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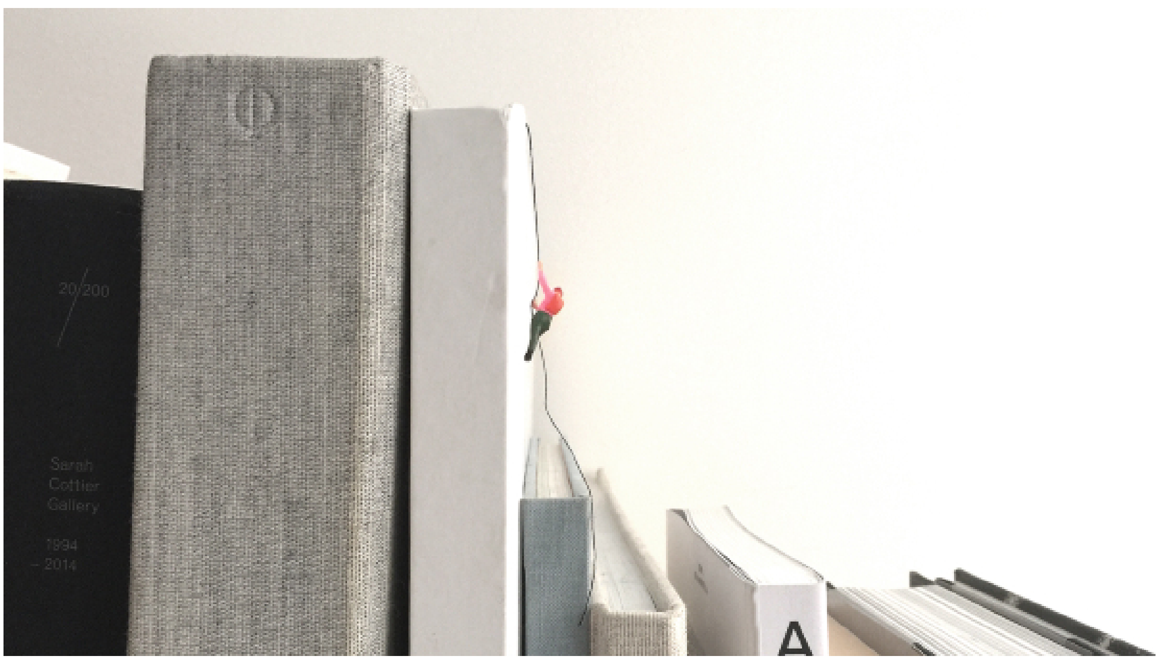

PAUL GARBETT FOR HBR

Investments in traditional leadership development are often misguided and a waste of money.

It's not that development itself isn't important. In a Deloitte study of 7,000 organizations this year, 89% of executives rated "strengthening the leadership pipeline" an urgent issue. That's up from 86% last year, and the trend makes sense. Organizations are continuously promoting people into management, and those new leaders struggle with the transition. To help them in their new roles, companies spend almost $14 billion a year on courses, books, videos, coaches, tests, and executive education programs — and such spending rose 10% last year.

But there's little evidence that much of this works. Barbara Kellerman from Harvard, Jeffrey Pfeffer from Stanford, and numerous other experts have pointed out that the development market is filled with fads — slick behavioral models and fun, engaging tools — that don't really move the needle.

Right now, for example, the hot topic is "digital leadership" — driving organizations to be more innovative, iterative, and collaborative as they develop digital strategies to disrupt or transform their current business. Deloitte's research with MIT shows that 90% of executives believe their companies are not "becoming digital" fast enough, and 70% believe they do not have the skills to lead this change. So they're looking for ways to cultivate those competencies and, in the process, feeding the fad-driven leadership development market.

They should be directing their attention elsewhere. To explain why, I'll share some findings from a study my colleagues and I just completed at Deloitte. We surveyed and interviewed executives from more than 2,000 companies, asking extensive questions about how they develop leaders, how their companies are managed, how they coordinate their work, and what their organizational culture looks like. We mapped this data against dozens of financial and leadership metrics, clustering companies into four groups (ranging from low- to high-performing). Unlike other studies in this vein, we didn't examine leadership development, per se — we analyzed the impact of different management practices on business performance as a whole.

Here's what we learned about companies that have strong leadership pipelines *and* strong financial performance:

First, they focus intently on culture. They talk about it, and they live by it. People in the company know what it stands for, and this gives them freedom to lead in different but complementary ways. The culture at GE, for example, centers on execution, simplicity, and innovation. And these values are reinforced in every division and department, and whenever someone takes on a leadership role.

Second, these companies believe in matrix management and risk taking — both attributes are highly predictive of long-term revenue per employee and gross profit margin. A matrixed organization forces leaders to collaborate beyond boundaries. To be effective, they must build networks, move from role to role, and build depth of understanding across the business. Leaders' growth in these areas leads to enduring growth for the enterprise.

Third, these companies believe in learning through exposure. They develop leaders through interactions and relationships with colleagues, experts in their field, and customers, and through work in new contexts. At W.L. Gore, for example, all leaders are "sponsors" of others — they take responsibility for exposing their teams to growth assignments.

Fourth, these companies believe in knowledge sharing. They have after-action reviews, they talk about bad news, and they exhibit traits of what we call a "learning culture." They are inclusive and create an environment where everyone can speak up, so problems are brought to the surface quickly.

And fifth, while these companies do have leadership "programs," they are embedded in the business, and HR does not operate alone. One major pharmaceutical provider embeds senior HR leaders in each unit to make sure leadership discussions, programs, and ongoing assignments are relevant to the business — yet also coordinated with other efforts throughout the company. And these HR partners are rotated into and out of the business units, so they all have line leadership experience.

Organizations that follow these basic rules bring in 37% more revenue per employee, are four times more likely to be efficient (measured through profitability), and are three times more likely to be market leaders and innovative by nature than the low performers we studied.

The leadership training industry often sells us "stuff" that we don't need to buy. The most effective tools for building leaders are culture, network-based management, learning by exposure, knowledge sharing, and a business-driven approach to HR.

Josh Bersin is founder and principal at Bersin by Deloitte, a leading provider of research-based membership programs in human resources (HR), talent, and learning. He is a global research analyst, public speaker, and writer on the topics of corporate human resources, talent management, recruiting, leadership, technology, and the intersection between work and life.