

Four critical attributes for leadership in 2021

Mercer's leadership
point of view

welcome to brighter



Four critical attributes for leadership in 2021

In the wake of COVID-19, organizations are coming to grips with a new—and in some cases transformed—shape of work. The challenges of 2020 accelerated essential conversations about how we work and how we define and measure success. Smart organizations are using this moment to reflect on and reshape their business model, culture, and goals.

As part of that process, companies and their boards are also taking a harder look at what capabilities it will take to lead an organization to success in 2021 and beyond. Specifically, organizations want to know how to attract, develop, retain, and reward leaders with the skills and attributes needed to guide thoughtful, healthy, and inclusive growth for the future of their business.

This article will review the four top leadership qualities critical to the future of work and specific governance and implementation actions to improve day-to-day behavior and outcomes at all levels of the organization.

Post-2020: Understanding the changed landscape of work

The seeds of the new shape of work have been germinating for some time. Even in pre-pandemic 2019, CEOs were pushing issues of human capital and leadership higher on their priority lists. As illustrated at right, talent attraction, leadership development, performance management, and rewards were already competing with business models, cost, and growth in CEOs' minds.

-  Leadership
-  Human Capital

CEO's 2019 ranking of top concerns¹

-  1. Attraction and retention of top talent (future leaders)
-  2. Creating new business models because of disruptive tech
-  3. Developing Next Gen leaders
-  4. Better alignment of comp. and incentives w/ bus. performance
-  5. Reduction of baseline costs
-  6. Volatility in cash flow
-  7. A more effective performance measurement system
-  8. Managing mergers & acquisitions
-  9. Workforce diversity
-  10. Compliance with data privacy regulations

¹ Mercer Global Talent Trends 2021

But in 2020, what had been a slower evolution was thrown into high gear, with many different concerns all coming to the fore at once.

The changing workplace. There are striking changes and new flexibility in how, where, and when people work as organizations respond to quarantines and business disruption. Increased flexibility is likely to be sustained even if COVID-19 is contained, because of both business and workforce benefits.

Diversity, equity, and inclusion (DEI). Powerful social justice demands have been another major catalyst for change in the United States, with a knock-on effect abroad. Organizations require a more proactive approach to strengthen their external brand and promote inclusion and equity in pay, voice, and opportunities internally.

Digital transformation. The increased role of technology in response to the pandemic has driven and accelerated dramatic change at work. Digital transformation and the increased use of artificial intelligence are steadily impacting workers, their jobs, and the economy's functioning.

Environmental responsibility. Environmental concerns were sharply highlighted in 2020, with a record number of named storms, major forest fires, and other environmental cataclysms. These events raised tough questions about corporate responsibility and the role business must play in climate and environmental leadership.

With all of this rapid change, it is no surprise that what companies need from leaders is also evolving. In fact, in [Mercer's 2020 - 2021 Global Talent Trends research](#), 48 percent of executives agreed that employee health and well-being is their top workforce concern, and 40 percent of employees said they find people who lead with empathy are more energizing to work for. This study found that employees in the US were seven times more likely to want to work for an organization that they describe as very empathetic to individuals' needs.

Case example: Identifying critical leadership qualities for PSCU

Working from a position of organizational strength and success, the Board of PSCU sought to review executive assessment methodology in light of the rapid and transformative changes in the financial services industry. A highly innovative Credit Union Services Organization (CUSO), PSCU, helps their clients – leading credit unions across the country – deliver payments solutions and services to their members. Like most financial services organizations, PSCU is balancing competitive and operational pressures, the ongoing need for innovation, the challenges of leading a dispersed and remote workforce and the need to foster diversity, equity, and inclusion (DEI) best practices at all levels of the organization. Accordingly, PSCU asked Mercer to interview directors and executives on its current strategy and methodology to gain an expert, third-party view on alignment with future business needs while highlighting leadership attributes that should be used to build a world-class succession planning process.

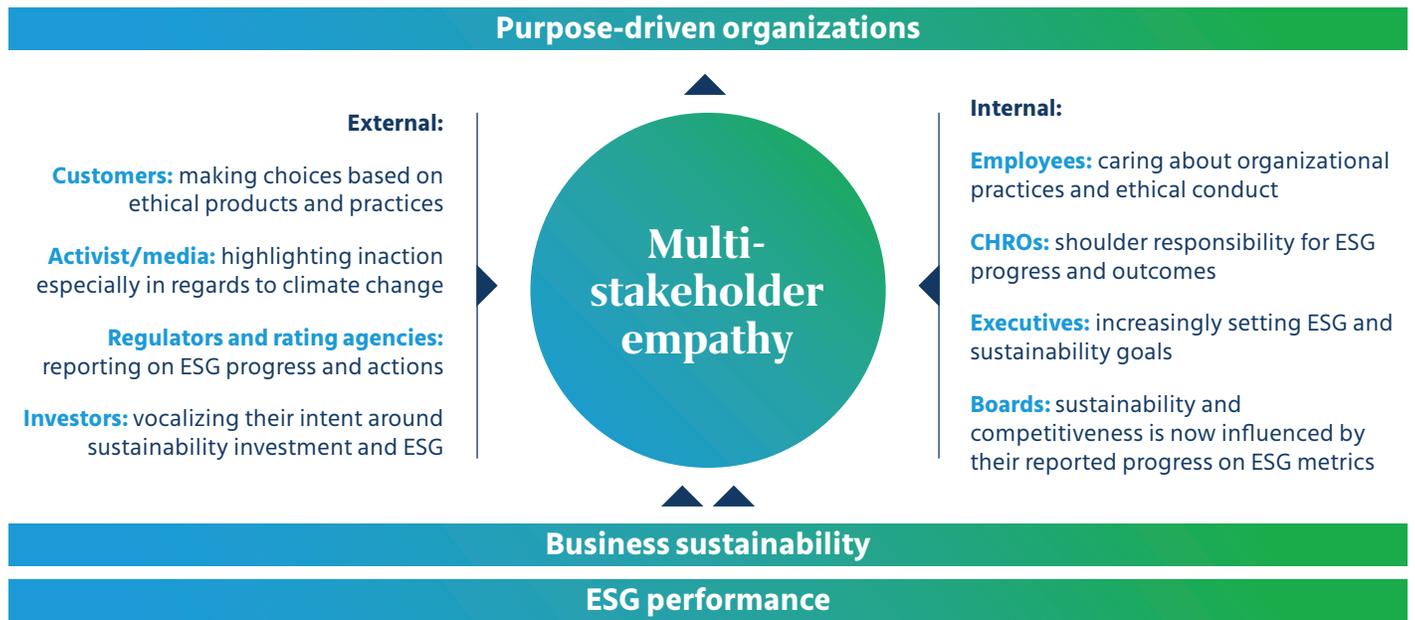
The leadership attributes that emerged were endorsed by the Board and the CEO for application in both short-term and long-term executive talent planning and development that will support the ongoing focus of PSCU as an innovative organization. This successful, value-added process benefited from full engagement by Directors and executives, as well as a wealth of insight and data from Mercer's executive leadership consulting team.

Moving from shareholder capitalism to a purpose economy

Like the future of work, the changes above have also accelerated a broader economic mindset—the inclusion of multiple stakeholders rather than shareholders alone in the evaluation of success. Sometimes referred to as the “Purpose Economy,” this mindset values outcomes that are broadly good for society. They are a critical part of the mission of any organization. Investor-focused metrics such as profit, growth, stock price, and

shareholder value remain essential, but increasingly, these other metrics are required for success as well—showing customers and employees the organization’s impact in areas such as social justice, the environment, and healthy, sustainable communities. Collectively, these values are known as ESG—environmental, social, and governmental.

Balancing shareholder interests with the purpose orientation of other stakeholders



Many large institutional investment organizations have been putting pressure on companies to broaden toward this purpose-driven stakeholder model—demanding they do a better job in elevating leaders who can better respond to issues like employee well-being, climate change, social justice, and digital

transformation. And employees themselves are weighing in through their job applications. According to our *Mercer Talent Trends USA 2020* study, one in three employees in the US would prefer to work for an organization that shows responsibility towards all stakeholders, not only shareholders and investors.²

To bring a company forward, organizations must understand the greater purpose of what they are doing. You need results to deliver a successful future, but you must begin by finding a balance of empathy and economics—of caring and maximizing impact.

– Martine Ferland, CEO



Leadership capabilities to prioritize and reward

An organization's ability to adapt to the new shape of work is only as good as its leadership. The challenges of the future still require traditional leadership competencies such as business acumen, strategic thinking, and leading change. But we find four attributes are especially important to a broader stakeholder capitalism/purpose economy model, and achieving sustainable organizational performance.

These leadership capabilities should be increasingly emphasized by Boards, CEOs, and CHROs in leader selection, development, rewards, and succession planning:

Emotional intelligence. The strongest leaders display authentic caring, empathy, and the ability to connect emotionally with a wide range of stakeholders. They are "present to the situation," and use listening as well as verbal and non-verbal communication to understand and influence others more deeply.

Digital savvy. Strong leaders accelerate the digitalization of work, product design, and the use of technology to enable new business models. Equally important, they connect the value of digital to business strategy, customer experience, workforce skills, and job redesign to make innovation a sustainable competitive advantage.

Inclusive social responsibility. The most effective leaders for the future take a broader view of business strategy and leadership style, designed for longer-term sustainability. This includes content knowledge in areas such as social justice, climate, and diversity/equity, coupled with a personal commitment to helping their organizations "do well while doing good."

Adaptability. Great leaders easily adapt their behavior and approach in response to changing circumstances. They find change easy, and accept it as the norm. They willingly let go of plans and readjust these as a way to respond to changing conditions. They plan for obstacles, look for ways to overcome difficulties, and stay the course despite setbacks.

Some of these capabilities are innate. Some are developable. Of course, not every leader needs to excel in every one of these attributes as well as traditional leadership competencies. Emerging leaders with all of these nuanced capabilities are rare. Therefore, organizations should think of leadership as a team sport, where a blend of outstanding individual competencies elevates the overall performance of entire business or functional leadership teams.

This is also an area where Mercer can be of assistance, as teams can leverage Mercer's Assessment of Potential (MAP) services to better identify and develop a broad range of competencies across their organization.

The Mercer framework for the future leadership bench

Creating a more progressive and effective leadership bench requires a seamless mix of selection, development, succession planning, and executive rewards. Each of these must work together to upgrade, retain, and motivate leadership.

1. Leadership profile

- Leadership philosophy
- Critical roles/experience
- Competencies
- Breadth/depth mix

2. Assessment

- Individual performance and potential
- Leadership bench strengths and gaps
- Fit to future business strategy and leadership requirements

3. Development

- Role modeling
- Action learning by leading change
- Deeper and broader leadership teams
- A culture of feedback and coaching

4. Rewards

- Rethink three critical questions: how to pay? when to pay? and what to pay for?
- Link rewards to leadership scorecard
- Expand the definition of “performance”

5. Succession

- Flight risk and emergency covers
- Key role successors
- High potentials
- Pipeline management



Measure success

- Strategy milestones achieved?
- Retention, especially in critical roles
- Feedback on leader behaviors and outcomes from key stakeholders

Business strategy

- Business models
- Digital
- Purpose-driven
- Stakeholder capitalism

The key to this framework is not its structure; rather, it is the tailoring within the framework to optimize the leadership needed for each organization’s business strategy and culture.

For example, upgrading leadership capability in emotional intelligence or digital savvy is not the same across different industries, organizations, and cultures. It is achieved through a combination of selection, development, succession, and rewarding of leaders that will vary across organizations.

As organizations develop their target leadership bench, they can follow the steps in the framework by asking and answering these questions:

- What is the profile of leaders we need for our business strategy? What roles, experiences, and competencies are required for our success?

- How do we assess our leaders, individually and as a team, for performance and potential?
- What development experiences and coaching will best fill our leadership gaps?
- How do we reward our executives to attract, retain, and motivate their top performance?
- How do we manage our leadership pipeline to ensure sustainable breadth and depth?

The focus of this article has been on emerging leadership requirements critical to the future of work. Organizations must develop these capabilities along with traditional leadership competencies to succeed sustainably. They can work with Mercer to customize this framework, adapting it to their business processes, strategy, and culture.

Special focus: Aligning rewards to purpose

The traditional approach to executive pay rewards executives for being financially successful (and sometimes, simply for working). It typically spans rolling one- to three-year periods. This narrow focus means very few organizations' plans incorporate their greater purpose or values. Purpose-driven metrics focusing on fairness or the sustainability of our planet and its people are not quick or easy wins; a new approach to performance-based pay should be considered.

Mercer is working with many companies to rethink their approach to performance-based pay, exploring the use of non-financial, environmental, social, and governance ("ESG") metrics, including diversity, equity, and inclusion goals, in executive performance assessments and incentive plans. Tying purpose-based goals to financial rewards signifies that companies take the advancement of this agenda seriously and push leaders to be accountable for their behaviors and actions to help create a better society. Yet when we look at those organizations already using ESG metrics, they are generally operational in nature, measured over a one-year period, and typically account for only around 5 percent of a bonus plan, translating to ~1 percent of total compensation. Arguably, this is not meaningful enough to drive real progress or accountability.

One resonant approach is a "purpose-based pay plan," a plan focused on driving progress on purpose-based metrics with real financial rewards at stake.

Four ways of making it real: Who leads the achievement of better leadership?

It's important to remember that the impact of these "new" leadership attributes is not theoretical. Prioritizing them will have a real day-to-day impact on behavior on all levels of an organization and positive outcomes for the business, culture, and broader ecosystem of stakeholders. But this can be a significant change and will only happen if led by the Board, CEO, and CHRO. Mercer recommends the following governance and implementation actions:

1. **Establish Board agenda and committee ownership.** Review the Compensation Committee Charter and expand its purview to encompass human capital management, succession planning, and sustainability. Coordinate with the Nominating/Governance Committee for aligned Board succession and recruitment.
2. **Broaden the leadership scorecard and definition of executive performance.** Take the opportunity to rethink executive rewards strategy to ensure alignment and accountability to the desired behaviors, competencies, and organizational purpose. Ensure the metrics, weighting, feedback, and rewards for executives reinforce that purpose.
3. **Ensure CEO/CHRO reporting on the leadership bench.** The CEO and CHRO should report at least annually on "the state of the leadership bench" to the Board and ideally to all senior leaders in the organization. This reinforces accountability regarding key competencies, the pace of development, and pipeline depth and readiness for the future.
4. **Invest meaningfully to select, develop, and retain effective leaders for the future.** Recognize that achieving a future-oriented leadership bench will require additional priority, development, and communication. Only with such investment will an organization compete effectively for the always-limited supply of great leaders.

Can we help you begin your journey toward inclusive leadership and the new shape of work? Contact us today.