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Do you have the right leaders for your growth strategies?

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It takes a mix of leaders and talent to pursue a variety of growth strategies simultaneously. Few executives can do it all.

Is there a link between growth and specific leadership traits? We've tried to shed some light on this question by integrating two unique databases: McKinsey's granular-growth database, with information on the growth performance of more than 700 companies, and a database created by the executive search firm Egon Zehnder International that contains performance appraisals of more than 100,000 senior executives (see sidebar, "Two unique performance databases"). The overlap between the two databases—a group of 5,560 executives[1] at 47 companies across a broad range of industries[2]—allowed us to examine in detail the relationship between leadership competencies and revenue growth. We found that leadership quality is critical to growth, that most companies don't have enough high-quality executives, and that certain competencies are more important to some growth strategies than to others. Companies that know how they want to grow can use these insights to cultivate the right skills in top executives.

Great leaders are hard to find but vitally important

Excellent leaders are few and far between. Only 1 percent of the executives in our sample achieved an average competency score of 6 or 7 out of 7 (although excellence in a single competency was more frequent). Just an additional 10 percent had an above-average score of 5.

That's a challenge for growth-oriented corporations because leaders with high competency scores appear to make a difference: for every competency we reviewed, executives at companies in the top quartile of revenue growth scored higher than their counterparts at companies in the bottom quartile (Exhibit 1).

Similarly, companies where the top teams as a whole had excellent scores (that is, 6 or 7) on the various leadership competencies were also those with strong corporate revenue growth. On the other hand, we found no measurable correlation between revenue growth and teams with solid but unexceptional leadership.[3]

Since such a small percentage of executives had above-average scores across all competencies, trying to jump-start growth by looking for great "all-rounders" is a risky bet. An alternative approach is for companies to cultivate specific competencies correlated with growth in their existing teams or to seek new talent with the needed skills.

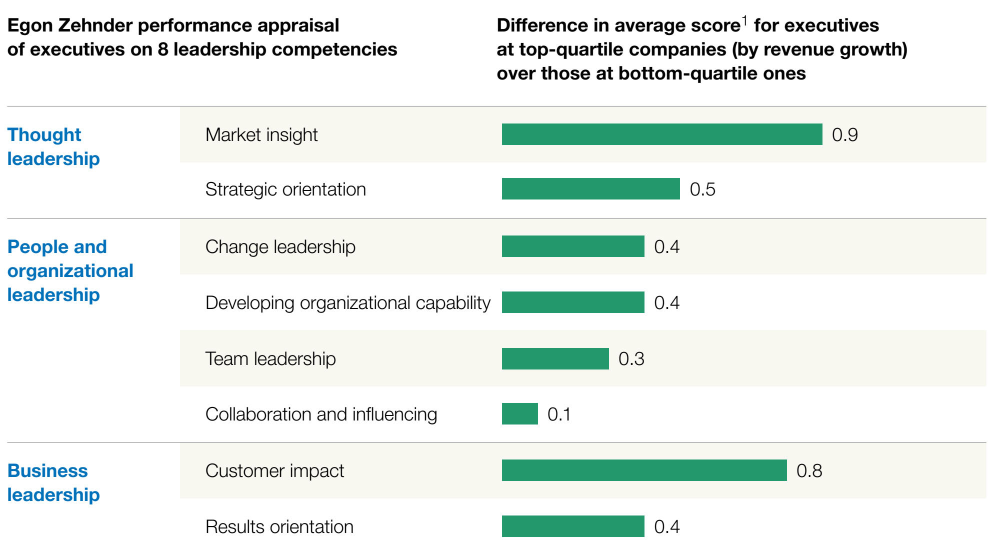
Customer focus first

If your company is seeking a launching pad to improve performance, the analysis shows that one competency drives the greatest gains: delivering customer impact (defined as the capacity to understand customers' evolving needs). Companies that had a critical mass of executives who got excellent (6 or 7) scores in this competency recorded superior growth consistently—both organically and through acquisitions.

What constitutes critical mass? Companies where at least

Exhibit 1

Executives in top-performing companies scored higher than those in lower-performing companies across all competencies.



[1] Differences are statistically significant at 0.05 level. Typically, improvement of scores by no more than +2 in one competency, or +1 in two competencies, within 1 year (nonrepeatable) requires a significant investment in development and intensive coaching for high-potential executives.

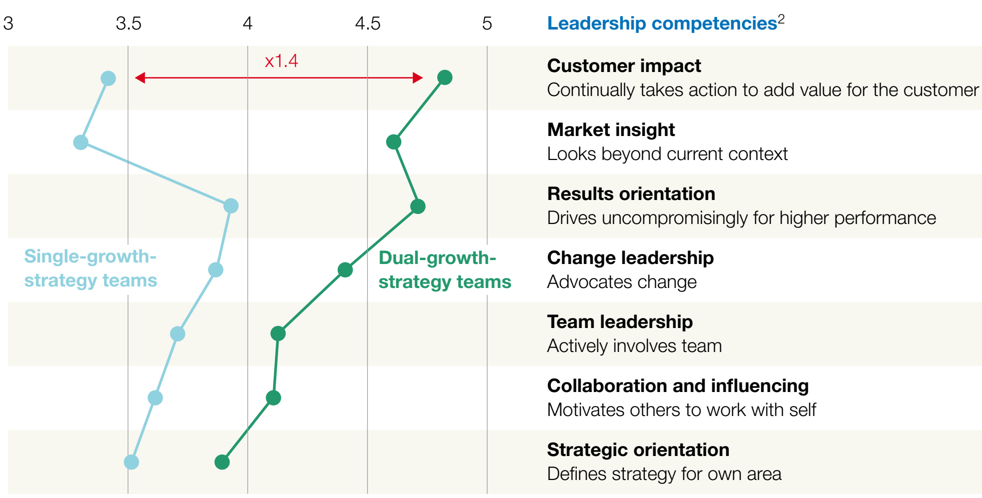
Source: "Return on leadership," a joint study by Egon Zehnder International and McKinsey

Exhibit 2

Pursuit of more than one growth strategy requires leaders with higher skill levels.

Egon Zehnder performance appraisal of top executive teams (C-level and 1 below)

Average skill level by company strategy[1]
on a scale from 1 to 7, where 1 is low and 7 is high



[1] Single growth strategy = company performs in top quartile in 1 of the 3 strategies (portfolio momentum, stealing share from competitors, or growth through acquisition); dual growth strategy = company performs in top quartile in 2 of the 3 strategies.
[2] Difference was not statistically significant for the competency "Developing organizational capacity," which is not shown.

Source: "Return on leadership," a joint study by Egon Zehnder International and McKinsey

19 percent of the senior executives excelled at customer impact were also the most likely to achieve above-average revenue growth (in the top half of our database). For a company to be highly likely to have superior growth (the top quartile), 40 percent of its senior executives needed to be highly skilled in that area.[4] So *all* of an organization's leaders don't need to be top flight at customer impact, but when a substantial number are, the impact on growth can be significant.

Tailor talent strategies to growth priorities

At most large companies, of course, there isn't just one growth strategy. Rather, companies rely on a diversity of approaches that vary by business segment and by circumstance: at times executives might place more weight on acquisitions, while at others they focus on stealing share from competitors, for example. Our analysis shows that high growth rates for these different strategies are associated with excellence in a range of leadership skills wielded by managers at various levels of the organization.

Consider portfolio momentum growth, which flows from market growth across a company's existing business segments. To drive this type of growth, senior managers beyond the top team typically need to execute a strategy effectively across often far-flung organizations. Senior managers at companies in the top quartile of this growth category were highly rated in competencies relating to dynamic people and organizational leadership: developing organizational capability, change leadership, and team leadership.

By contrast, companies in the top quartile of M&A-driven revenue growth had top-leadership teams that excelled at a broad range

Two unique performance databases

McKinsey's granular-growth database, which was the foundation for *The Granularity of Growth*,[1] contains continually updated performance information, over five or more years, for upward of 700 large public companies. The database disaggregates their growth performance into share gains from competitors, inorganic growth (M&A), and portfolio momentum (market growth of the segments represented in their portfolios).

Egon Zehnder's management appraisals, based on in-depth interviews and 360-degree feedback, rank the strength of executives, from 1 (low) to 7 (high), in three major areas across eight competencies: thought leadership (strategic orientation and market insight), people and organizational leadership (collaboration and influencing, change leadership, team leadership, and developing organizational capability), and business leadership (customer impact and results orientation).

The interview-based methodology of the appraisals seeks to minimize the "halo effect," a widespread problem in management research: individuals at high- or low-performing organizations rate their own performance correspondingly high or low in other areas. In addition, the fact that the growth and leadership databases were created independently, that the growth database is based solely on publicly available financial data, and that many of the findings rest on a disaggregation of growth performance (as opposed to top-line results only) should reduce the halo effect's impact on these findings.

[1] Mehrdad Baghai, Sven Smit, and Patrick Viquerie, *The Granularity of Growth*, first published in 2007, by Cyan Books, and in 2008, by Wiley.

of skills. The first is market insight—in other words, looking beyond a company's current business landscape to discern future growth opportunities. That competency no doubt supports the identification of deals, while another competency crucial for M&A-driven growth—a well-honed orientation toward achieving results—helps in postmerger integration.

If your company pursues multiple growth strategies, the talent bar is even higher. Our study shows that the average skill level of top teams at companies with a dual-growth strategy—defined as top-quartile performance in two of the three strategies (portfolio momentum, stealing share from competitors, or growth through acquisition)—was almost one and a half times that of their single-growth-strategy counterparts on key competencies (Exhibit 2).

In short, to achieve stronger growth, companies must not only assemble a critical mass of talent, which will require attracting and retaining an "unfair" share of excellent leaders, but also align these leaders' roles and skills with the companies' growth strategies. In our experience, the best companies conduct detailed assessments of the talent required—across the organization and by business unit and geography. They then create clear leadership-development targets for executives and managers and incorporate these targets into performance-management, recruitment, succession, and reward processes. In this way, top companies systematically build excellent leaders with the skills needed to drive growth.

[1] We grouped the executives into top executives (those at the C-level and one level below that) and senior managers (at the next two levels).
[2] All of the companies studied are large and public; no public-sector or nonprofit organizations are included, nor are family-owned or other privately owned organizations. Some 70 percent of companies in the sample are headquartered in Europe, with the remainder spread across Australasia and the United States. The median number of employees at these companies is 55,000.
[3] The correlation coefficient for top executive teams rated 6 or 7 and corporate revenue growth is up to 0.74 for individual competencies. For ratings of 5, the correlations are around 0.5; they fall to 0.01 for appraisals at the 3 or 4 levels.
[4] The critical mass varies among competencies: in "collaboration and influencing," for example, having just 22 percent of managers scoring 5 or above makes it likely that the company is in the top quartile of performers in portfolio momentum growth.

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