Develop	Promote
	Good (move 1 level in the next 5 yrs)	Counsel	Develop	Move Sideways
	Limited (reached promotional potential)	Counsel	Develop	Hold
		0% - 50% Threshold	50% - 100% Target	100% - 150% Stretch
		Performance		

Figure 6. Track the potential and performance of a leader before promoting that person.

Advantages of Developing Internal Leaders

One of the key advantages of developing leaders internally is that they achieve productivity almost 50 percent faster than external candidates.⁸ This is particularly true for organizations in which knowledge of internal politics and structures is required to get the job done.

Aberdeen Group reported that two-thirds of best-in-class companies measure the percentage of key vacancies filled by internal candidates as a way to gauge the success of their succession planning function. Additionally, promoting leadership development to lower levels of the organization also has a positive impact on morale and therefore assists in employee retention.⁹

Leadership capabilities can be developed in several different ways, but on-the-job training is becoming increasingly popular with company boards. Booz Allen Hamilton reported in 2009 that new CEOs brought in from the outside to lead the company comprised about 24 percent of the incoming class, compared to 76 percent promoted from within.

Furthermore, boards now appear to be “road-testing” potential leaders as chief operating officers or chief financial officers before giving them the wheel; 15 percent of new insider CEOs were auditioned, meaning that they had joined the company they now led within the past three years.¹⁰

⁸ “Mellon Financial Corporate Learning Curve Research Study”

⁹ “Best in Class Talent Management Metrics,” Aberdeen Group, 2008

¹⁰ CEO survey, Booz Allen Hamilton, 2009

When leadership positions cannot be filled from within the company and the company's strategy is to create a pipeline of future leaders, recruitment should use the same measurements to test the existing competencies or future potential of candidates and to assess internal candidates.

Identifying Leaders Through the Recruitment Process

One way to ensure a consistent flow of leadership talent into a company is to recruit the right people in the first place. Online preassessments and full assessment testing can help ensure that the right candidates are on the short list.

Online preassessment tools can also be used to accelerate the filtering process, by eliminating from consideration those candidates who do not pass a minimum threshold score in the preassessment screen. Unqualified candidates are automatically filtered out, not on the basis of their résumés but, rather, on the basis of a self-administered online test or questionnaire. The short list creation activities in the recruiting process are streamlined. Significant amounts of time can be saved on each job requisition, enabling the recruiter to focus time and attention on the more promising candidates.

The advantage of using assessments is that they help you avoid wasting time during the filtering process—it typically takes 80 percent of the time to get to a short list. That leaves only 20 percent of the time to invest with quality candidates. Automated prescreening provides up to a 42 percent increase in recruiter efficiency.¹¹

Longer assessment tests can qualify candidates for existing positions or identify potential talent to build bench strength for future leaders. Traditional formal assessment testing is not generally used for senior-level executives but can be useful for future rising stars during campus recruitment, management training, or leadership development programs.

Case Study: Whirlpool—Creating Demand for Positions Through Innovation¹²

With the use of technology and innovation, Whirlpool Corporation is able to attract the top talent it needs in order to meet the challenge of staying ahead of the demand curve. The company's success can be measured by how fast it attracts and engages talent, an increased presence on college campuses to get that demographic excited about an appliance company, and increased interest in its leadership development program.

What were the results? Applications to the career Website for leadership development programs tripled in 2008 and 2009.

¹¹ "Hidden ROI of Talent Acquisition," Taleo Research, 2006.

¹² "Whirlpool Focuses on Innovation to Attract Talent," Taleo Case Study, 2010.

In addition, through innovation on the career Website, this century-old company is perceived by millennials as innovative, transparent, and fun. Whirlpool gives millennials what they want, by stressing creative solutions and thinking outside the box.

Additionally, through project postings, Whirlpool is able to provide flexibility in its career development. This is one reason Whirlpool continues to win industry awards and recognition. *BusinessWeek* listed Whirlpool in 2008 as one of the best places to start a career, and *Fortune* placed the company on its “Top 20 Global Companies for Leaders” list.

3. Identify Leadership Gaps

The identification of leadership gaps is an assessment of both the individuals and the readiness of the organization. To help fully recognize leadership gaps, companies should

- Determine current and future leadership requirements
- Compare those requirements with the current leadership team
- Identify current leaders who may be at risk of leaving
- Identify succession plans for those at risk of leaving or planning to leave
- Look at the leadership development pipeline
- Identify gaps in skills and the time required to fill those gaps

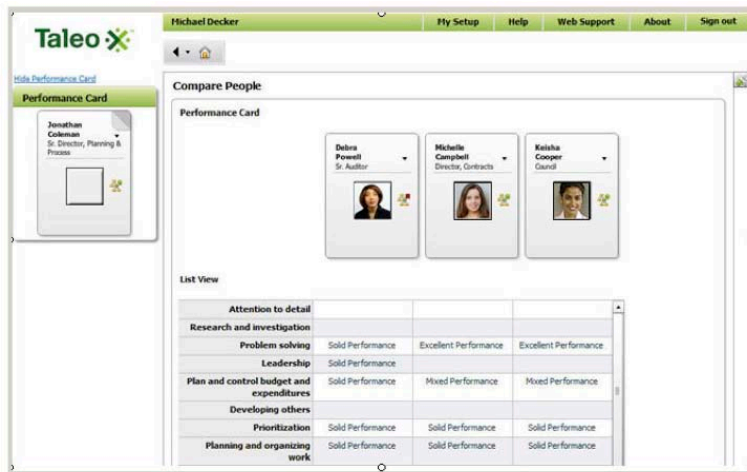


Figure 7. To determine leadership gaps, assess current leadership teams against your requirements.

TABLE 3. EXAMPLE OF LEADERSHIP GAP ANALYSIS

ROLE	RISK OF LEAVING	SUCCESSOR	STATUS	DEVELOPMENT PLAN
CEO	Low	John Jones	Status quo	J. J. needs additional business planning work. In year 1 of three-year expat assignment as EMEA president.
CFO	High	Two outside candidates	Status quo	
VP of Operations	Low	Jane Smith	J.S. ready in one year	Leadership training in progress. Complete Q3.
Director of Products	Med	Allen Crow	A.C. ready today	On file

4. Develop Succession Plans for Critical Roles

Why is succession so important? A good succession plan is good for productivity, according to former General Electric CEO Jack Welch and former *Harvard Business Review* editor Suzy Welch. Succession planning avoids disruption and employee trauma when the CEO leaves, whether the departure is anticipated or not. Succession planning should be company policy, dealt with openly and deliberately by corporate boards.¹³

Creating a succession plan for critical roles should not be confined to executive roles. As part of the leadership program, companies should evaluate critical leadership roles throughout the organization. Yet, an i4cp pulse survey found that whereas more than 70 percent of large companies have succession plans at the director level, only 41 percent have them at the manager level.

A Bersin & Associates study found that a majority of companies implement succession management practices at only the most senior executive levels. Fewer than 40 percent of the respondents said their companies included midlevel managers and skilled professionals in succession planning initiatives, and just 11 percent included first-line supervisors.

Bersin's research findings concluded that "enduring organizations"—those that survive and prosper over long periods of time—execute succession management practices across all levels of the organization. This disparity highlights "key vulnerabilities in most organizations—a lack of bench

¹³ Kevin Oakes, "Don't Be Like Brett Favre," *TrendWatch*, Issue 463, June 12, 2009

strength at the supervisory and mid-level management levels and the neglect of high-potential talent in mission-critical roles.”¹⁴

An analysis by company size shows that companies with more than 10,000 employees have a broader view of developing leadership talent across the organization.¹⁵

**TABLE 4. DRIVING LEADERSHIP DEVELOPMENT INTO THE ORGANIZATION, BY SIZE OF WORKFORCE
PERCENTAGE OF COMPANIES WITH SUCCESSION PLANS FOR VARIOUS LEVELS,¹⁶**

NO. OF EMPLOYEES/ LEVEL	Fewer than 1,000	1,000–4,999	5,000–9,999	More than 10,000
CEO	36.5%	27.3%	47.6%	59.5%
CFO	27.0%	31.8%	52.4%	64.3%
COO	18.9%	27.3%	47.6%	5.0%
CIO	13.5%	31.8%	47.6%	54.8%
Vice President Level	18.9%	50.0%	57.1%	76.2%
Executive Level	31.1%	45.6%	57.1%	81.0%
President Level	16.2%	40.9%	33.3%	61.9%
Director Level	31.1%	68.2%	52.4%	71.4%
Manager Level	23.0%	54.6%	33.3%	40.5%
Other	13.5%	22.7%	23.8%	11.9%

¹⁴ “High-Impact Succession Management: Best Practices, Models and Case Studies in Organizational Talent Mobility,” Bersin & Associates

¹⁵ “Taking the Pulse—Succession Planning,” i4cp, July 2008

¹⁶ Institute for Corporate Productivity, i4cp

Coaching and Mentoring

The apprentice model has seen a resurgence for grooming leadership. Coaching and mentoring have been gaining favor as elements of succession planning programs.

A 2008 American Medical Association (AMA) study, “Coaching: A Global Study of Successful Practices,” surveyed more than 1,000 business leaders around the world and found that nearly 60 percent of North American companies use coaching for high-potential employees frequently or a great deal and that about 42 percent use coaching of executives to the same extent. These percentages were even higher in the international sample of the same AMA study.

Using social media in mentoring programs is beginning to be a popular way to support external mentoring programs.

“Internal coaches often provide lower cost of services, exhibit more consistency in methods and understand the organizational culture. However, they may also be perceived as less credible. Leaders may consider internal coaches to be less confidential. External coaches can bring greater objectivity, fresher perspectives, higher levels of confidentiality and experience in many different organizations, industries and business environments.”

– “Coaching: A Global Study of Successful Practices,” AMA, 2008

Technology to Support Succession Planning

For the greatest efficacy, succession planning should be supported by technology systems that provide the ability to

- Create backfill strategies that use data captured in the recruiting and performance review processes, coupled with individual career plans
- Add multiple candidates to a succession short list and view all the best options—without necessarily adding them to the plan
- Display multiple talent profiles—from C-level executives to individual contributors—side by side to quickly identify the best fit
- Track candidate readiness based on skills, competencies, and performance; promote top candidates based on relative ranking and composite feedback scores

5. Develop Career Planning Goals for Potential Leaders

Career planning used to be considered the responsibility of an individual. However, research shows that companies that support career planning for their employees gain in retention, engagement, and protection of the leadership pipeline. A 2008 Taleo Research study asked employed college graduates why they had left their first employer; 61 percent had left because the employer didn’t offer career advancement or organizational opportunities.

According to a 2009 Taleo Research paper, “Engaging Times,” workers need more than a job. Even in a recession, they require a higher level of engagement that employers are not currently providing. Findings from the study include these glass-half-empty/half-full observations: Only

- 45 percent have visibility into internal job opportunities
- 42 percent can see their next step up the career ladder
- 57 percent have career communications with their employer
- 40 percent have access to online career tools

Even if employees are not actively looking for a job, one survey found that one in three of the responding employees had recently been approached by another organization hoping to lure them away and that 77 percent of workers ages 36 to 40—right in the pipeline for leadership—last in new jobs less than five years.¹⁷

If companies do not provide employees with career planning and advancement opportunities, their competitors will. Self-service career planning will help motivate and retain talent, by empowering employees to view a career plan and generate their own within the company.

Combining employee development with career planning enables employees not only to explore potential career paths but also to monitor and progress through the development activities necessary to attain them. Competencies can then be tied to relevant development activities, thereby incorporating development planning right into the performance review process, which supports career development and succession planning.

6. Develop a Skills Roadmap for Future Leaders

Once the high-potential employees have been identified, a skills roadmap should be developed for the future leaders. Because people learn and develop new skills both inside and outside the classroom, a development program needs to support both traditional and nontraditional learning.

To support less-formal learning, activities such as coaching, rotational assignments, job shadowing, mentor relationships, and project leadership should also be part of an employee's development plan. At the core, the very definition of learning should reflect today's nontraditional learning and incorporate social networking tools into the development process.

¹⁷ "The Battle for Brainpower," in "The Search for Talent: Why It's Getting Harder to Find" (special report in *The Economist*, October 7, 2006)

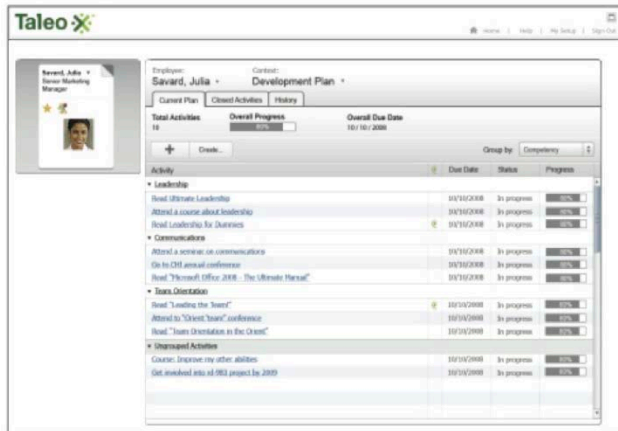


Figure 8. Develop a skills roadmap for future leaders.

A “Tomorrow’s Leaders” study by Henley Management College highlighted particular skills gaps in communication and team bonding as well as the appropriate use of emerging technologies.

Program	Rating
Undergraduate programs	
MBA programs	
Non-degree, online courses	
Non-degree, Exec Education courses	
Work Experiences in your organization	
Your organization’s training & development program	Higher Performers Lower Performers
Your organization’s performance evaluation program	Higher Performers Lower Performers
Your organization’s mentoring program	Higher Performers Lower Performers
Your organization’s external executive coaching service	Higher Performers Lower Performers

Fair (3.0-3.5)	Good (4.0-4.5)	Very Good (5.0-5.5)
Fair-Good (3.5-4.0)	Good-Very Good (4.5-5.0)	Excellent (5.5-6.0)

Responses were on the following scale: 1=Poor, 2=Marginal, 3=Fair, 4=Good, 5=Very Good, 6=Exceptional. Respondents also had the option to indicate Not Applicable / Could Not Evaluate.

Figure 9. Henley Management College studied the effectiveness of skills development programs for developing leaders.¹⁸

¹⁸ “In Challenging Times, Leadership Skills and Leader Development Matter,” *Workforce Management Magazine*, February 24, 2009

Case Study: Coca-Cola—Leadership Development Delivers the Goods¹⁹

Stevens J. Sainte-Rose, group HR director at Coca-Cola, says, “The uniqueness of Coca-Cola is in engaging consumers with the brand, so marketing talent is key. Without the right people, we can’t deliver the winning formula.”

Coca-Cola therefore embarked on a pioneering bespoke program to not only identify its rising marketing stars but also to plan their development, ensuring that the company had a strong pipeline of highly creative and innovative thinkers who could be the marketing leaders of tomorrow filling senior vacancies around the world.

In developing a bespoke program, Coca-Cola chose to partner with international assessment consultancy SHL, which worked with Coca-Cola’s talent professionals and senior marketing leaders to create a two-day development program for high-potential marketers aspiring to become senior marketing leaders.

Looking to its strongest-performing marketers, Coca-Cola developed a set of competencies to define the “ideal” skills and behaviors of a senior marketing leader. This was undertaken with the global backdrop in mind, to ensure that competencies were calibrated internationally, allowing for a level playing field that did not disadvantage any participants.

Eight handpicked marketers were then chosen to undertake a two-day pilot in Europe. Although the pilot ran in Paris, Coca-Cola participants came from all over the world. The aim was for existing marketing leaders of the business to see and develop potential from as many geographies as possible, making selection of the best as equitable and as representative as possible.

The program was also designed to give participants an opportunity to bond and establish a global alumni network of supportive colleagues that would continue beyond the event. Extremely senior Coca-Cola marketers made up an observer panel alongside highly experienced occupational psychologists from SHL, proving Coca-Cola’s commitment and dedication to the program.

So successful has the development program been that Coca-Cola and SHL now run it every three to six months in locations around the world in an effort to ensure that Coca-Cola will never have to look outside its own talent pool to fill key strategic marketing positions vital to maintaining the iconic Coca-Cola brand image.

The company’s mission is “to refresh the world ... in body, mind and spirit,” and Coca-Cola accepts that to do this, its vision needs to include “being a great place to work where people are inspired to be the best they can.”

¹⁹ This case study is based on an SHL article entitled “The Coca-Cola Company Partners with SHL to Identify Future Senior Marketing Leaders,” available on the SHL Website (shl.com).

7. Develop Retention Programs for Current and Future Leaders

Monetary as well as nonmonetary rewards can be used to improve the retention of any employee, but particular attention needs to be paid to high performers and future leaders. A Taleo Research survey polled working adults over the age of 18 to test some monetary versus nonmonetary reward systems. Clearly, as shown in Figure 10, salary and bonuses ranked as the top rewards for doing a good job, but promotions and work/life balance were also important.²⁰

Linking pay to performance can be a motivator for an employee, but goal alignment helps potential leaders stay focused on what is important to the company. Recognize excellent performance, and base the upside of bonus potential on the success of both the employee and the company.

Another way to retain and motivate future leaders is to involve them in the decision-making process. This teaches them the stated mission, values, and goals of the organization as well as how they contribute to the success of the business. As the study shows, acknowledgement of a job well done is more important than stock options.

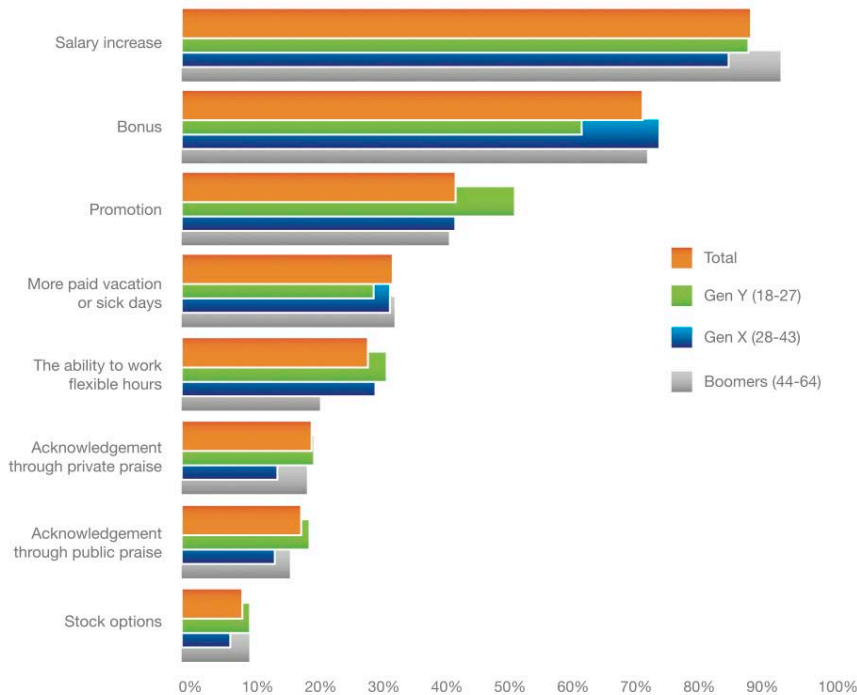


Figure 10. A survey polled employees on the best reward for a good job.

Leadership retention is critically important for all organizations, for two main reasons:

²⁰ Taleo Research and Harris Interactive poll, August 2008

- Turnover is expensive.
- Top performers drive optimum business performance.

Case Study: The Cost Associated with Healthcare Executive Turnover²¹

According to a 2006 report from the American College of Health Care Executives, the median tenure of a hospital CEO is only 43 months, or about three and a half years.

The direct and indirect costs of executive churn can be staggering. Consider a CEO who makes US\$200,000 a year. The direct costs of losing that person include everything from severance pay to recruitment fees and expenses, not to mention the next CEO's probable increased salary. According to one estimate, the final tally can be as high as two to three times a CEO's salary. Using the hypothetical CEO, that adds up to a median of US\$500,000.

The costs do not end there. In many cases, other members of the senior leadership team—VPs, the COO, the CFO, and so forth—follow the CEO out the door. The “2005 Study on Executive Turnover in Healthcare,” from the University of Oklahoma, estimated that many on the existing leadership team will leave within a year of a new CEO's arrival.

If a leadership team has eight members and four leave within the first year, the estimated direct cost of this turnover is US\$1 million (4 positions × 2.5 salary cost × US\$100,000 leadership salary = US\$1 million). Combine this with the direct cost of the CEO turnover, and the total bill is approximately US\$1.5 million.²²

Conclusion

A well-designed leadership development program is the key to identifying, attracting, filling, and retaining corporate leadership. The elements of the program should include a strategy and execution of the seven-step process outlined in the leadership development checklist in Table 2.

Leadership development is a critical aspect of attaining optimum output from organizational talent management and requires the effective execution of many talent management practices. Technology applications can provide the enabling platform, including recruitment, assessments, performance management, succession and career planning, and development programs.

The benefits of an optimized leadership program include

- A pipeline of leadership talent

²¹ Daniel J. Sinnott, “Leadership Turnover: The Health Care Crisis Nobody Talks About,” *Trustee Magazine*, July 2008

²² Ibid.

- Talent aligned with corporate goals
- Improved morale
- Increased retention
- Improved leadership skills
- Consistent measurement through development and performance management

All organizations need strong leaders in order to be successful. Talent management practices implemented with robust technology applications can effectively identify and develop—from all levels of the workforce—the leaders who will best drive business performance.



Seven Steps for Effective Leadership
Development
June 2012

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