

TECH'S HUMAN BOTTLENECK

A shortage of ready-to-promote leaders could be hampering growth at technology companies



About this report

The consultants who work in Korn/Ferry's Global Technology Practice have been hearing a lot of concern from our clients about facing a shortage of leaders able to help these companies grow. Our team set out to better understand this issue—what has been causing it, why it is worse in the technology sector, and what leading companies are doing to address this critical need.

We interviewed senior executives at twenty-one premier technology companies which varied widely by size, geography, product focus, and stage of growth. The following report represents a summary of those findings, as well as insights from our experience and some of our most recent research.

For all of its incredible innovation and impact on our world, the technology industry has put itself into a conundrum around talent. On the one hand, executives fret about the shortage of leaders who are ready and able to help them grow their organizations. But most of these same executives can explain in depth the myriad reasons the industry doesn't focus heavily on developing their own talent.

The experience of top technology firms suggests that when a company needs to shift or expand, having ready-to-promote leaders in the pipeline is crucial. By hiring and developing people who can change, those companies don't have to change out their people.

Our belief is that in order to both attract and retain top talent to fuel growth, the industry on the whole needs to reconsider where it places leadership and talent development in the list of priorities. If some of the same enthusiasm and brilliance put toward product development were applied to talent development, who knows to what heights these companies could climb.

Introduction

Ask a techie what his world is all about and he'll likely pepper you with buzzwords such as speed, independence, creativity, and disruption—a big departure from the traditional business values of loyalty, leadership, and stability. Indeed, technology hubs such as Silicon Valley are infused with the idea of high-tech exceptionalism, a claim that says traditional management practices are not suited to the almost yearly seismic shifts in the digital landscape. In the techie view, teenage CEOs and maverick geniuses, teams of caffeine-fueled freelancers and visionary investors are what drive growth, not old-fashioned leadership.

It's a point that is sometimes hard to argue with. That attitude has led many tech companies around the globe to truly astounding heights, while some of the largest, vertically integrated tech stars of yesterday have floundered during the last decade. But our extensive interviews with executives from twenty-one well-respected companies from all areas of the digital economy have shown us that failure to proactively create a pipeline of managers and senior leaders creates a dangerous bottleneck in the growth of tech companies.

As Jim Gemmell, Chief Human Resources Officer for Cisco Systems, explains, “A lack of leadership is a constraint to growth. When you have three or four key leaders running most of the company in its early stages, you don't need broad-based leadership. But when the level of maturity starts to rise, this shortage can have a big impact.”

Terri Timberman, Executive Vice President, Global Human Resources at Broadcom, agrees. “A lack of leadership won't stop us from growing,” she says. “But it can make our growth less effective.”

An 'update' culture

Tech is a special industry that attracts people of rare talent. But its definition of talent often underplays management skills. “In an environment as fast-paced and rapidly changing as Silicon Valley, it's easy to under-invest in steadily building leadership development, coaching, and professional management into the culture,” says Mike Guerchon, Senior Vice President of Employee Services for Riverbed Technology, a San Francisco-based company that optimizes bandwidth and network performance. “Without that, businesses risk having only part of what's needed to be successful as they grow. We need these brilliant engineering and marketing and sales people—and then we need them to be able to manage and lead as senior executives.”

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Chief Human Resources Officer
Cisco Systems

One Silicon Valley executive recounted how their board of directors applauded when presented with the fact that more than 75 percent of the organization's senior leadership team had been replaced within the last four years.

Many point to the unrelenting pace of change as the primary explanation for tech's limited leadership development. "Technology companies tend not to go through a slow evolution. More often there are significant market disruptions—changes that transform the landscape quickly," explains Brian Schipper, Head of Global Human Resources for Groupon. "These fast-changing conditions rarely allow for either the context or pace of development needed to prepare leaders to operate in a new reality." To underscore Schipper's point, one Silicon Valley executive recounted how their board of directors applauded when presented with the fact that more than 75 percent of the organization's senior leadership team had been replaced within the last four years.

It's a reasonable argument. However, others would contend that the best leaders are agile leaders—those who can adapt to a new reality. Our research on top-performing companies has convinced us that tech firms often confuse the need for constant change and revision at the product level with a need for constant change in leadership and talent. Sure, coders may have to learn a new language or upgrade hardware. That may even lead to personnel changes throughout the company. But leadership skills don't expire every six months, or with every new product release. The culture of constant updates doesn't necessarily apply, and in most cases doesn't benefit, tech companies.

The experience of highly successful and long-lived tech companies, such as Intel, IBM, and Intuit, shows that developing managers who can grow into senior leaders can provide a high payoff by enabling faster growth. Developing the right type of leadership and maintaining a strong degree of institutional knowledge can keep a company focused on the long term, even when the short term is so rocky and fast-changing that the future seems impossible to think about. "Tech has the same challenge that America has, relative to the world: It likes to think of itself as exceptional, to think that 'You poor guys in consumer packaged goods or banking or whatever don't understand us,' " says Paul Bergevin, Vice President and General Manager of Intel's Global Communications

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Group. "Some of that's true.... There's a lot of disruption that happens in tech that occurs relatively quickly. But there are shifts that happen in automobiles, in steel, in textiles, and in retail too." Consider the CEO transitions at these four companies—Intel, IBM, Intuit, and eBay. In each case, a smooth and orderly succession took place because of proactive leadership planning at the highest levels. This of course is in significant contrast to the high drama witnessed in some recent tech stalwart shakeups, where CEO exits left uncertainty and anticipation.

Management quicksand

Skipping over development of a leadership bench is not simply an oversight on the part of tech firms, or hubris. In tech culture, management is sometimes reviled, even seen as a barrier to innovation. Unlike other industries in which almost everyone dreams of making it to the C-suite, some of the most talented in tech don't want to oversee their peers. When asked why he wasn't interested in taking on a supervisory role, one coder at a California startup told us, "Management is death! Why would I want to die?" He's not alone in his disdain for the supervisor's desk. This mentality can cause a dearth of capability at middle manager levels, constraining talent pools available for advancement to executive positions.

In fact, according to our research, middle managers in tech companies often have a deficit of learning agility, or the ability to adapt and thrive in a new environment. (See 'The right stuff: learning agility' sidebar on page 6.) The qualities of concentration and single-mindedness that make a great programmer, it seems, are not the same qualities that make a great boss. Passing through the quicksand of middle management can be daunting for those who want to reach the heights of the executive level in a technology company.

"In tech, there's always a dearth of leadership, and it's because we've traditionally promoted smart individual contributors to management roles. We assume that if they are smart, they must be able to lead," explains Gabrielle Toledano, Executive Vice President of HR at Electronic Arts. "We think at times that IQ can translate to EQ, but this is not a logical conclusion."

We have found that in most tech companies, employees sense that there are two tracks—managerial and technical. And the latter is often the one that provides clear excitement, stimulation, and opportunities. "In tech, we revere the engineer. That's the hero," says Broadcom's Timberman. "Historically we've forced people to choose either a technical or management path; we've done it to ourselves. There is no value attached to being a manager. They're often seen as 'the masters of nothing.'"

Finding leaders who can bridge both the technology and management worlds has proven difficult. The approach eBay has taken, says Chief Human Resources Officer Beth Axelrod, is to put in place combinations of leaders or leadership teams that collectively do both—drive innovation and profits. Still, she says, periods of rapid growth present a challenge. "Most people cannot scale their own development at the pace the company is scaling. The company can rapidly outgrow its leaders," she says. "To address that issue, we take steps to accelerate the development of our people while also hiring externally to fill specific capability or leadership gaps. Over the last four years, we have significantly rebuilt the leadership of the company and the impact of this can now be seen in our financial results."

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Beth Axelrod

*Chief Human Resources Officer
eBay*

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Steve Bennett
Former CEO
Intuit

Build versus buy—carefully

Often the immediate solution is hiring executives from the outside, bringing talent in from other tech companies or unrelated industries. In fact, according to a few of our interviews, at some companies as many as 80 percent of senior managers are hired from the outside. When an executive leaves, the instinct is to call the recruiting team, unlike other industries in which the first place to look is within.

The earlier-stage tech companies we spoke to told us that they rarely put an emphasis on or resources into developing future leaders. It seems like a waste of time in the go-go early startup stages. And later on, the companies fear that managers whom they’ve spent time and money training will be cherry-picked by other firms. “Companies don’t want to spend all their time developing their people so they can jump to another company,” says Steve Bennett, former CEO of Intuit.

Tech firms could, though, view strategic investment in leadership as building the infrastructure for growth. Rather than “rewarding” high performing coders or engineers by pushing them into management, these companies could better pinpoint employees with a natural bent as leaders: organized, strategic, good with people, eager to take on new endeavors.

Australia-based telecom company Telstra, for instance, made such a switch. “Ten years ago, we took a vertical approach to management practice,” says

The right stuff: learning agility

When it comes to identifying ready-to-promote talent, our consultants often reference *learning agility*, a measure of how adaptable a person is in new or challenging conditions. Highly learning-agile individuals excel at absorbing information from their experiences, they seek out feedback, and they can generally figure out what needs to get done. They are often described as flexible, resourceful, and versatile—in short, exactly whom you want to promote to an executive role.

But hiring managers and HR executives don’t always recognize learning agility in a person—or fully value it when they do. These masters of adaptability, after all, can be seen as high maintenance individuals who tend to stir things up. But in fact, our

research shows that learning agility directly correlates to an individual’s success once promoted into a leadership role.

It’s also worth noting that learning agility is a quality distinct from raw IQ or knowledge. Although it requires a baseline intelligence (agile learners tend to be above the bottom third in intelligence), learning agility stems from a combination of other traits, including curiosity, tolerance for ambiguity, a sense of perspective, and good interpersonal skills.

Technology companies, our research has found, have an atypical dip in learning agility scores going from the individual contributor to middle management level (see Figure 1). Although it’s difficult to pinpoint why

this is the case in a cross-company snapshot, it broadly appears that tech promotes people with narrow mastery not general versatility.

The technology sector doesn’t appear to have trouble attracting learning agile talent: its individual contributor scores were at the 51st percentile, above the mean score of 47. The problem seems to lie with selecting the right people to promote—or making the management jobs appealing to learning agile talent.

Either way, the existing thirteen-point gap between managers and executives is a steep climb for the newly promoted. It was the largest of any industry we looked at, and might explain why technology firms report not having enough ready-to-promote talent.

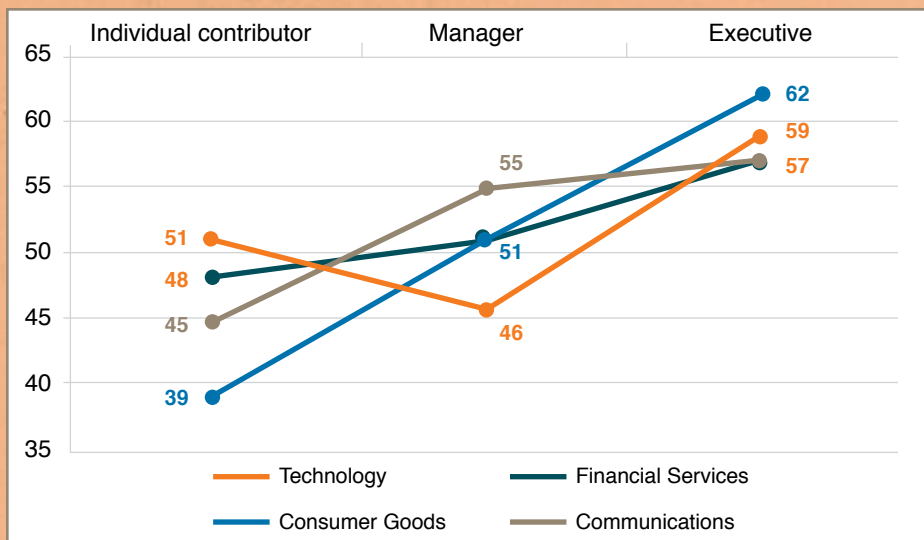
Tracey Gavegan, Telstra’s Group Managing Director of Human Resources. “This favored those who were specialists in their field. Now, our markets are rapidly evolving and broadening, and we have to better reflect these markets with our own leadership talent.” Today Telstra is actively giving high-potential managers assignments in a wide range of markets with an eye to creating agile senior executives. “When you’re a leader,” she says, “you just connect the dots better when you have some breadth.”

Companies that don’t select and groom talent for leadership can get trapped in a vicious circle: they don’t have anyone ready to promote to senior roles, so they hire from outside the company. Middle managers start to feel as if there is no future in their positions, and technical staffers begin to view supervisory roles as the road to nowhere.

Groupon’s Schipper believes management development has a place in his organization, but isn’t convinced that it is equally effective across all situations. “I would tend to concentrate my development efforts on those important inflection points ... for example the stage in a career where an individual contributor becomes a frontline manager. In a fast-moving technology company, applying management development resources too broadly has an opportunity cost. I haven’t seen compelling evidence for a positive return on the investment in development relative to accessing the market for management talent when it’s needed.”

Others have, or at least believe a lack of available internal leadership can be crippling.

Figure 1 – Learning agility scores in technology companies



Compared with some other sectors, in which average learning agility scores rise from individual to manager to executive, technology shows higher scores for individuals, then a dip in average scores for management, and high levels for executives. This data comes from 4,088 individuals’ scores from ViaEDGE, a Korn/Ferry learning agility assessment, collected between February 14, 2011 and June 4, 2012.

Adobe Systems, which is well known for developing talent internally, views relying on outside talent as a risky position. “If your company is based on a set of core values, I don’t think you can just easily buy people,” says Donna Morris, Adobe’s Senior Vice President of Human Resources. “External hires typically do not fail because they’re not capable in terms of what they do. The difference is whether they’re really able to fit in from a values perspective, i.e., how work gets done.”

Leadership development 2.0

It’s hard to argue that strong leadership has had nothing to do with Intel’s phenomenal success. The microprocessor behemoth has had only six CEOs since its founding in 1968 and is known for its orderly executive succession. In fact, it makes sure that managers at all levels in its company have succession plans in place. And although Intel can’t anticipate exactly how technology will shake out, it feels certain that its leadership structure is nimble enough to point the company in the right direction.

“We know that our long-term investments are geared toward advancing the state of the art of microprocessors,” says Intel’s Bergevin. “We’re a company that is not confused about its identity the way, frankly, some are. We know that improving transistors and having better microprocessors to drive devices is going to be required in five years, but what segments those processors address, various issues around pricing, margin, business model—there’s a lot of sorting out to do.”

Talent and the ‘engineering mind’

Steve Bennett, former CEO of Intuit, the software company best known for the accounting applications Quicken and QuickBooks, has come to a conclusion that most in the business world would consider a no-brainer, but in the tech sector it doesn’t seem to be common wisdom: “At the end of the day,” he says, “businesses are about people.”

That’s what has distinguished Intuit from the competition. From the beginning, the company has focused on developing future leaders and core values. Bennett understands the temptation to shy away from management development, but he believes companies ignore it mainly because their engineering mind-set gets in the way. “It’s hard to develop

leaders, and few companies see the return on investment in leadership development. There’s a bias against it because it’s hard to measure,” he says. “If you do it, though, it can make a big difference.”

Intuit’s long-term financial success goes a long way in showing how impressive leadership development can be. Scott Cook, Intuit’s first CEO, took the entire workforce out for a day to craft its ten core values. Each CEO since has used those values as the compass to steer Intuit into the future, and the company works hard to find and promote leaders internally who are already inculcated with them.

Like other companies, it’s found that general managers who combine technical expertise with superior

leadership skills are the best of both possible worlds, and garner enough respect to effectively supervise the tech side of the business. But finding those people has required broadening the definition of leadership and getting rid of the idea that moving into management is the only way to advance at the company. Deep technical experts can advance into more senior technical roles, and broader general managers can advance on a different track.

Creating lasting talent systems, though, requires a level of strategic thinking and leadership that Bennett finds sorely lacking in most technology companies. “Places that win in the long run,” he advises, “are those that develop their people.”

With a strong focus and agile leadership, Intel is confident that it will be able to address any shifts it faces. It didn't sweep out the entire leadership layer when tablet computing came on the scene, or replace whole groups of engineers like many younger companies are tempted to do. Instead, Intel is committed to development throughout the company, not just at the managerial level. "There's a range of training programs and continuing education requirements that we make available for teams based on their needs," explains Bergevin. "I might look at somebody on my team and say, 'This person is a really strong manager, this person knows how to execute, mobilize resources, plan something, and create an outcome in a fixed period of time.' They need to be up-leveled as leaders. The same is true of technical skills."

Gemmell, the Cisco CHRO, is also very conscious of the leadership deficits in technology companies. Although 50 percent of senior managers have been with Cisco for ten years or longer, Gemmell acknowledges that the company still has a shortage of leaders with general management skills. To improve the internal pipeline, the company is working on several initiatives, including C-LEAD—a leadership development program focused on collaboration, learning, execution, acceleration, and disruption. An internal promotions committee evaluates management candidates based on these qualities, but if times change and other skills are needed, it can emphasize one aspect over the others. Cisco has also implemented a "25/75" program. It is committed to grooming three people for each of the 25 management roles below executive vice president, giving the company a strong quiver of leaders with various abilities to move into those positions as needed.

Steve Cadigan, now Vice President for Talent at LinkedIn, remembers being at Cisco in the early days. In 1999, the company reached the highest market cap in its fifteen-year history. "We'd never really clearly defined what a 'Cisco leader' was, nor had we built any substantive development frameworks," he remembers. "And yet we'd achieved so much success." But Cisco got a powerful lesson when the economy tanked the next year. "In some respects it is much easier to motivate employees as a manager when times are good. Sheer inertia motivates people," he says. "But when times get tough and you don't have big jumps in share price or large bonuses to give out, leaders really need to step up and find how to motivate their teams."

The lessons that Cadigan learned at Cisco he is applying at LinkedIn. Although the company has quadrupled in size over the past three years, the organization has prioritized development of the leadership team. According to Cadigan, the company continually looks at its executives to ensure they are in the right roles, advancing their skills, and contributing in ways that support their personal as well as company growth.

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Steve Cadigan

Vice President for Talent

LinkedIn

Juniper Networks has been manufacturing networking equipment since 1996, and is growing into a 10,000-employee organization with \$5 billion in revenues. The company is also putting a lot of thought into its management. Specifically, it's asking whether it needs to add new layers of management as it scales up, and will attempt to double in revenues while maintaining the same number of managers. In true techie fashion, it's been working with software to map how customers are handled, how work actually gets done, and exactly what leaders accomplish. That might reshape what leadership means in the organization. Realistic? It remains to be seen whether the current structure can handle this additional scale, but it's an ambitious plan to be sure.

Recommended solutions

Based on our interviews with these twenty-one leading technology companies and the experience and research we have in the industry, we believe there are a few key tenets tech companies can follow in order to alleviate the shortage they sense in the supply of ready-now leaders to fuel growth.

Invest in agile leaders. Sure, tech is about transistors, websites, and machines. But companies must successfully manage how those things are created and built, even as the products evolve. Assess potential leaders for their ability to learn and grow, develop that talent early in their careers, and build a strong management track with broad-based rotational experience. Leaders who exhibit learning agility can progress and adapt as the company does—enabling organizations to leverage them in different ways over the long term.

Be purposeful about creating culture. Companies that are in it for the long haul focus on values and developing a true corporate culture. It's not just mature companies such as Adobe or Intel that can afford to do this—successful startups such as Zynga credit their culture for much of their early success. A strong culture binds talent to a company, and creates a clear focus for finding and developing leaders.

It's a marathon versus a sprint. If there is anything our interviews taught us, it's that a long-term focus creates strong short-term results. Yes, the tech world is in constant flux. But that is no excuse for ignoring strategic, long-term thinking. Good leadership development takes time, and core leadership skills are not going to be obsolete in six months. Developing leaders in the early stages will help lessen the pain as your company transitions into the next stage of growth.

Look within. Hire and promote more leaders who can change versus changing out leaders at every turn. It leads to stability, efficiency, a stronger corporate culture, and will encourage people to step up to the leadership plate.

Look beyond. Tech is special, but it's still part of the business world and there are lessons to be learned from success in other industries. Be willing to look at best practices, business models, and top talent from outside the industry. You may be surprised at how sophisticated those brick-and-mortar companies can be when it comes to leveraging talent to achieve business results.

Although it's clear digital-age companies are exceptional in many ways, and can often get by without traditional management structures for long periods of time, in the end the companies that endure realize that they are ruled by very human factors, such as employee motivation, workflow organization, and customer focus. Sure, there may one day be an app that manages all those human elements, but until then good leadership will have to suffice.

Acknowledgments

Korn/Ferry interviewed senior executives at twenty-one prominent technology companies around the world. Participants included CEOs and those who head Human Resources and other functions. We are grateful for their time and willingness to share their experiences and insights.

The companies were diverse on a number of dimensions, including size, stage of maturity, geography, and go-to-market strategy. Those companies were:

Adobe Systems
Broadcom
Cisco Systems
eBay
Electronic Arts
Flextronics
Groupon
HP
IBM
Intel Corporation
Intuit
Juniper Networks
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Microsoft
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The Korn/Ferry Institute generates forward-thinking research and viewpoints that illuminate how talent advances business strategy. Since its founding in 2008, the institute has published scores of articles, studies and books that explore global best practices in organizational leadership and human capital development.

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