WHY THE TRADITIONAL APPROACH TO LEADERSHIP DEVELOPMENT IS FAILING AUSTRALIA

AND WHAT WE CAN DO ABOUT IT

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SUMMARY

As a result of the end of the resources investment boom, Australian organisations and their leaders face unprecedented challenges: they must think more innovatively and strategically, and they must work harder to engage employees and demonstrate their own integrity. Maximus' analysis shows that the current state of leadership development in Australia is not sufficient to meet these challenges and could be failing to position the country for the future. We propose a series of concrete recommendations to close this gap.

THE MINING BOOM IS OVER.
WHAT'S NEXT FOR AUSTRALIA?

In the decade leading up to 2013, Australia was blessed with a mining boom and a strong, steadily growing economy. The statistics are telling. GDP rose from approximately US$466 billion to more than US$1.5 trillion in 2013. Wages rose, poverty fell, and the government used this incredible growth for tax relief and new programs. Arguably most Australians felt the benefits. In fact, it's estimated that the mining boom boosted real per capita household disposable income by 13 per cent by 2013. Perhaps more importantly, the boom allowed the country to largely escape the most crippling effects of the global financial crisis. Australia earned the nickname "the lucky country".

Since 2013, however, the luck seems to have run out. Unemployment reached six percent in January 2016, up from four percent during the best days of the mining boom. The Aussie dollar has come down off its dizzying run north of parity with the US dollar. The Reserve Bank has taken multiple actions to keep the economy growing. But it's not all doom and gloom. Fears of a hard landing haven't quite materialised and, in fact, in June 2016 we achieved an important milestone: 25 years of continuous economic growth. However, it's widely believed that the economy needs to continue to rebalance and thus Australia's future prosperity depends on its ability to take a new direction economically.

Among the solutions to the country's challenges, innovation is perhaps the hottest topic. Indeed, OECD statistics indicate that Australia is lagging its peers in regard to research and development as a percentage of GDP. Not surprisingly, Australia's innovation capacity was a significant topic in the 2016 election. Both parties proposed bold new initiatives to encourage the private and public sectors to innovate, ranging from investments in

computer coding education in schools to federally funded grants for national policy challenges to university-based innovation "accelerators". With public funds increasingly scarce, it's difficult to imagine this ambitious agenda gaining traction.

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At the ground level, private sector firms in Australia compete with a multitude of innovative firms overseas. From the information and web technology giants of Silicon Valley and the biotech leaders of Boston to the constantly emerging science and technology start-ups of Israel, competition abounds. For those companies that aren't at the cutting edge of innovation, strategy is critical. With few places to grow, strategy is key to making choices on where to compete and, just as importantly, how to increase capabilities to compete.

Yet, OECD statistics paint a troubling picture for Australia compared to its developed economy peers. Take gross fixed capital formation, for example. A measure of investment, gross fixed capital formation fell 2 percent in 2014. Meanwhile the OECD average was positive 2.8 percent, including 4.1 percent growth in the United States. This evidence suggests that Australian companies may be running out of ideas.

While innovation and bold strategy capture the headlines, it's worth noting that the day-to-day load of a mature economy like Australia's rests on the heavily people-centric services sector. For Australia, 60 percent of the economy is composed of services where employee

engagement is critical. Here again, the data are cause for concern. Global norms indicate that Australian workers are less engaged than their peers elsewhere in the world by more than five percentage points and are heading in the wrong direction.

Finally, there's the issue of ethics and behaviour. While banking and financial institutions dominate the news, the reality is that Australia expects a lot from its economic players and many companies have found themselves under the scrutiny of regulators. Organisations will likely tighten policies and controls but leaders will need hold themselves to a higher standard of integrity and behaviour, not an easy task when many of the elements of the system, including rewards and power, push leaders in the other direction.

PREVIOUS CALLS FOR LEADERSHIP IMPROVEMENT LARGELY UNHEEDED

The challenges of Innovation, strategic investment, employee engagement, and behaving with integrity are a tall order for even the best organisations with the best leadership. For those without strong leaders, the chances of pulling it off range between unlikely and impossible.

Our research takes the context of Australia's economic challenges as its starting point and delves into whether Australian organisations are focusing on building the right leadership capabilities needed to thrive in

these economically challenging times. We go beneath the headlines and beneath the rhetoric to question are organisations developing leaders' ability to innovate, to think strategically, to engage employees, and to act with integrity?

Australian organisations must face these issues head on. Yet, calls for improvement to leadership and leadership development have been present for some time and focused on many of these themes. Both the well-regarded "Karpin Report" of 1995 and its follow-up study in 2011, as well as the Study of Australian Leadership (SAL), published by the Centre for Workplace Leadership at the University of Melbourne in 2016, devoted entire sections to innovation and strategy.

The SAL argued that relative to leading countries, Australian businesses struggle to turn "innovation inputs into outputs" and believed this to be related to leadership capacity. The "Karpin Report: Revisited" published by Innovation and Business Skills Australia observed that Australia hasn't been successful at building world-class, innovation-based organisations outside the resources sector. This means that a focus on building innovative thinking would be both timely and necessary.

In regard to strategy, SAL argued that Australian leaders fail to demonstrate the information-seeking behaviour to get the strategic advice they need, with more than 60 percent of sampled respondents in their survey reporting that they rarely or never sought

advice about strategic options. This is worrying because it indicates that potentially value-generating strategic options are ignored.

Calls to improve engagement appear to have largely failed as well. Both the Karpin and SAL reports highlighted staff consultation and buy-in as key ways to boost employee engagement, reflecting Australian workplace values, and values that are often thought of as key motivators of millennial workers. Yet survey items around consultation and participation in decision-making scored the lowest among the SAL's four categories of frontline leader effectiveness. This highlights that there is a need for Australian leaders to build their capabilities in successfully engaging employees.

Data on ethics and integrity are notoriously difficult to obtain, but criticism of Australia's leading businesses has been on the rise, to the extent that questions have been raised about the adequacy of the enforcement regime of misconduct and the capacity to protect consumers and encourage confidence. The chairman of Australia Securities and Investments Commission (ASIC) characterised Australia as a "paradise" for white collar criminals and in 2016, the government created a taskforce to examine the need to strengthen ASIC's enforcement toolkit. This indicates that leaders will need more development in regard to ethics and integrity to avoid putting themselves and their organisations at risk of regulatory infractions, enforcement actions, and reputational damage.

OUR METHODOLOGY

Surveys have proven highly valuable for gathering data on leadership development practices as well as perceptions of effectiveness. To offer a new perspective, we examined the requests organisations make when procuring leadership development services. While it's likely that not every program precisely reflects the initial specifications, we believe these requests provide a reasonable proxy for the intent of leadership development programs. Requests for leadership programs highlight which capabilities organisations attach importance and value to, and demonstrate where organisations believe capability gaps for their leaders are.

Our analysis covers a sample of 16 companies broadly representative of the composition of the Australian economy. Of these 16 companies, three are in the public sector, while 13 are private sector enterprises. The organisations are a mix of Australian domiciled (11 of 16) and local or regional operations of multinational firms (five of 16). Our analysis included leadership programs directed at Australia-based or regional (e.g., Australasian) leaders.

EVIDENCE INDICATES LEADERSHIP DEVELOPMENT HAS A LONG WAY TO GO

Our findings paint a troubling picture. Leadership programs in Australia aren't aligned with the challenges that Australian leaders face in a declining economy. Instead, support for leaders in their development continues to be treated as a standard service consistently characterised by:

1. TOO LITTLE CONNECTION TO STRATEGY.

One of the principles that is most espoused by leadership development experts is alignment with strategic intent. Therefore, high-growth companies need to develop leaders in capabilities related to growth such as market scanning and strategic partnering. In contrast, companies that compete on efficiency and the use of automation should develop their leaders on leading quality and process/performance improvement. Unfortunately, just a fraction of our sample demonstrates a clear intention to connect to strategy. Some spoke to their general strategic intent but made little or vague attempts to describe a structured process to link the two.

2. TOO MUCH EMPHASIS ON THE TOP EXECUTIVE LEVEL.

Another criticism of leadership programs is that they disproportionally invest in the most senior executives at the expense of middle managers and future leaders, essentially mortgaging the future for potential short-term gains. This makes it especially hard for Australian organisations to meet the employee engagement challenges outlined above, as it's predominantly the relationship between frontline leaders and employees that determines buy in, discretionary effort and commitment. Indeed, our analysis indicates a weighting toward senior levels although mid-level management was represented with programming requests from nearly half of the sample.

Unfortunately, only one specifically requested assistance for development targeted at future leaders. This is worrying given that leaders play a pivotal role in the functioning of any organisation. Just as with any difficult activity that requires training, managing and leading others is learned gradually. Failing to help emerging and growing leaders to hone and practice their skills and behaviours, get feedback, come back from failures and continuously develop is akin to cramming 12 years of schooling into the final years of high school in an attempt to prepare adolescents for university or the world of work. Taking the analogy further, just as primary school public education is costly, it's critical for the functioning of society. The same is true for the development of leaders and the functioning of organisations.

3. TOO FEW MODALITIES FOR A RICH LEARNING EXPERIENCE.

A great deal of change has occurred in the design and delivery of leadership programs, but it appears that Australian organisations are not taking full advantage of the options. The SAL report indicated that Australian organisations continue to focus on traditional modes of development, particularly leadership workshops and mentoring, with nearly 60 percent citing use of these two methods.

Our analysis echoes this. The predominant mode requested was facilitator-led workshops in periodic chunks of two to three days. Only one specifically requested project-oriented work to be included in the program, and fewer than one third clearly indicated a desire for a mixed modality or an emphasis on a 70/20/10 (or similar) approach. Leadership programs are also missing out on social learning. Not a single sampled organisation incorporated this trend in its specifications. This is a problem, as the effectiveness of leadership programs depends on being closely aligned to business needs through specific project work, which is best conducted over time in a blended learning format of virtual, face-to-face, and self-paced elements.

4. TOO LITTLE CONTENT LINKED TO THE AREAS OF LEADERSHIP THAT ARE KNOWN TO BE CRITICAL.

Finally, we found mixed results in regard to the content of leadership programs. Of our sample, just over half of organisations indicated a link between programming and a specific leadership framework. The balance cited no framework or sought the counsel of the provider on the content of leadership development. Unfortunately, it appears that often the capabilities bear only fuzzy resemblance to the areas cited in the leadership literature or have been constructed in a way that links only lightly to business strategy. In particular, two areas we highlighted as key priorities for Australian leaders in a challenged economy (innovation and strategic capability) were rarely mentioned by sample organisations in their requests for leadership development.

The lucky country faces challenges that it has not needed to address in nearly a generation

BRIGHT SPOTS FOUND IN MULTI-STEP, STRUCTURED DEVELOPMENT

Despite our analysis showing that most of the organisations sampled request leadership development that isn't fit for the purpose of supporting leaders in thriving through the challenges of Australia's economic climate, we identified several bright spots. In regard to incorporating multiple modalities, our analysis indicates that many companies are viewing the classroom component as one step in a process and requesting pre-program 360 assessments and post-program coaching opportunities. In addition, while the overall link between developmental programs and strategy is ambiguous, more than half of the organisations in the sample have developed leadership frameworks to guide their developmental initiatives. This is a useful beginning, but much still needs to shift in the way leadership development is aligned with innovation, strategy, and employee engagement.

RECOMMENDATIONS TO TRANSFORM LEADERSHIP DEVELOPMENT INTO A COMPETITIVE ADVANTAGE

The lucky country faces challenges that it has not needed to address in nearly a generation, particularly as it rebalances away from a resources-driven economy and a relatively slow growth domestic market. However, the country benefits from tremendous advantages including a strong legal system, a progressive stance toward global trade, and a well-educated and relatively healthy workforce. Whether one emphasises these opportunities or the daunting challenges of innovation, strategic investment, employee engagement, and integrity, one thing is clear: Australia requires strong leadership in its private and public sector enterprises.

Unfortunately, published research and our analysis combine to demonstrate a pattern in which leadership development focuses on building the wrong capabilities for an economy that will be challenged to grow and is treated as a second- or third-tier priority.

This should be a concern for anyone who is accountable for the capability of the individuals and teams that lead Australia's most important enterprises — from start-ups to multi-nationals to not-for-profits. Simply put, organisations are failing their leadership development efforts even before their leadership develop programs fail them.

Based on our experience with dozens of leading Australian organisations, as well as the findings of this research, Maximus has developed the following recommendations for organisations to help bring leadership development to where it should be:

● Reconsider the leadership capabilities that need to be built for Australia's prosperity: being able to think innovatively and strategically, engage employees and act with integrity. Question whether your leadership development offering has adapted to these changed circumstances in order to be future-ready. Every organisation has a somewhat different risk profile to these trends, but virtually every organisation should examine whether their leaders are equipped to succeed in an environment of more competition and greater expectations from shareholders, employees, and regulators, and re-design their leadership development accordingly.

● Provide leadership development with the same level of strategic insight you would those you charge with identifying your new acquisitions or other strategic ventures. Ensure that the core competencies of the strategy are incorporated into the program as much as company values. Carefully consider the ways in which the operating model, structure, roles, and processes impact development needs, recognising that context is critical to the development of leaders. Maximus has found that involving a wide range of business leaders throughout the design and delivery of leadership development programs — from needs analysis through coaching — significantly increases the likelihood of success. In particular, we have found it critical to gather insights about the current strategy but also how the strategy and organisation design are likely to evolve in the future. This requires a wide range of executive-level and even board of director input but also builds valuable commitment to the program.

- Commit the resources of the organisation to leader learning. Too few organisations are leveraging their own IT, facilities, travel, corporate relations, and other staff to build out multi-mode, rich learning experiences. Maximus has seen the impact that developmental activities such as trips to innovation centres, client visits, and even volunteerism have on leaders. Development is a journey and too few organisations are taking advantage of their own resources, including in-house subject matter experts, and falling back on facilitator-led, in-classroom programs. We know that relatively simple, grass-roots efforts to expose leaders and emerging leaders to the organisation's environment, its customers, its competitors, and other stakeholders can be just as impactful as highly structured learning programs.

- Prioritise future leaders. While targeted senior executive programs will always be part of the suite of leadership offerings, up and coming leaders are your mouldable clay for the future. They are the ones that create meaning and engagement at the front line and are most open to the leadership development experiences that change who they are in addition to what they do. The quality of first level management is a powerful lever for increasing engagement, productivity, and company advocacy, and it's critical to start the development of front and mid-level leaders before they step into leadership roles. Although the size of the potential leader population can be large, organisations are increasingly taking advantage of individualised needs analysis and distributed learning approaches to deploy development programs at scale.

As our research reveals, Australian leadership development initiatives are not sufficient for the challenges that managers and executives will face in coming years. Specifically, program design and content fail to account for the country's business challenges: innovation, strategic choices, employee engagement and a strong focus on ethics and integrity. Maximus calls on all those involved in developing leaders to make the investment of money, time, and effort to ensure that rather than being a "lucky" country, Australia is a country that intentionally achieves broad economic success and prosperity.

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