



## **The Focus of Leadership Development in MNCs**

Holly B. Tompson  
*Florida Southern College, USA*

George H. (Jody) Tompson  
*The University of Tampa, USA*

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Academic research on leadership has prescribed dozens of theories for how leaders can become more effective. However, the extent to which academic research has influenced companies remains unclear. While companies are acutely aware of the importance of leadership, the specific ways that they train their leaders has not been a common focus of academic research. When companies design leadership training programs, what leadership competencies do they emphasize? This paper presents the results of a survey that was answered by senior managers of over 300 multinational companies. The results show how companies are emphasizing some leadership competencies over others, and show which training emphases are associated with higher levels of organizational performance.

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### **Introduction**

As the globalization trend continues, multinational companies (MNCs) recognize that leaders must learn to be effective in cross-cultural environments. By all measures, effective leadership is difficult in a “domestic” setting, and adding expatriate duties makes leadership even more challenging. Leadership training and development is commonly used by companies for preparing “high potentials” to assume new roles at higher levels in the organization. Evidence of this trend toward combining leadership development with cross-cultural training is evident in the U.S. Army (Proctor, 2009), educational administration (Rhodes & Brundrett, 2009), and of course academic study of leadership (van Emmerik, Euwema, & Wendt, 2008). Increasingly, the business press has also addressed leadership development. At least two titles publish issues that rank companies according to their expertise at developing leaders. *Fortune* publishes an annual issue titled “The Top Companies for Leaders” (IBM was ranked #1 most recently) while *BusinessWeek* publishes the “Best Companies for Leadership” (GE was ranked #1).

Are companies successful in building the leadership competencies of their employees? In spite of the current focus on globalization and leadership development, there is evidence that the effectiveness of these efforts remains low. The American Society for Training & Development (ASTD) reported that only 41% of leaders are satisfied with the leadership development opportunities that their employers are providing (Pace, 2008). We know that globalization is a permanent part of managing organizations. We know that leadership development is important, but it appears that many companies do not provide leadership training that meets the demands of the employees who need it most. Most alarming, this problem is not new. In 1998, Gregersen, Morrison, and Black published the results of their study on global leadership development. According to responses from *Fortune* 500 companies, 85% of the companies did not have enough leaders, and 67% had leaders with fewer capabilities than were required to do their jobs. Today, fifteen years later, what are companies doing to build their leaders' competencies? The purpose of this paper is two-fold: to identify 1) which global leadership competencies are emphasized most heavily by organizations, and 2) which competencies are associated with strong organizational performance.

We define global leadership development as "activities that help leaders develop a set of competencies that are critical to the business success of organizations competing in a global marketplace. A global leadership program/curriculum tends to focus on competencies designed specifically for global leaders as opposed to leaders operating in a single country and dealing with a single national market" (AMA, 2010, p. v). With limited Human Resources (HR) budgets that must be spread across many regions and employees, companies want to provide training that will be the most efficacious. Existing literature has not adequately identified which foci of global leadership development are associated with organizational performance. This paper, therefore, will report the results of a recent comprehensive survey that addressed leadership development techniques in a large sample of MNCs.

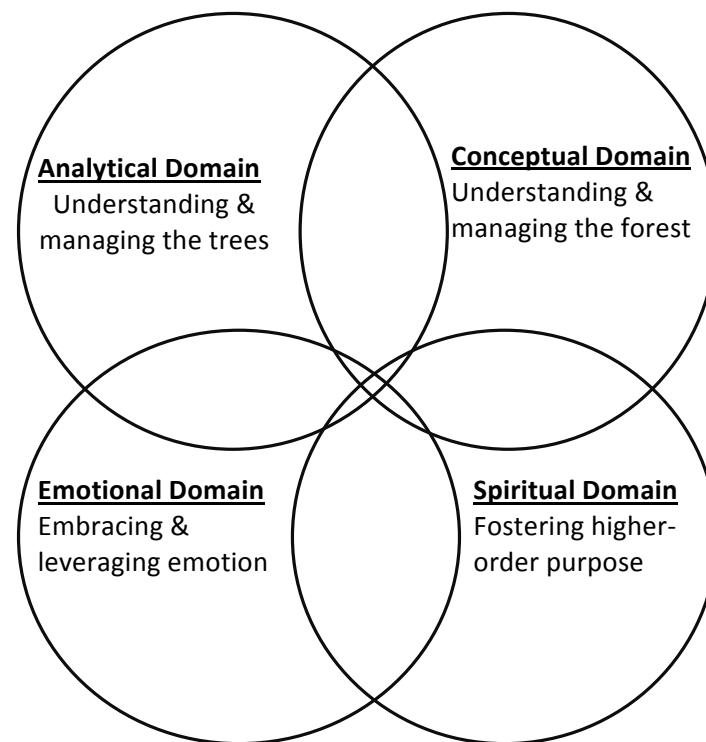
There is strong evidence that MNCs are keenly aware of the need to for leadership development. First, any expatriate leadership role is known to be a very challenging job assignment. Employees who occupy these positions face many more challenges than their colleagues who are in merely "domestic" leadership roles. The added complexity of leadership in an MNC often requires specialized training to improve the likelihood of leadership success. Second, leadership development is thought to improve retention rates in MNCs. Leaders in MNCs must have sufficient resources, personnel, and personal competencies to feel like they can be successful. Otherwise, expatriate leadership assignments are fraught with high rates of failure. Costs of expatriate failure have been widely documented, with the main costs being loss of personal and corporate reputation, loss of market share, disruption in customer focus, missed business opportunities, and costs of re-training (Shen, 2005).

### Research Questions

Our first research question asks which leadership competencies are most commonly emphasized by MNCs. The traditional academic research on leadership theories certainly influences how companies train their leaders, but it does not tell us what MNCs are currently doing with regard to leadership development. For example, Quatro, Waldman, & Galvin (2007, p. 428) argued that, due to the numerous high-profile leadership failures, "leadership development programs and initiatives may need to be holistic in their scope." In response to

leadership lapses, they prescribed the ACES model of leadership development. Their model seeks to improve leadership training by expanding it to cover analytical, conceptual, emotional, and spiritual realms of leadership. See Figure 1.

Figure 1: ACES Model of Holistic Leadership  
Quatro et al. (2007)



In spite of the innumerable prescriptive theories on leadership like the ACES Model, there is little existing research on how MNCs actually develop their leaders. Most research has been small sample case studies that examine the practices of a few companies. Fulmer, Gibbs, and Goldsmith (2000) identified six MNCs with the best practices in leadership development. A similar approach was used by Fulmer, Stumpf, and Bleak (2009) to study the leadership development practices at Caterpillar and PepsiCo. A compelling stream of research was conducted and reviewed by Clarke, Bailey, and Burr (2008) in the UK. They performed semi-structured interviews with 17 managers, then longer interviews with a smaller group of those managers. Overall, they were thoroughly critical of the leadership training that they discovered in the sample of companies. They concluded that leadership development

“...in practice is an unfocused and extremely diffuse activity. It was also not evaluated well and was poorly aligned to business needs. This malaise was the product of four interrelated factors: aligning leadership development strategy to

HR best practice rather than medium/long-term business needs, lack of senior management vision for leadership development, poor quality HR thinking, and differing agendas and organisational politics.” (2008, p. 825)

Typically, preparing leaders for global or cross-cultural assignments means teaching them to appreciate new cultures. However, “training executives and managers the habits and customs native to a particular country has become woefully inadequate in terms of preparing today's leaders for building relationships and conducting business in various situations” (Lifelong Learner Report, 2004). To date, little research has studied the competencies that are important for global leaders as compared to leaders in purely domestic firms. Instead, most research is based on the assumption that leadership competencies are universal. But in fact, extant research has not studied effective leadership competencies among leaders who have global responsibilities. In other words, until recently the literature on leadership competencies hasn't made a clear distinction between global and national competencies. Even fewer research studies have identified the impact of global competencies on actual organizational performance.

In addition to studying the leadership competencies that companies emphasize, we were also curious about whether leadership training is associated with organizational performance. Our second research question asks whether higher-performing companies emphasize leadership competencies that are different than the ones emphasized by lower-performing companies.

## **Method**

### *Sample*

This research was conducted by the authors in conjunction with the Institute for Corporate Productivity and the American Management Association. A 34-item Likert scale survey was developed to determine whether companies were offering global leadership development, and if so, which leadership competencies were being emphasized in the training. For example, some companies might emphasize language training while others might focus their training efforts on emotional intelligence. Several measures of organizational performance were also included. A link to the on-line survey was emailed to recipients in March 2010 and 343 usable responses were received. Respondents were high-level management and HR executives in MNCs. All the items in the survey asked questions about the type of leadership development that was currently being provided for employees in the company.

### *Variables*

Respondents were asked to report the extent to which their companies provided leadership training in twelve areas. For example, one question was “To what extent does the company's leadership development program emphasize ‘multicultural awareness’?” Other items asked about the emphasis on competencies like “execution of global strategies” and “innovation management.” For each leadership competency, the respondent indicated the extent to which the competency was emphasized in the company's leadership training programs. The responses were collected using a 5-point Likert scale, with a 5 indicating the company emphasized the

competency to a very high extent. A response of 1 indicated the company did not emphasize the competency at all in its leadership development efforts.

We also wanted to know whether higher-performing companies tended to train their leaders differently than lower-performing companies. It would be interesting to know whether there are systematic differences between the high- and low-performing companies. The first two dependent variables were accounting measures of organizational performance: revenue (DV1) and profitability (DV2). We used self-report measures about the company's performance at the time of the survey compared to its performance five years earlier. Answers were reported on a 5-point scale from "current performance at an all time high" to "current performance is at an all-time low." This allowed us to examine the recent trend in the company's recent performance instead of collecting performance data at a single point in time.

## Results

The sample was mostly large, multinational companies. In the sample, 55% of the companies had annual revenue above \$100 million, 83% had more than 100 employees, 65% were companies headquartered in the US, 10% were from Canada, 3% from the UK, and 1-2% came from each of the following: China, Australia, France, Germany, Japan, India, and Malaysia. The answer to our first research question ("Which competencies are most heavily emphasized in leadership training?") is illustrated in Table 1. It shows a rank-ordered list of the leadership competencies, sorted by popularity. The first column lists the leadership competency and the second column shows the mean score of each competency, according to how extensively it was emphasized by the sample companies. The range is 1 to 5, with 5 indicating the competency was emphasized to a "very high extent." The third column shows the percentage of companies that reported the competency was emphasized to a "high extent" (score =4) or a "very high extent" (score = 5).

According to Table 1, the clear favorite among global leadership training programs was critical thinking and problem solving. It had a mean score of 3.70 on the 5-point Likert scale. In the sample, 62% of respondents emphasize critical thinking in their leadership training to a high or very high extent. On the other end of the results, emotional intelligence is heavily emphasized by only 39% of respondents.

**Table 1: To what extent does your company train its leaders for these competencies?**

Global Leadership Competency	Mean Score	Companies answering 4 or 5
Critical thinking & problem solving	3.70	62%
Change management	3.56	56%
Building & leading cross-cultural teams	3.52	55%
Ability to influence & build coalitions	3.50	54%
Execution of global strategies	3.40	51%
Multicultural awareness & knowledge	3.38	48%
Interpersonal & political savvy	3.35	46%

Effective oral & written communication	3.34	46%
Innovation management	3.33	44%
Expansion of organization's brand	3.28	46%
Agility to manage global shifts	3.20	42%
Emotional intelligence	3.16	39%

Tables 2 and 3 show the results of the regression analyses. Both regression equations describe a line with a slope significantly different from zero. For DV1 (revenue) the p-value of the equation was estimated at .047 and for DV2 (profits) the p-value was estimated at .05. Because each equation was significant, we examined the beta weights of the independent variables in the equation to determine which were the best predictors of the dependent variables. See Table 4. In the first two equations, two competencies were significant at  $p < .05$ : *interpersonal & political savvy* and *expansion of the organization's brand*.

**Table 2: Regression Results for DV1 (Revenue)**

Model	Sum of Squares	df	Mean Square	F	p-value	Adjusted R <sup>2</sup>
Regression	17.407	12	1.451	1.800	.047	.027
Residual	265.146	329	.806			
Total	282.553	341				

**Table 3: Regression Results for DV2 (Profitability)**

Model	Sum of Squares	df	Mean Square	F	p-value	Adjusted R <sup>2</sup>
Regression	15.823	12	1.319	1.7538	.05	.026
Residual	247.363	326	.759			
Total	263.186	338				

**Table 4: To what extent does your company train its leaders for these competencies?**

	t-values DV1 (revenue)	t-values DV2 (profits)
Global Leadership Competency		
Critical thinking & problem solving	.466	-.401
Change management	-1.19	1.07
Building & leading cross-cultural teams	.005	-.341
Ability to influence & build coalitions	-.136	-.531
Execution of global strategies	-1.36	-1.66
Multicultural awareness & knowledge	1.758	2.074
Interpersonal & political savvy	2.256*	2.00*
Effective oral & written communication	.534	-.544

Innovation management	-.181	.596
Expansion of organization's brand	3.286**	3.021**
Agility to manage global shifts	.651	.839
Emotional intelligence	-.82	-.220

\*  $p < .05$

\*\*  $p < .01$

## Discussion

The most interesting result of this research is shown by comparing the results from Table 1 and Table 4. The leadership competencies that are the most commonly emphasized (i.e. “critical thinking” and “change management” at the top of the list in Table 1) are not the ones that are associated with the best performing companies. And the inverse is true too. The pattern suggests that less popular training foci are the ones associated with better organizational performance. Among the twelve forms of leadership development, the 7<sup>th</sup> and 10<sup>th</sup> most common (according to Table 1) are the ones that are significantly associated with stronger financial performance. According to Table 4, *interpersonal and political savvy* (7<sup>th</sup>) and *expansion of the company's brand* (10<sup>th</sup>) are both associated with the highest levels of revenue and profitability. This research deserves to be replicated, but our results here suggest that companies might be emphasizing their global leadership development methods without regard to financial performance. This result begs the question of exactly how companies decide what leadership competencies to emphasize. Maybe companies emphasize competencies that are easier to teach, or competencies that the leaders request, or competencies that a host country manager recommends. In any case, it appears that companies are consistently emphasizing some leadership competencies that are easy or popular, but they are not associated with higher organizational performance.

### *Implications for Practice*

Given our data and methods, we cannot infer causality. At this point, it would be dangerous to conclude that the differences in organizational performance were caused by the different training foci that some companies used. However, the result does conform to the common notion that, to be successful, companies must distinguish themselves from others. Successful strategies are characterized by a unique set of activities—companies must develop unique competencies if they want to create and maintain a competitive advantage. When companies merely build their strategies on activities that are easy or popular, the best performance they can hope for is competitive parity (Nattermann, 2000). In our sample, the companies that emphasized the “unpopular” leadership training methods were the ones that had better financial performance than the companies that “followed the crowd.” Managers might make the mistake of thinking that the pursuit of differentiation applies only to product or service characteristics. Indeed, products should be unique in their market, but companies should also seek to differentiate themselves through all aspects of the value chain. There are ample opportunities to develop idiosyncratic skill sets among employees that can be leveraged into competitive advantage (Pfeffer, 1995). One way to build an organizational advantage through

excellent employees is by providing training that adequately prepares leaders for overseas assignments.

How should organizations develop their leaders? Our analysis identified two specific skills that were associated with higher organizational performance. First, *interpersonal & political savvy* is important, especially as leaders are preparing for expat assignments. Good leaders know how to navigate through office politics, gather resources, build coalitions, and persuade people to follow. Furthermore, there are many nuanced differences between national cultures, so it is not surprising that interpersonal savvy is heavily emphasized among MNCs that have higher financial performance. Our data do not expose the methods that companies use to enhance interpersonal savvy, but we assume companies emphasize basic human relations skills for building trusting relationships with colleagues. Second, *expansion of the organization's brand* was also emphasized in the MNCs with higher financial performance. Normally, branding is considered to be an activity within the marketing function. But our data suggest that the best companies expect their leaders to take a role in branding too. Even the leaders with backgrounds in engineering or finance must recognize that, essentially, they are always branding. Stakeholders associate leaders and senior managers with their company (e.g., we always associate Bill Gates with Microsoft, Steve Jobs with Apple, and Jack Welch with GE). Even outside the office or on vacation, it can be assumed that leaders are always branding. Of course the branding can be done well or not; the better companies in our sample specifically identify branding as an area for emphasis during leadership development.

### *Conclusion*

The purpose of this study was two-fold: first, to identify the most frequently used practices in the development of global leadership programs and, second, to highlight when disparities exist between the most popular practices and the most effective practices. We found evidence that, in some cases, the most common courses of action are not the most effective.

Of course, these findings are not the final word. Every organization has a unique culture, employee population, programs, and challenges, and these factors influence which strategies and tactics are truly best practices. Still, all things being equal, we believe the findings from this study are a good place to begin for organizations intent on developing, implementing, or improving their global leadership development initiatives.

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### **About the Authors**

Holly Tompson is an assistant professor in the Barnett School of Business at Florida Southern College. She teaches courses in leadership, international business, and negotiations to undergrads and MBA students. Her Ph.D. is from the University of South Carolina, in organizational behavior and human resources management. Email: [hollytompsont@yahoo.com](mailto:hollytompsont@yahoo.com)

George H. (Jody) Tompson is a professor of management and entrepreneurship in the Sykes College of Business at the University of Tampa. He is also the director of the Naimoli Institute for Business Strategy.

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