

Leadership Development Needs of the Business World

BY BLAIR SHEPPARD WITH JOE LEBOEUF

What has become very clear to me in my last several years as CEO of Duke Corporate Education (CE) is that the standards for leadership in corporations have grown significantly more stringent over the last few years. Business acumen, managerial competence, and charisma remain important to the role, but these alone are not sufficient for success in the new business environment. More is needed, and more is being demanded by the customers and communities we serve and by the world in which we live. Competency must be coupled with a level of leadership heretofore unseen, anchored by a solid commitment to integrity and ethics. Our undergraduate and graduate education, particularly in our business schools, must recognize and understand this demand and set conditions for leadership education and leader development that will ensure the effectiveness of these graduates in the highly complex, volatile, uncertain, and ambiguous world that characterizes today's business environment.

I served for over 20 years as an educator, teacher, and scholar, trying to prepare students for the challenges of the world of business. In my relatively new role at Duke CE, I have now been trying to help many Fortune 100 company leaders and senior executives who are struggling to be effective in the real, relentlessly demanding business world. These senior leaders are often disappointed in those they are hiring from our finest schools—not for any lapse in business competence but for their lack of skills and understanding about the ethical leadership needed to be effective in their jobs. It is from the executive's side of the fence that I would like to shed some light on the requirements of leadership today, which have a dramatic impact on how we prepare our future leaders.

The challenges of leadership in today's firms demand attention to five key points:

1. Not just competency at business but the ability to lead in business
2. An understanding of ethics, along with ability and commitment to ethical behavior

3. Building and sustaining relations with those outside the formal governance structure, because classic authority does not reign
4. Comfort with and appreciation of diversity as a business effectiveness multiplier
5. Understanding and enacting a culture that fosters the development of leadership at the individual, group, and organizational level

Competency and Leadership

In 1991, General Norman Schwarzkopf, in his farewell speech to the cadets at the U.S. Military Academy, described what he thought were the two critical aspects of what it meant to be a successful leader: *competence* and *character*. He emphasized that it was not an either/or proposition—both were required. A similar proposition clearly defines the characteristics essential for the modern businessperson: *competence* and *leadership*, and the latter is ultimately about character. But you can't have one without the other; they are joined at the hip. Let me provide you an example of this requirement from my current experience.

BAE Systems is one of the largest defense contractors in the world. Headquartered in the United Kingdom, the firm is the largest provider of defense offerings to that country, and it is also a significant provider of defense capability to the United States. In fact, BAE is active in many other countries throughout the world, including Saudi Arabia and India. Its people thus have technical, strategic, and cultural insight into the defense capabilities and defense departments or ministries in countries that the world needs to work better together. This is a remarkable asset for BAE and the

world. The challenge is that it is both illegal and immoral for them to take advantage of this capability in the wrong way, as defense is very much a national security interest. BAE staff must find ways to be the best provider of global defense capability and to do so in a manner that increases overall security in the world, without compromising the capabilities of any given client. Accomplishing this within the unique challenges of the defense industry requires a remarkable level of character, insight, and leadership. Fortunately, BEA staff at all levels appear to have it.

Similar examples abound among the challenges our clients face today. The organizations that meet these challenges well are those that see leadership and leader development as the real engine of effectiveness in the short term and the anchor of sustainability for the long term. The companies that hire us see their people as their most important resource, and are committed to developing their people so that they are effective as human beings individually, as team and organizational members, and as leaders who are committed to the success of others and the enterprise.

Criticality of Ethics and Ethical Behavior

Recent scandals in business and industry (Enron, WorldCom, Tyco, Arthur Andersen, Fannie Mae), politics (Tom DeLay and others), government (\$1.4 billion fraud with FEMA) and even the military (Abu Ghraib, Guantanamo Bay) are a constant reminder of the importance of ethics and ethical behavior in the effective functioning of organizations, and in



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their relationship to the communities they serve and the world in which they operate.

At its simplest level the challenge of ethical leadership in organizations requires the creation of a context engendering ethical behavior. All CEOs in U.S. publicly traded companies now sign documents swearing that they have an organization and culture in which the appropriate forms of control are in place to ensure effective corporate governance.

But this simplest level lacks a depth of appreciation for leadership and ethics. Two examples come to mind. Pharmaceutical firms have three sets of legal rules governing their behavior: Sarbanes-Oxley legislation that focuses on accuracy and honesty of financial accounts, other recent legislation about appropriate marketing practices, and regulations concerning product development administered through the FDA and its counterparts throughout the world. Unfortunately, lack of certainty about interpretations of these regulations and their various overlaps places most executives in a quandary; the most obvious answer is to do nothing. Without leadership and a clear moral compass guiding behavior, the standard response is to freeze, or wait for the attorney to decide. The result is either dramatically reduced innovation or dramatically increased costs. To borrow their industry as a metaphor, without exceptional leadership the side effects of the cure are worse than the disease.

A second example is provided by the oil industry. Globalization has permitted several economic miracles, most specifically the emergence of India and China,

with the attendant benefits of a removal of a billion people from poverty, increased global security, and a dramatic increase in economic equity throughout the world. Globalization has generated a significant increase in the demand for energy, the product the major oil companies have to sell. However, it has also created the potential for the greatest catastrophe humanity has ever experienced in the form of the consequences of global warming. Executives at Shell, ExxonMobil, BP, and Total are acutely aware of the issues on both sides of this dilemma and grappling with its implications. The levels of technical competence, leadership, and strength of moral compass required to resolve these issues are enormous.

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These ethical challenges also play themselves out in the context of graduate business education. Because of high-profile cases such as Enron, more overt focus has been given to the concept of ethics. But the critique of MBA programs in general is that ethics is not integrated into leadership development. Enron was the epitome of what can happen when a group of smart, driven, and cre-

ative individuals run off the rails in the pursuit of success without ethical and moral sensitivity, and without a strong organizational culture that acknowledges and rewards ethical behavior.

Through the opportunities provided in business education programs, students develop their own knowledge, confidence, and capacity to lead. But without an ethical culture, those same virtues can bedevil the best potential leader. Ethics is not just a course; it must be embedded in an organization, part of its culture, part of every conversation that occurs.

To develop and maintain an ethical culture, students must learn to build and sustain a culture of their own. The inability to create effective cultures for managing challenges ranging from drinking to effective race relations to date rape is clear evidence of the potential to use school culture as the vehicle for learning how to create a culture of mutual accountability.

Leadership in Both Formal and Informal Structures

As the preceding sections suggest, the context in which firms operate is increasingly complex. As a consequence, one of the struggles every company is dealing with—from defense to energy to pharmaceuticals to IT to banking—is that business is so complex that it's not possible to own it all under a single structure. Therefore, the task is to make things happen even though you don't have direct authority over many of the people critical to the success of the task.

Not only has the context in which we think about and develop leadership changed, the world has become more complex because of the enormous amounts of data now available for review and the way once-local spheres of influence now extend to all corners of the globe. More and more leadership is conducted in a virtual context, over electronic networks. These new communication avenues also demand quicker decision making.

Perhaps the best example of this is the challenge Boeing confronts. Boeing has the charge of helping the armed forces envision the army of the future, a task that requires

the integration of expertise from a variety of direct competitors, think tanks, boutique technology companies, and the government. Only Boeing's own employees are managed in the traditional fashion. The rest of the members of the project's work teams are managed in very different ways, and formal, hierarchical (traditional) authority does not work. Other forms of more informal influence must be applied. Such borrowed resources, and the challenges they present to the leadership structure, are increasingly the rule across all sectors of business and industry.

Often these partners are located somewhere else in the world, requiring the ability to lead at a distance, through indirect influence, and creating significant strain on the leader's day. Consider my Tuesday from last week. I awoke at four in the morning to have a call with Russia, grabbed a bowl of cereal and a cup of coffee to join a conference call with a client in Germany, and had my weekly call with our global head of HR at seven. Read the paper quickly, brought the dogs in, and drove to work to have a dozen more meetings throughout the day,

including four videoconferences with people from around the world. After dinner, I settled down to some e-mail exchanges with clients and colleagues from Asia, closing with a 10 P.M. phone call to Australia. When I try to imagine the typical day of newly minted MBAs when they reach my age, it makes my head hurt.

Diversity as a Business Effectiveness Multiplier

This schedule highlights another challenge for leaders today. Their talent exists everywhere in the

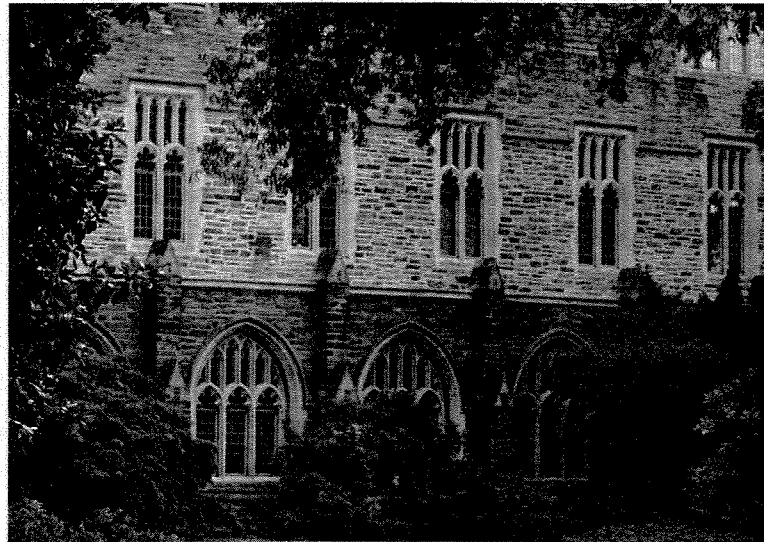
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world, and while they may often dress and provide external appearances of similarity of culture, employees from around the world were raised in radically different environments, experience dramatically different challenges, and bring very different cultural heritages to the workplace—and this diversity will only increase. More people have graduated with bachelor's degrees in China and India than in the United States for the last three years, and as the per capita ratio of graduates continues to increase in India and China, the total number of college grads there will far surpass that in the United States and Europe, both because of the sheer size of the populations concerned and because of the relatively younger age of Asian societies.

Education systems have woefully prepared us for this shift in the talent to be managed. Who in the United States knows the inherent principles of Confucian philosophy, has read the Vedic scriptures, knows when the Aryans arrived in India, knows what parts of the world Kublai Khan controlled, understands the origins of Orthodox Christianity in Russia, or could place Nigeria on a map? Graduating MBAs of the future will be dealing with people who consider one or more of these questions essential to their identity.

Perhaps just as important is the ability of our leaders to have an effective conversation and develop an appreciation of their colleagues as individuals. At Fuqua, for example, diversity is not about whether a teammate is an African American or not, or French or not. It's about everyone here having a phenomenally interesting story. One of Fuqua or Duke's students is going to be president of Ghana one day. The president of Chile is a Duke graduate. The stories that circulate among the students create a richer learning environment than lectures on diversity ever could. Business schools frame the question of diversity to their students in asking them if they are using the remarkable gift embodied in the people sitting in the room with them. These schools

create a microcosm of the global business world by admitting nearly half their classes from other countries, and the competition for seats in U.S. business programs from foreign students is only heating up.



Culture of Leadership

Given these challenges, perhaps the most critical requirement of leaders today is to create a culture that builds leaders. We cannot know the challenges those who will lead in the future will be confronting. We can predict that their choices will be harder and that the requirement for leadership will percolate lower within organizations, especially as the speed and complexity of business operations continue to increase.

Consider Verizon, for example. Business leaders at Verizon have a remarkable capability to execute the demands of their traditional job. Their success in bringing New York City back online after 9/11 illustrates their deep technical competence and ability to execute in extreme circumstances. The challenges presented by weather and other threats to service combined with

complexity of their offerings have only made the need for technical, executional excellence more important, but this capability is no longer enough. New forms of leadership are required quite far down within the firm.

Verizon decided to make a \$40 billion bet that consumers and small business customers wanted the highest bandwidth possible directly to their homes. This bet, however, requires managers well below those who typically think of themselves as strategists, innovators, alliance forgers, and creators of whole new business models to be engaged in the task of finding ways to create new ways of offering value to the Verizon customer. To do so requires these leaders to engender whole new behaviors in those they lead. Without this shift in practice and the enabling of leadership throughout the organization, Verizon's investment will only serve to increase the value of Google, Yahoo, Microsoft, and others whose services require significantly greater bandwidth, without returning value on the company's own investment.

Three Leadership Tasks

I have tried to make the case that leadership is important, that it matters in the world of work. Leaders perform three (among many) very important tasks for organizations in which they operate. First of all, leaders *preserve the integrity* of our organizations—and this is no small task. We have recently seen in Enron and all its fellows in infamy the devastating impact of leadership that fails in this critical responsibility—failures not in business competency but in character, integrity, and ethical leadership. Leaders must be men and women of cour-

age, whose behaviors are grounded in values, principles, and leadership concepts that our business schools have a large role in highlighting and reinforcing. Emerging leaders and managers that organizations recruit must be prepared to cross “the river of fear” (a term coined by Gus Lee in *Leadership: The Backbone of Courage*) and not only do things right but do right things as a matter of choice, as a matter of habit, as a matter of character.

Leaders also create the umbrella of protection, of coverage, for others to find meaning in what they do—and to matter in their work and in their lives. Leaders create the conditions through visioning, cultural enactment, and conditions of reward and reinforcement so that good work can occur, work that makes a profit and meets the demands of stockholders in the short term—but is also focused on the long term and meets the demands of all stakeholders, making communities, our nation, and the world a better place.

Finally, leaders create the conditions for the effective development of other leaders. They create the conditions to establish a legacy of leadership that transcends their short stay in an organization and makes others better workers, better organizational citizens, and just better people.

These are the kinds of leadership the business organizations with whom I work are looking for. It is these kinds of leaders that our business and graduate school ought to be focused on developing. The articles that follow provide compelling examples of how this process of leadership education and leader development, essential to the effectiveness of our business enterprise, is playing out in an educational context. ■

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