Leadership

Developing Leaders
Now is the time to invest in your talent

By Mark O’Donnell

A recent report by Deloitte shows that leadership development programmes are viewed as a critical success factor for organisations.

You might think leadership development should not be the top priority for businesses amidst all the challenges that currently abound but a recent survey carried out by Deloitte Ireland found that the development of effective leaders who can execute an organisation's strategy and increase the performance of those around them is a key differentiator in today's marketplace. In fact, 77% of respondents to Deloitte's Developing Leaders in Ireland survey believe that leadership development is a very important factor in the success of their organisation.

The rationale for this seems logical - those people that the organisation invests in and develops will help lead it through difficult times. It is widely accepted that to succeed in today's business environment, generic business strategies and sophisticated technology solutions are no longer the sustainable sources of competitive advantage they once were. Changing workforce demographics and the increasing complexity of work in general make it harder to find good leaders who can take on responsibility for significant initiatives. Furthermore the cost of buying people in and the challenges associated with integrating them are forcing organisations to invest earlier in the attraction and development of emerging leaders in order to ensure a healthy supply of managers capable of taking on senior roles.

For this reason, the development of effective leaders who can execute an organisation's strategy is now of increased importance. This applies both to private sector firms with more of a bottom line focus, and to public and non-profit sector organisations that operate in an environment where expectations are high. In a recent global survey on people and business challenges conducted by Deloitte Touche Tohmatsu and the Economist Intelligence Unit all executives viewed leadership development as a top priority, rating it far more critical than traditional HR issues such as compensation, benefits and HR operational efficiency.

The results of the survey show that some companies are making huge strides to try to develop, grow and nurture present and future leaders among their staff, while others are only just setting out on this journey. The findings show that many Irish organisations have the basic building blocks in place for the development of leaders such as one-to-one coaching and performance management / goal-setting. A few organisations have evolved to a more sophisticated approach which combines a range of activities into a well-coordinated and mutually reinforcing leadership development agenda.

Critical Success Factors

The research reveals some common traits of successful leadership development programmes. It is clear that an effective leadership development strategy embraces all aspects of an organisation's activities and encourages the development of leaders at all employee levels.

The core elements of best practice leadership development are:

- HR Managers with responsibility for leadership development have a clear understanding of their organisation's strategy and are skilled at linking leadership development activities with the business strategy.
- Leadership development activities have clearly-stated, measurable objectives that are systematically reviewed to assess programme effectiveness and return on investment.
- Investments in leadership development activities are made on a sustainable basis with at least a three-year time frame, and the activities which are implemented match the overall strategic direction of the business.
- Senior business leaders and managers play an active role in the leadership development process, providing on the job guidance as well as coaching / mentoring and classroom training activities.

Two-thirds of firms surveyed have a clear strategy for leadership development - they know why they are carrying out these programmes and what they are trying to achieve. The top four reasons firms for investing in leadership development include:
Organisational change and restructuring
Insufficient leadership capability and bench strength
New areas of business and / or growth
Changing business strategy

The survey shows the breakdown of those targeted for leadership development programmes as follows:

- Senior management (64%)
- Middle management (61%)
- Executive management (49%)
- Front Line management (41%)

Developing effective programmes

Any learning and development programme that requires investment will need to demonstrate its effectiveness and value for money – and never more so than now. Therefore it may be surprising that when it comes to the specific nature of leadership development activities, it appears that there is a mismatch between the most common methods and the most effective ones. One-to-one mentoring with a senior business leader, stretch assignments and performance management are considered to be the most effective methods of leadership development, however, these are not always the most commonly used initiatives. On the other hand external open courses and classroom training are two of the most popular methods, but do not register at all in the top five most effective methods. These top five most effective measures are:

- One-to-one mentoring relationship with senior business leader
- Stretch assignments / developmental roles
- Performance management process, goal setting
- One-to-one coaching with leadership specialist
- One-to-one coaching with line manager

A common rule of thumb for best practice leadership development is the 70:20:10 ratio:

- 70% of development takes place through on the job experience
- 20% takes place through meaningful one-to-one conversations, i.e. mentoring, coaching, and performance management
- 10% takes place through classroom training, reading, seminars, etc.

The survey confirms that the methods considered most effective fit firmly in the 70% on the job category and the 20% meaningful one-to-one conversations category.

Organisations with the most mature and sophisticated leadership development approaches tend to use the more effective methods, and are skilled at integrating the various methods in a way that has real impact. The key is starting with job design which focuses on developing critical competencies, and then making sure effective goal-setting and feedback takes place which accelerates the leadership learning process. Coaching is used to facilitate significant transitions such as the first 100 days in a new role or taking on a specific business challenge, whereas mentoring provides longer term guidance and promotes greater loyalty to the organisation. Finally classroom training is used to provide targeted, relevant content and an opportunity for leaders to learn from and network with each other.

Collaboration is key

As mentioned, it is vital to the success of leadership development programmes that senior business leaders and managers play an active role in the process. Despite this, only 27% of respondents believe that they are in fact heavily involved in supporting leadership development activities within their organisation.

Similarly, HR must be integrated into the overall strategy planning of the organisation to develop programmes that meet the needs of the business – however the survey shows that just over a third of HR managers responsible for leadership development have an excellent understanding of their organisation’s strategy.

It is important to realise that collaboration between the two is paramount – only by working together will organisations develop effective leaders who will be critical in meeting the challenges ahead.

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IASB sets out timetable for IAS 39 replacement and its conclusions on FASB FSPs
At a meeting in late April, the International Accounting Standards Board (IASB) set out a detailed six-month timetable for publishing a proposal to replace its existing financial instruments standard, IAS 39 Financial Instruments: Recognition and Measurement. The IASB also announced the results of its 30-day accelerated consultation on the Staff Positions (FSPs) on fair value measurement and impairment published recently by the US Financial Accounting Standards Board (FASB).

The IASB's comprehensive project on financial instruments responds directly to and is consistent with the recommendations and timetable set out by the Group of 20 (G20) nations at their meeting earlier this year. They called for standard-setters 'to reduce the complexity of accounting standards for financial instruments' and to address issues arising from the financial crisis, such as loan-loss provisioning. The IASB will work jointly with the FASB to pursue the objective of a globally accepted replacement of the requirements on accounting for financial instruments.

At the April meeting, the IASB also reviewed the FASB FSPs on fair value measurement and impairment. The IASB considered comments received from its consultation on the FSPs and advice received from the Financial Crisis Advisory Group (FCAG), the Standards Advisory Council (SAC), participants at the three joint IASB-FASB public round tables held in November and December 2008, and other interested parties. The IASB concluded the following:

- Fair value measurement: The guidance on fair value measurement issued by the FASB is consistent with existing guidance on IFRSs, contained in the IASB's Expert Advisory Panel report, Measuring and disclosing the fair value of financial instruments in markets that are no longer active. Therefore, a level playing field exists in this area. To ensure ongoing consistency in the application of IFRSs and US GAAP, the IASB will include relevant guidance from the FSP in the IASB's exposure draft on fair value measurement, which will be published in May.

- Impairment of financial assets: On the important question of impairment, the IASB agreed with the widespread view among commentators that the IASB should improve its impairment requirements. The IASB will take up the broad issue of impairment as part of its comprehensive and urgent review of IAS 39. The IASB believes that an immediate response to the recent FSP on impairment is unnecessary. The IASB will work with the FASB as part of its comprehensive project to ensure global consistency in impairment approaches.

FRC encourages SEC to allow US companies the option to use IFRS
The Financial Reporting Council (FRC), the UK's independent regulator responsible for promoting confidence in corporate reporting and governance, has responded to the US Securities and Exchange Commission (SEC) on its proposed Roadmap on the use of International Financial Reporting Standards (IFRS) by US companies.

The FRC has commented on the proposals because it believes that permitting US domestic issuers to use IFRS will be significant to the future development and credibility of IFRS, a matter of considerable importance to the FRC.

The FRC supports the widespread adoption of IFRS and encourages the SEC to permit US issuers who can demonstrate their competence in IFRS to be able to adopt IFRS in place of US Generally Accepted Accounting Principles (GAAP).

In its landmark decision in 2007 to allow non-US companies to use IFRS without the need to reconcile to US GAAP, the SEC concluded that IFRS was a high quality set of accounting standards and that IFRS and US GAAP could co-exist in the US capital markets. The FRC believes that the conclusions remain valid and justify extending the IFRS option to US companies.

The FRC is also encouraging the SEC to clarify that US companies that do adopt IFRS will not be at risk of being required to return to US GAAP at a later date if the SEC decides not to mandate IFRS for all US companies.

Round table discussions on off balance sheet activities
The International Accounting Standards Board (IASB) is holding round table discussions on consolidation and the derecognition of financial instruments. The discussions will take place in June 2009 in Asia, Europe and North America.

The round tables follow the publication of the IASB's proposals on consolidation and derecognition in December 2008 and March 2009 respectively.

The objective of the round tables is to seek further views on the consolidation proposals (for which the comment deadline closed in March) and to discuss the interaction of those proposals and the proposals on derecognition, particularly with regard to securitisations and the use of structured vehicles for off balance sheet accounting.

Off balance sheet activity was identified as a matter of concern by the G20 group of leaders at their meeting in Washington in November 2008. In response to those concerns, the IASB accelerated its work in this area and announced at a joint meeting with the US Financial Accounting Standards Board (FASB) that the two boards will work together to develop a joint approach to off balance sheet activity once the FASB has completed short-term amendments to its own standards.

The round table discussions will take place in Toronto on 1 and 2 June, in Tokyo on 8 and 9 June and in London on 15 and 16 June. Each session will last one day and will be held in public. Interested parties can register through the IASB's website on www.iasb.org.

The IASB will use the insights gained at the round tables in working towards issuing its new requirements on consolidation by the end of 2009 and on the derecognition of financial instruments in the first half of 2010.