

# DEFENSE INDUSTRY LEADERS WHO CAN DIG IN FOR THE FIGHT AHEAD

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Defense companies and suppliers are fighting to hold their position in the face of shrinking defense budgets, shifting Pentagon priorities, and political turmoil. Four specific competencies—Strategic Agility, Creativity, Managing Vision and Purpose, and Dealing with Ambiguity—will be in the highest demand. These four describe unflappable leaders who can uncover fresh opportunities, generate breakthrough strategies, and articulate the mission in an inspirational way—traits that have value now and beyond the threat of sequestration and the reality of a declining market.

*Sequestration.* The word itself is responsible for much hand-wringing and many sleepless nights throughout the defense industry. More than a year of budget brinkmanship, all under the threat of an automatic \$500 billion reduction to U.S. defense spending over the next decade has added a paralyzing layer of uncertainty to an industry already contending with transformative change.

Lockheed Martin, Raytheon, and General Dynamics, to name just three, have all publicly projected shrinking Pentagon contracts, and some companies in the sector have already begun shedding jobs. Byron Callan, director of defense coverage at financial analyst firm Capital Alpha Partners, summed up the sector's inevitable shrinkage this way for an American Public Media journalist: "The question is, is it going to go down taking the stairs or does it go down taking the elevator? Sequestration would be the equivalent of taking the express elevator down."

Either way, this is an abrupt reversal after a decade of frothy growth. As the whole industry recalibrates, defense firms need to ask: How should our business leadership change to meet these new conditions? What talents are required in the senior ranks so that we can mitigate these threats and harvest new opportunities in adjacencies and international markets?

Regardless of the specific sub-industry, managing change and rolling out new strategies require markedly different leadership competencies compared with the skills that have been recruited, developed, and rewarded in the past.

Korn/Ferry International measures and tracks the prevalence of sixty-two distinct leadership competencies. Experience with our clients and field discussions with industry leaders indicate that four of those, in particular, will grow increasingly valuable as the defense sector enters this new cycle:

1. Strategic Agility
2. Dealing with Ambiguity
3. Creativity
4. Managing Vision and Purpose

In the face of congressional volatility and financial uncertainty, success in the coming decade will be guided by those who can maintain a steady focus, even as they quickly adapt to changing conditions. To understand what the profile of such leaders must comprise, it helps to examine the external factors buffeting the industry.

## A new kind of downturn

The US defense industry is striving to reorganize itself to navigate a downturn that most analysts agree differs considerably from the 1990s defense slump. Given the political pressure to reduce current deficit spending and pay down national debt, most defense manufacturers and their suppliers have determined that they now operate in a “new reality,” regardless of what happens in the immediate budget cycle. A sustained downturn in federal defense spending represents the defining characteristic for the foreseeable future, but it is not the only component of this new paradigm.

Competition for defense contracts continues to intensify, forcing companies to bolster both their resilience and their ability to squeeze out profits. This requires incisive strategies that hit upon innovative ways to increase profitability, if not outright growth, in a declining sector. Companies are exploring untapped or underserved markets (including those abroad), divesting non-core businesses, considering new business lines, and in some cases, seeking out consolidation partners.

All of these business requirements have attendant talent requirements. For example, determining whether to expand a growing electronic warfare line of business or to acquire a fast-growing market leader in areas such as cyber or ISR (intelligence, surveillance, reconnaissance) requires vastly different leadership competencies than the program-centric emphasis we have seen during the last two decades. Likewise, expanding sales of defense products

in international markets requires a different set of skills from those needed to thrive as domestic defense contractors (see “Competencies that address global complexities” sidebar).

This is not to say that current leadership benches are bereft of the traits and abilities required to survive as a new industry era unfolds. But in addition to the economic forces buffeting the defense industry, there is also a demographic one: the wave of retiring baby boomers. The companies that keep these much-needed talents in mind as they hire and develop the next generation of executives will position themselves to thrive and lead while competitors remain focused on survival.

Identifying leaders with the precise competencies necessary to drive business success over the next decade initially may seem as difficult as reading the congressional tea leaves. Leadership assessment, however, has become a sophisticated process with testing systems and competency models that provide empirical measurements. Aided by insights gleaned from recent executive searches, leadership development work, and conversations with C-level executives and board members throughout the defense industry, a clear picture of sought-after leadership competencies emerges.

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## Strategic Agility: Sharp eyes trained forward

The demand for Strategic Agility—even when it is not articulated with this precise phrase—is evident in the executive search and development requests expressed by executive teams and boards. Opening comments such as, “We need more in terms of strategy and creativity around growth...” make clear that defense companies recognize their need for leaders who can size up the changes coming down the pike and develop plans to mitigate the risks and harness the opportunities.

Strategic Agility describes a particularly valuable facet of Strategic Skills: the ability to discern, evaluate, and plan for the future, even when the view ahead is cloudy. Leaders with high levels of Strategic Agility don’t just connect the dots; they do it faster, plot trends more accurately, and produce breakthrough strategies. It is always one of the most valued competencies for senior leaders, among a group Korn/Ferry identifies as “The Big 8” for its correlation to high performance.



Today, Strategic Agility is required to spot and evaluate opportunities for growth in services and product lines such as cyber security, unmanned aerial vehicles (drones), and intelligence-related offerings. Leaders who possess Strategic Agility also constantly scan the horizon for advantageous joint ventures or potential acquisitions. To be sure, finding and leveraging these opportunities requires related Strategic Skills, such as Business Acumen, Problem Solving, and Decision Quality. But those are generally in high supply among executive-level leaders and of average difficulty to instill. Strategic Agility is in medium supply among executives, rare among managers, and is hard to develop. Companies needing to increase their pool of such leaders with should hire and assess high-potential talent with care.

## Dealing with Ambiguity: A cool head amid chaos

Like few external challenges before it, defense cuts and looming sequestration laid bare leadership teams' weaknesses in Dealing with Ambiguity. It has been a perfect storm of partisan antipathy, political gridlock, and massive fiscal pressure, and the defense industry surely hopes for a compromise before a March 1 deadline. But already it has created a living case study in many offices. Think of how uneasy sequestration made some leaders in the industry while others refocused efforts and found opportunity. Consider the degree to which it affected the ability of some to make decisions and perform.

Dealing with Ambiguity encapsulates the abilities needed to forge ahead even when all the answers aren't known. Leaders with this competency keep their sea legs in rough waters, set a new course without distress, and can move on when circumstances demand it. They don't need "closure."

Dealing with Ambiguity represents a relatively rare leadership competency in an industry whose products are painstakingly engineered, manufactured, and tested to ensure unwavering quality and effectiveness. A commensurate level of certainty simply does not exist, however, when charting the future course for a defense company in the current political and economic environment.

Events of the magnitude of sequestration are unlikely to crop up repeatedly, but lower-stake forms of uncertainty are unavoidable as the defense industry enters a new cycle, seeks new markets, and tries new strategies. Dealing with Ambiguity will set apart the most poised leaders.



## Creativity: The spark that flames innovation

The leadership competency Creativity captures several abilities related to generating new and unique ideas. For example, many business leaders can connect dots, but those high in Creativity spot connections between disparate areas or ideas. Where others come up with new solutions, Creative leaders see whole new problems—and new market opportunities. Thus, Creativity drives innovation. In a period when finding new growth will rank at the top of most defense companies' to-do lists, a healthy supply of this leadership competency will be pivotal.

The demand for Creativity among executive competencies is evident in client requests for “innovative leaders” as well as some of the nontraditional leadership development, benchmarking, and recruiting activities defense companies have recently undertaken. One firm, for example, sent a team of corporate anthropologists to the campus of one of the world's largest technology companies to learn about building corporate cultures that foster creativity and innovation. Other companies have begun making concerted efforts to recruit and hire talent from outside (but related to) the engineering field as a means of enriching the diversity of thought and sparking greater ingenuity.

## Competencies that address global complexities

Although the United States remains by far the largest market for defense companies, more of them are pursuing international opportunities. These opportunities are smaller, yet can be highly valuable during a period of declining Pentagon budgets. Finding and seizing these opportunities also require different strengths from those that many US-focused executives flex on a regular basis.

The increasingly expressed desire for leaders with “global competencies” is more complex than it appears. Korn/Ferry's proprietary leadership research has identified more than

a half-dozen discrete (though frequently related) leadership competencies that drive international business success. These leadership competencies include:

**Global Business Knowledge:**

Understanding how business operates (and how capital flows) on a global scale as well as specific approaches that work in different regions and countries.

**Cross-Cultural Agility:** In addition to general cultural sensitivity, leaders who thrive while working globally possess an ability to engage in-country locals to learn how things get accomplished, and then commit to a

culturally appropriate course of action.

**Organizational Positioning Skills:**

In addition to adapting to new countries and cultures, leaders who thrive on the international level also possess an ability to translate the home office's approach and decisions to in-country staff.

These three global focus areas represent only part of a multifaceted blend of competencies that enable leaders to cut through the complexity of operating overseas to exploit growth opportunities.



Board members and CEOs searching to recruit and develop leaders with the Creativity competency often speak about a facility for “challenging the norm.” Doing so, they explain, can help shake up traditional thinking and generate new approaches to driving revenue—exactly what defense companies need in an increasingly competitive domestic market.

## Managing Vision and Purpose: Rallying the troops

The leadership competency Managing Vision and Purpose expresses the key ways that successful leaders communicate strategy and inspire their people to execute it. Leaders who manage with vision and purpose convey a compelling core drive; they stir confidence and optimistically discuss future possibilities, but at the same time create practical mileposts and meaningful symbols to push progress.

**The more extreme the uncertainty facing the defense industry, the more acute the need for internal clarity among the ranks.**

The more extreme the uncertainty facing the defense industry, the more acute the need for internal clarity among the ranks. Once a sufficiently

agile strategy has been developed, its execution largely hinges on helping the rest of the workforce, essentially, deal with ambiguity. A strategic vision also must be actively managed and communicated consistently to produce desired business outcomes.

This competency is needed throughout the executive and management levels. The relatively flush business environment of the past ten years made many employees at all levels of organizations comfortable, perhaps too comfortable. Today, defense firms need more discretionary effort, creativity, and innovation from all corners of their operations in order to unearth opportunities. The leaders who are managing with vision and purpose will inspire and stimulate these elevated contributions.

## An integrated approach

Some of the defense industry's innate skills appear to increase its odds of success at getting the talent it needs. Thanks to advances in psychometric assessment and analysis, the crucial competencies can more easily be identified, analyzed, and—yes—even engineered and assembled in the workforce.

An integrated talent approach assesses external candidates before hiring and develops current executives and high-potential managers by giving them specific job assignments that induce specific leadership competencies. This makes sense from a competitive standpoint: there is not an infinite supply of leaders with these skills. Indeed, Strategic Agility, Dealing with Ambiguity, Creativity, Managing Vision and Purpose, and the four other competencies that round out “The Big 8” are rare—in the defense industry and across other sectors as well. Korn/Ferry research indicates that only 12 percent of executives count four or more of these competencies among their top-tier strengths.<sup>1</sup>

By attacking the leadership talent challenge on two fronts, defense companies are showing that they intend to exploit uncertainty rather than letting it vex their strategies and paralyze their decision making.

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<sup>1</sup>Hallenbeck, George. 2012. “‘The Big 8’ Skills Give Lift to Rare-Air Executives.” The Korn/Ferry Institute. <http://kornferryinstitute.com/reports-insights/big-8-skills-give-lift-rare-air-executives>.



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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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