

EXECUTIVE SUMMARY

From Career Pyramid to Diamond

How Legacy Leadership Systems
Became a Competitive Liability in
a Reshaped Career Architecture



Project Contributors

Project Director

Joe Infantino

Contributing Consultants

Grace Licsko

JT Godfrey

SeramountHR Leadership

Steve Pemberton, Head of SeramountHR

Karen Armand, Managing Director

Cory Schneider, Director of Partner Success

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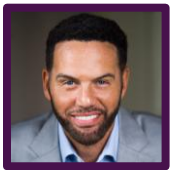
How HR Determines Competitive Speed

Foreword

AI is proving itself to be more than a new technology. It is accelerating the pace of change and testing an organization's capacity to adapt, evolve, and transform.

Legacy systems were not built with the capacity to absorb change at the pace today's environment demands, causing slow adaptation as roles, workflows, and expectations evolve. As routine work is automated and roles are reconfigured, organizations are losing traditional pathways for skill development, experience building, and leadership growth. That's why AI adoption is widespread but its impact is uneven.

The organizations that succeed in today's business environment will be those that can build the capacity to adapt to continuous disruption. As a foundation of SeramountHR's **mission to support CHROs on the path from institutional priorities into measurable progress**, this new series of research installments addresses the challenges of transition and transformation capacity.



Steve Pemberton

Head of SeramountHR

The Adaptable Workforce Agenda



AI and the New Workforce Transition

As pressure for AI experimentation results increases, HR will either serve as an accelerant or a bottleneck on change. **Our analysis defines HR's role in setting the pace of corporate strategy in response to AI.**



Toward a New Skills Paradigm

As roles shift and the demand for new capabilities grows, legacy systems reduce employees' ability to create the most value. **Our examination into workforce fluidity identifies actionable steps to enable talent mobility as work evolves in the AI era.**



From Career Pyramid to Diamond

As career pathways shift and development models fall short, organizations face growing strain on managers' capability to translate strategy into action. **Our research pinpoints the leadership systems organizations must build for stronger strategic execution.**

Methodology

In addition to extensive secondary research spanning academic journals, labor market analyses, and industry publications, SeramountHR interviewed chief human resource officers, talent leaders, and executives managing large-scale workforce and operational changes. Taken together, this research provides evidence-based guidance for workforce transformation in the AI era.

Leadership Systems Are Becoming a Competitive Liability

In the current business environment, **disruption and transformation are baseline expectations**. Ninety three percent of senior executives say they must reinvent their business model or operating approach every five years—and 65 percent say that window is two years or less. However, technology adoption alone cannot lead the change. To bring organizations through transformation, new technological capabilities must be met with **real operating change**.

One true key to achieving that goal is manager readiness and capacity.

Transformation Failure or Success Depends on Managers

In nearly every organization, managers absorb change first: turning broad executive priorities into team-level actions, new processes, and on-track adoption.

However, the current pace and frequency of organizational change fundamentally shift what organizations require of their managers. It's no longer enough to translate strategy into execution once; managers must now do so continuously, under conditions of constant change.



At a moment when businesses need these capabilities most, early warning signs suggest today's managers are simply not prepared for the level of change demand on the horizon, creating a bottleneck in the gap between new strategy and achieving enterprise-level goals. Taken together, the disconnect between demand for change and managers' ability to execute it points to a deeper problem: **Leadership development systems are not equipped to identify, prepare, and sustain leaders who can drive transformation.**

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40% of employees say their manager lacks the skills needed to lead effectively

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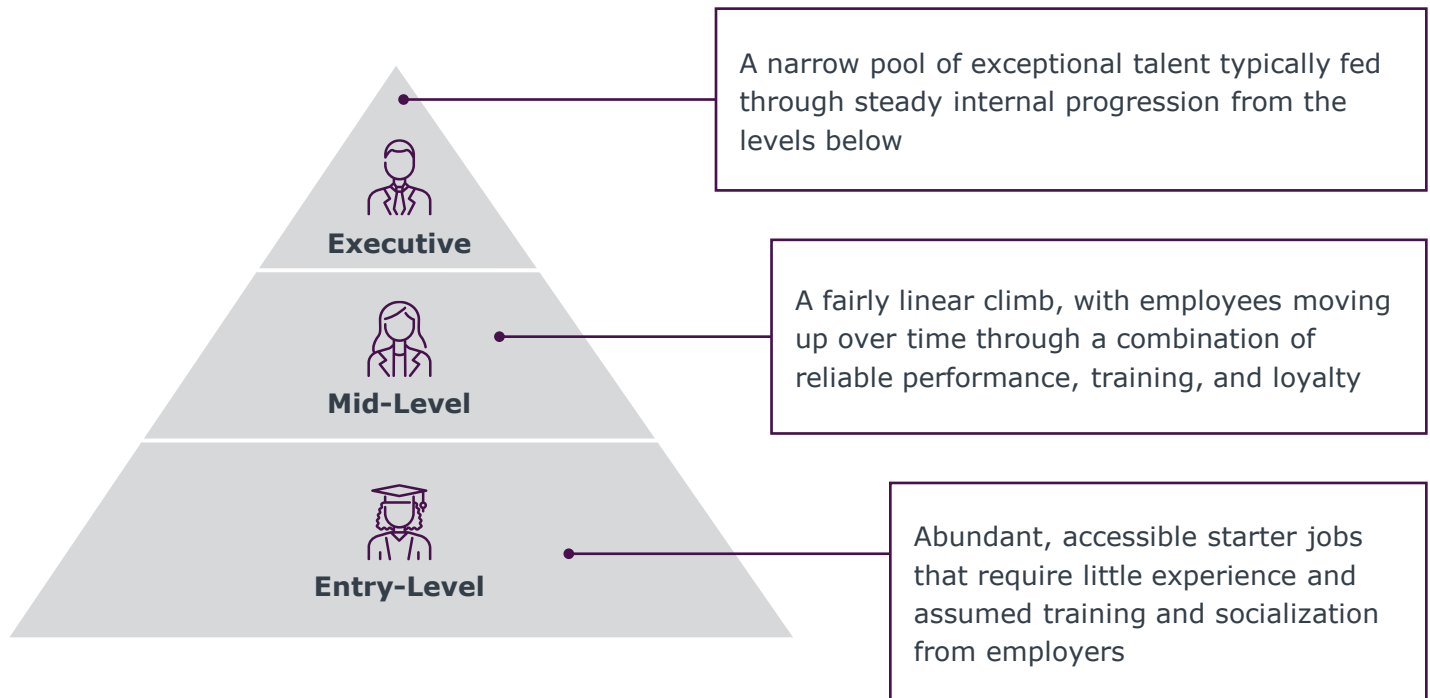
73% of managers are disengaged, up from 70% the prior year

▼

42% of workers say they are not interested in moving up

AI Disruption on Traditional Career Systems

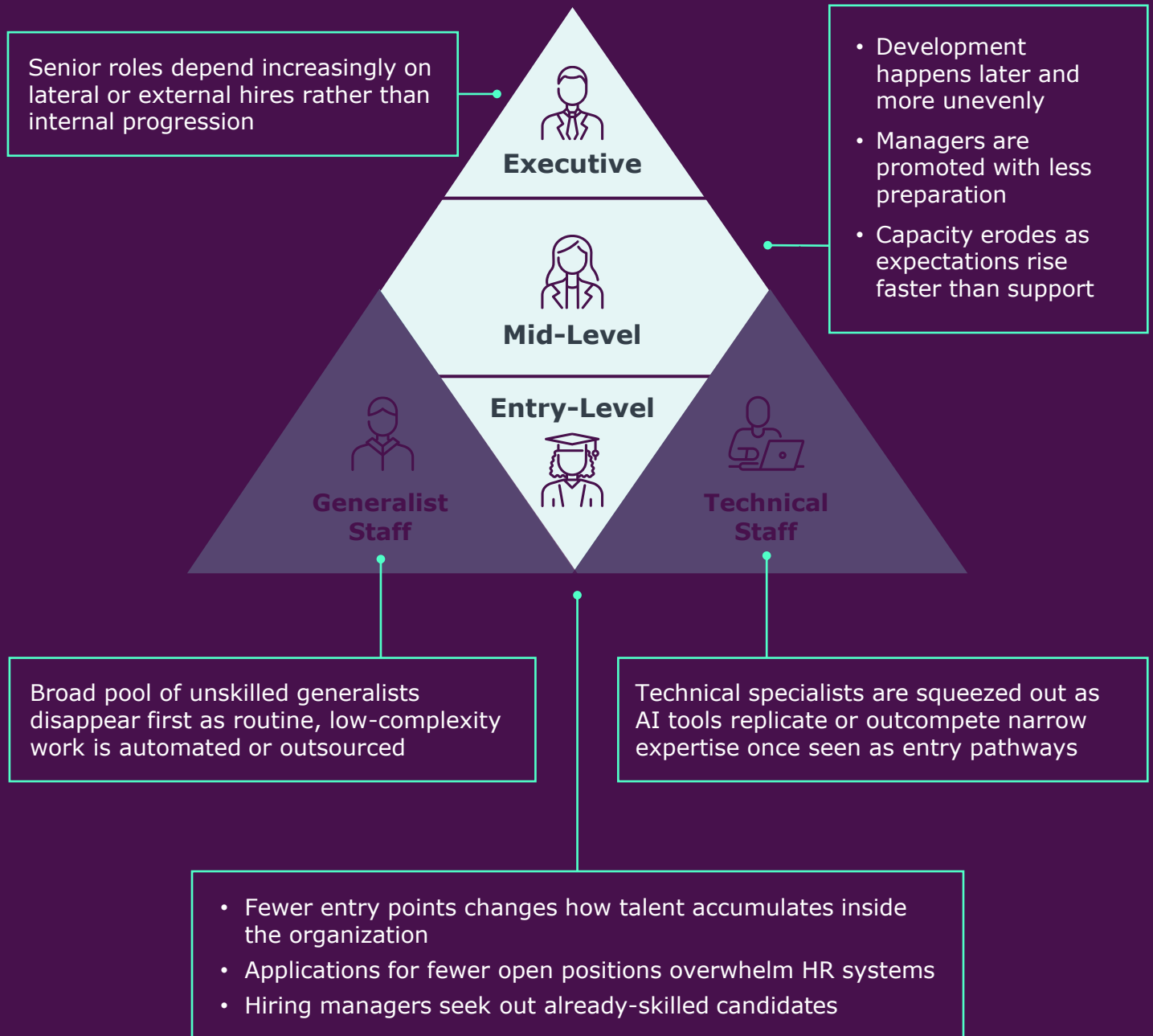
To understand how we got to this point, we must revisit our understanding of the traditional pathways to manager roles. Typical career progression systems assumed a broad base of entry-level roles would steadily produce tomorrow's leaders.



Initial AI adoption has already begun to disrupt the developmental architecture that organizations have historically relied on to produce managers and their strategic execution abilities.

AI capabilities are reshaping workflows and role architecture unevenly. Early-career roles are being hit the hardest as they usually contain routine, low-complexity work where employees learn and develop. Additionally, AI augmentation has passed on traditional technical expertise work to senior employees, further shrinking entry points into leadership positions and reducing access to the essential development experiences managers need to effectively learn to serve as the arbiters of change.

From Pyramid to Diamond



Underdeveloped Managers Threaten Business Outcomes

The shift toward a career diamond is putting the leadership bench under significant strain, impacting long-held assumptions about succession readiness, attrition cost, and execution speed, all of which affect the bottom line.

Strategy Takes Longer To Deliver

35%

of executives cite disconnected planning and execution as the biggest obstacle to change

50%

of projects meet the modern definition of success

Succession Plans Are Nonexistent

20%

of HR professionals expressed confidence in their bench in 2024

49%

of senior leadership positions could be filled by an internal candidate immediately

Estimated Employer Cost of Poor Leaders

70%

of variance in employee engagement is attributed to managers

50%

of employees quit due to a bad manager

\$126,000

Annual cost of one poor leader due to low productivity, turnover, and staff dissension

In our research, SeramounthHR has identified **three critical failure points in the leadership pipeline**. To meet the demands of the AI era, organizations need leadership systems that reliably produce, prepare, and support leaders to drive continuous transformation. Without shifting these three areas, they will struggle to execute at the speed required to stay competitive.



Identification

Research suggests organizations select the right person for management roles only 18 percent of the time, indicating that common talent practices often confuse strong individual performance with real leadership readiness.



Development

Seventy five percent of organizations rate their own leadership development programs as not very effective, illustrating the need for a new approach to manager development.



Execution

Surveys have shown that managers are responsible for 51 percent more responsibilities than they can manage, demonstrating that managerial job structures overburden people leaders and underuse talent that could strengthen execution.

Identification

The Qualities that Make A Good Leader Are Changing Fast

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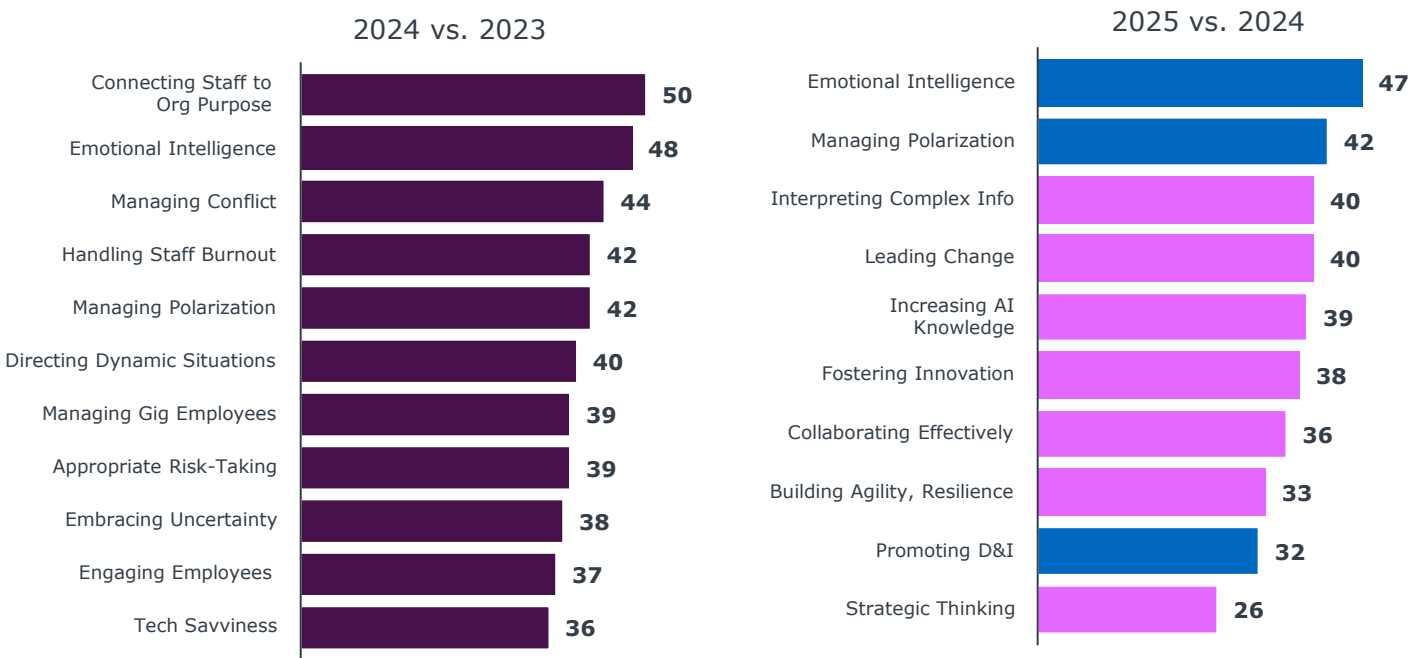
Desired Leadership Qualities Are Shifting Towards Impact

One urgent challenge in reshaping the capacity to create and manage change is recalibrating the organizations’ **definition of leadership** to more reliably identify leaders who navigate volatility, ambiguity, and continuous reinvention.

While skills such as emotional intelligence and conflict management skills are still important, priorities around leadership qualities have already begun to shift toward more transformation-oriented capabilities such as change management and innovation. This suggests that leadership potential is no longer solely defined by who can steady teams through disruption but by who can help the organization adapt and move through it.

Leadership Capabilities That Are More Important than the Year Before

Percent of Respondents Saying Capability is "Important and More Important"



Ideally, future leadership candidates who possess these qualities are among the organization’s top performers. However, we have yet to see performance review systems result in better identification. One reason is that reviews are often backward-looking, rewarding expertise and results in a current role rather than showing whether someone is ready for broader leadership responsibility. Second, the performance review process is often undermined by ratings inflation and the perception that reviews are subjective or popularity-driven.

Given these flaws, it’s no surprise that **90 percent of HR leaders** don’t believe that reviews yield the information they need.

Typical Signals of Potential Are Inconsistent and Biased

In the absence of reliable signals from performance reviews, decision-makers fall back on familiar archetypes that distort who is best prepared to lead.



Mini-Me

- Feels familiar and low-risk because they resemble leaders who have already succeeded in the organization
- *Downside:* Creates distrust in the selection process and reproduces the existing leadership profile rather than surfacing the leader best suited for future conditions



The MBA

- Highly credentialed, performance in academic settings signals ambition and raw intellectual ability
- *Downside:* Academic strength and credentials do not necessarily translate into leadership effectiveness. These signals are also inherently less inclusive due to historically limited access to higher education opportunities



The Talker

- Visibly vocal in group settings and natural leadership presence
- *Downside:* Rewards volume over judgment, elevating the most consistent or noticeable voice rather than the most capable leader



Old Faithful

- Long-tenured employee who feels safe and dependable because of their loyalty and institutional knowledge
- *Downside:* Reinforces the status quo and can crowd out talent that is better equipped to lead in a changing environment



The Expert

- Technical mastery creates confidence and credibility, so expertise is easily mistaken for readiness to lead
- *Downside:* Deep expertise may make someone a strong teacher or operator but not necessarily an effective people leader

Creating and Evaluating a Custom Definition of Potential

To reduce inconsistency in how future leaders are identified, decision-makers need a more objective definition of leadership potential and a more practical approach to identifying future leaders beyond performance alone.

For most organizations, performance will remain the starting point in leadership decisions, but it can no longer be the primary lens. In interviews with leading organizations across the country, we have identified three initial steps CHROs can take to move toward a more unified and testable definition.

- 1

Small Group Session

Gather senior leaders well known for developing strong leadership pipelines
- 2

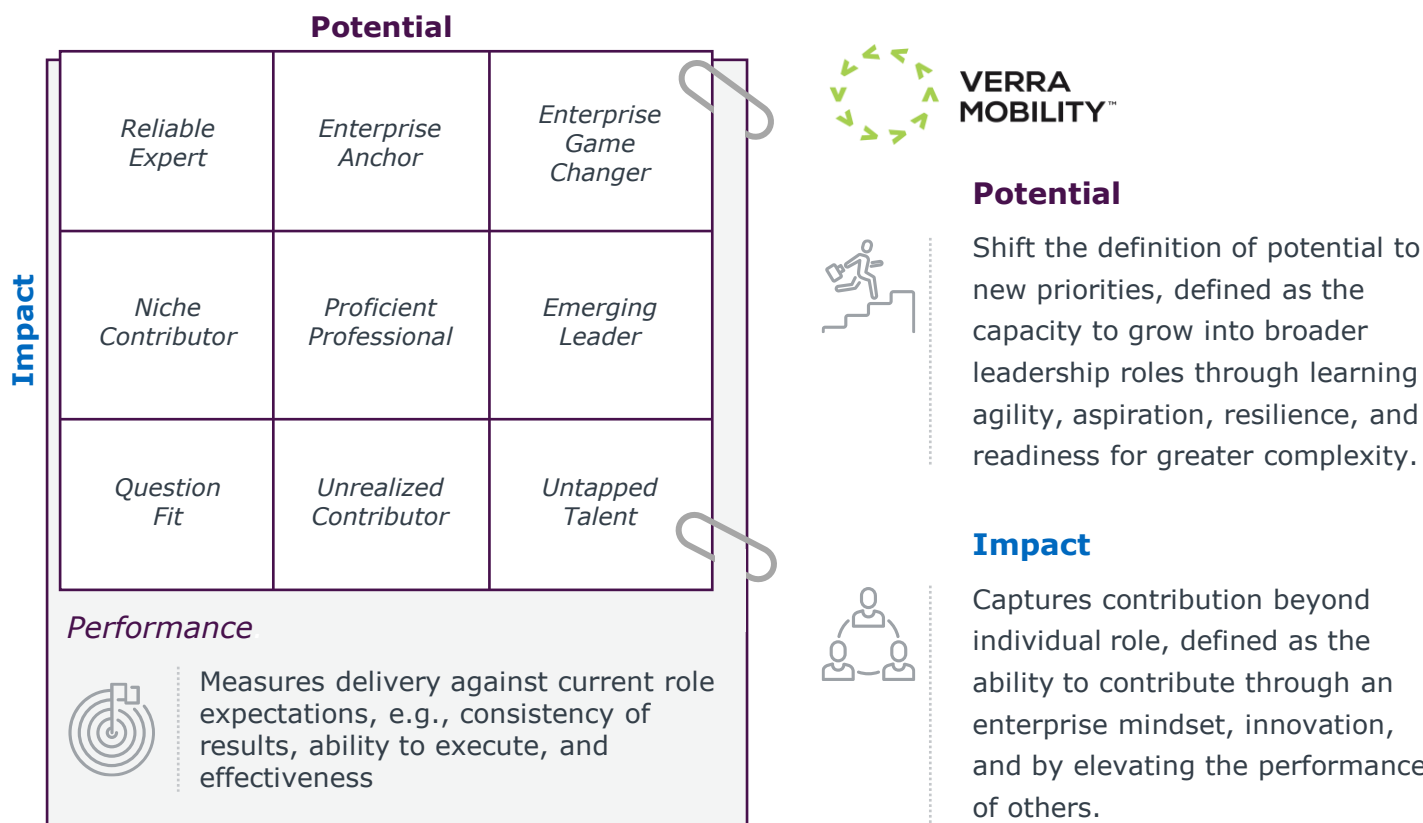
Define Characteristics

Leaders pick general signs of potential, unique traits for specific talent types
- 3

Distribute

Integrate new standards into the performance management process to help identify talent

Once defined, CHROs should broaden the assessment itself by adding business and people impact to the equation. One tactic we identified from **Verra Mobility** is to adapt the traditional nine-box to evaluate employees through more forward-looking dimensions.



Development

Legacy Development Structures Are Holding Back Ready Leaders

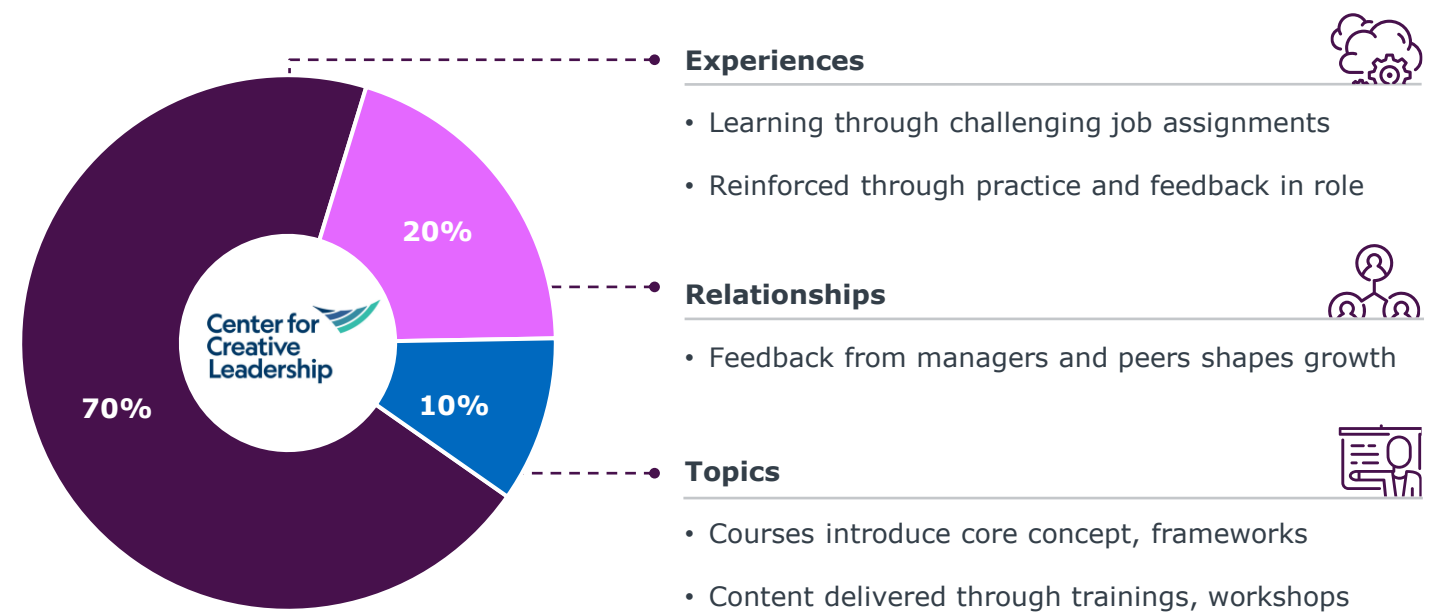
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Topic-Based Development Programs Miss the Mark

Even when organizations identify the right leaders, they often fail to develop them in ways that create real readiness.

While formal development programs can be polished and well attended, the most effective development experiences occur through challenging assignments and collaborative relationships. Under episodic and programmatic models, developing leaders don't get the opportunities they need to exercise judgment, navigate ambiguity, and lead in real operating condition.



Even when programs are highly experiential, the most meaningful opportunities are still often reserved for a relatively small group of high-potential employees. By limiting the scope of who has access to these programs, companies leave large portions of their current and future manager population underprepared—particularly new managers.

Widespread Investment....



....But Many Managers Underserved



Embedding Assessment into Leadership Experiences

In our research, we identified several tactics that help CHROs and their teams generate stronger evidence of readiness and broaden opportunities that are better aligned with today's demands. Combined, the following tactics give more employees the chance to demonstrate leadership in real operating conditions, while also helping elevate managers whose potential might otherwise remain hidden or underdeveloped.

Converting Potential into Observed Evidence

Ohio Health uses development as a structured way to test unknown capabilities in real work in a low-risk environment, especially earlier in an employee's career when formal leadership signals may still be limited. The process is relatively simple: A supervisor senses potential in a direct report but has no evidence to support it. Rather than guessing, they create the conditions to test it.

Their organizational development team matches the employee to a high-profile task force in which they lead their peers and more senior managers through a real business challenge. Feedback is collected from multiple directions: the direct supervisor, task force members, and senior leaders. That input goes into the talent review, and employees who demonstrate the target capabilities are added to succession slates.



Multiple points of view, including direct supervisor, task force members, and other leaders



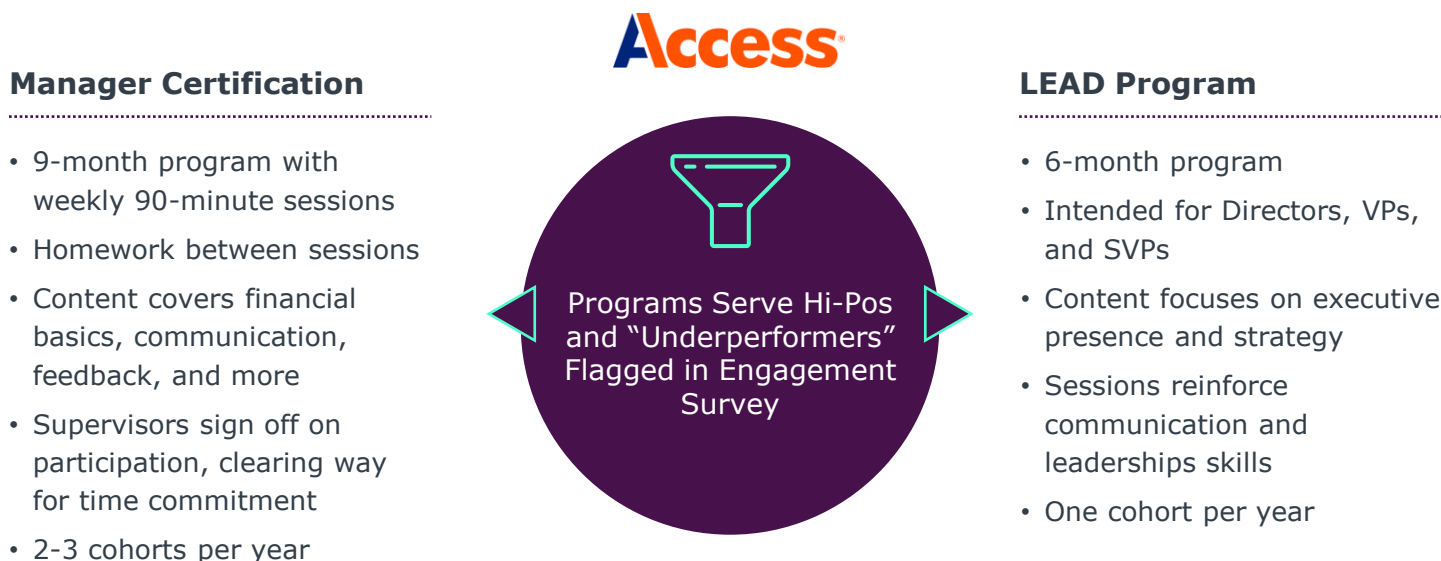
Evaluated on task force management and deliverables as well as leadership competencies



Particular attention paid to original areas of unknown potential

Targeting and Demonstrating Managerial Excellence

A complementary tactic from **Access Corporation** is to intentionally mix high-potential leaders with managers flagged as below average. The participant mix is what makes this approach distinctive: Stronger participants act as informal pacesetters, creating opportunities for peer learning, surfacing overlooked potential, elevating performance, and validating who is ready to progress over time. Utilizing this strategy, they've found that 90 percent of below average managers improve performance after participating.



Pacesetters

High-potential employees act as informal "pacesetters" for managers that score below average on engagement scores, motivating improved performance



Natural Turnover

Among the participants that don't demonstrate improved performance, programs serve as a reflection point on culture fit



Validated Results

The HR team tracks performance of participants after the program, showing graduates are among the strongest leaders at the company

Execution

Overload Is Impeding the Capacity That Drives Transformation

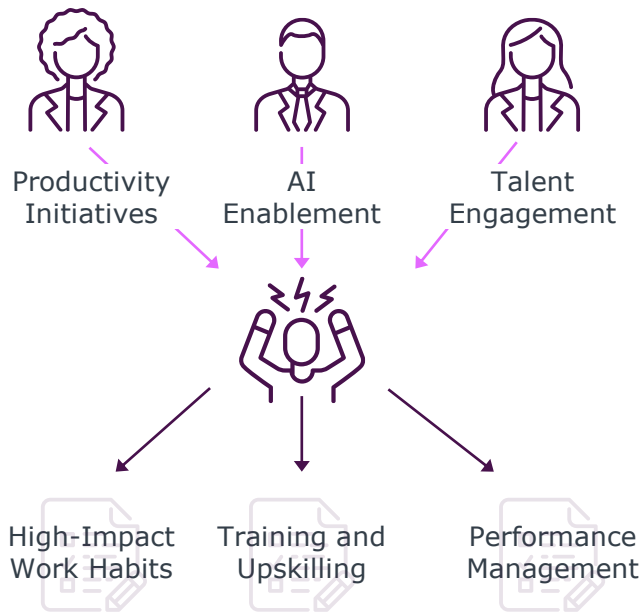
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Manager Capacity Is Overloaded

More accurate identification and stronger development are necessary, but they can only go so far if execution still depends on overextended managers.

As spans of control and day-to-day responsibilities continue to expand, the manager role is becoming too crowded to support the level of change leadership now expected from it. Pulled in multiple directions, often with competing priorities, managers simply don't have the bandwidth to lead and grow.



40%

of managers' time spent on administrative tasks and handling daily issues

15%

of a manager's time is spent on strategic planning—just 13 percent on staff development

2.8x

Increase in the average number of direct reports a manager has from six years ago

As a result, organizations are trying to execute transformation through managers who are expected to build new capabilities but who often lack the time and capacity to fulfill their responsibilities well. Yet, most of the interventions HR leaders have offered managers only address the symptoms of this problem, not the root causes.

Yet the systems remain unchanged **as only 16 percent of organizations have refined managers roles** to address overload

However, despite overwhelmed people leaders, many organizations still treat people management as the default path for advancement. Upward mobility is tied too tightly to people leadership, pushing talented employees toward roles that may not fit their strengths or appropriately reflect long-term value to the business.

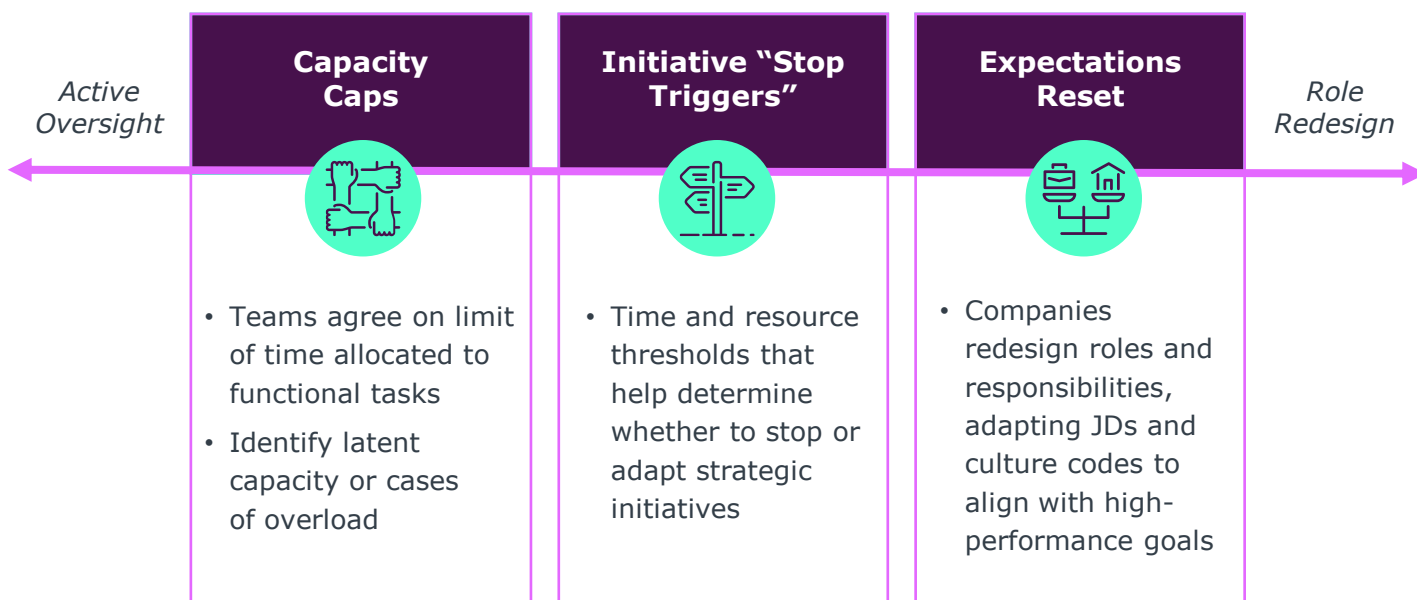
In practice, this leaves organizations overdependent on formal manager roles as the primary vehicle for advancement while underusing high-potential employees whose greatest contribution may lie in craft excellence, specialized expertise, or enterprise impact outside the traditional manager track.

Balancing the Manager Capacity Equation

To comprehensively balance these obstacles, organizations must expand capacity to execute by reducing the burden on managers and creating meaningful growth paths for high-potential employees whose greatest value lies outside formal people leadership.

There is no single fix for unlocking capacity but rather a spectrum of intervention from active oversight to full role redesign.

Reducing the Burden on People Leaders



The most accessible starting point is **capacity caps**. Many managers remain overloaded because there is no systematic way to see where their time is going or which tasks consume disproportionate effort relative to value. Capacity caps assign point values to different types of work based on average completion time, giving teams a simple way to track workload, identify overextension, and remove tasks that crowd out leadership work.

A second, slightly more involved intervention is **project stop triggers**. Many initiatives begin without a clear mechanism for deciding when they should be reevaluated, allowing low-value work to consume manager attention long after its usefulness has faded. Stop triggers establish those decision points up front based on timing, budget, milestones, or target achievement to end work that no longer creates enough value.

For some organizations, however, monitoring and prioritization do not address the underlying constraint. At that point, **role redesign and expectations resets** become necessary as they can serve as a more fundamental reset of who occupies the role and what outcomes management is expected to produce.

Redesign Career Paths to Prevent Overload

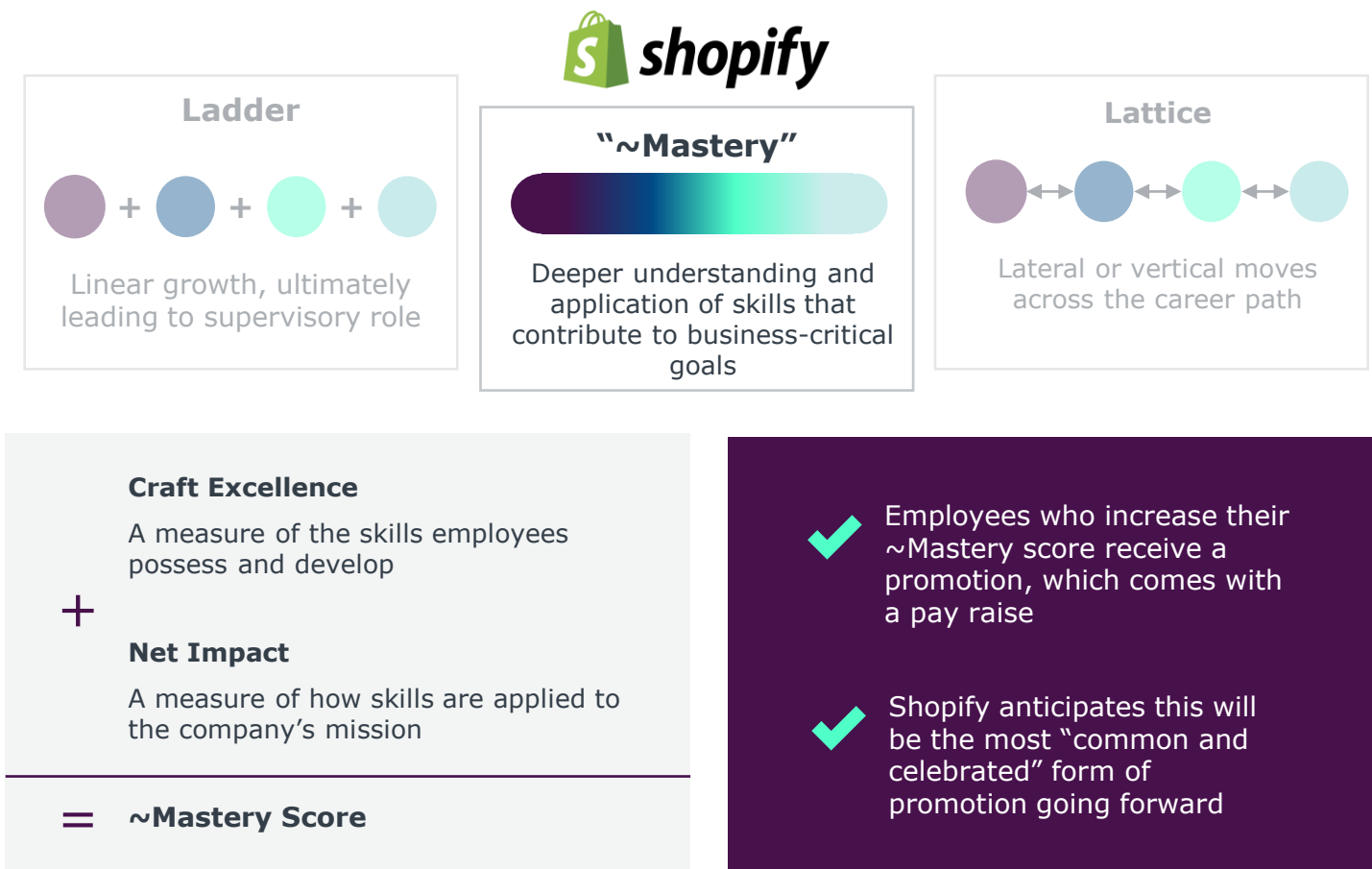
Maximizing capacity requires a structural fix, not a symbolic one. That is why parallel paths to growth are essential. By opening the aperture on growth, employees have a real choice: a skills track that rewards depth, expertise, and business contribution or a supervisory track that rewards people leadership.

Unlocking Nonmanagerial Expertise

Stronger execution comes from creating advancement models that align growth to employees who can contribute most effectively. That principle begins with a simple but often overlooked question: Does the employee want a leadership role?

Expanding non-manager pathways is a redesign effort that depends on governance, analysis, and business buy-in, making the process a significant undertaking. Both paths need to carry meaningful advancement, compensation growth, and recognition if organizations want them to function as credible alternatives rather than secondary options.

Shopify takes this approach a step further, embedding this logic directly into the promotion model. Its “Mastery” approach creates a third path to nonmanagerial leadership rooted in demonstrated expertise and business impact. This program creates credible paths for talented employees to grow and increase their impact without being forced into people leadership, producing exceptional individual contributors and freeing up people managers to truly lead.



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4

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