

Setting the Leadership Agenda for Executive Development

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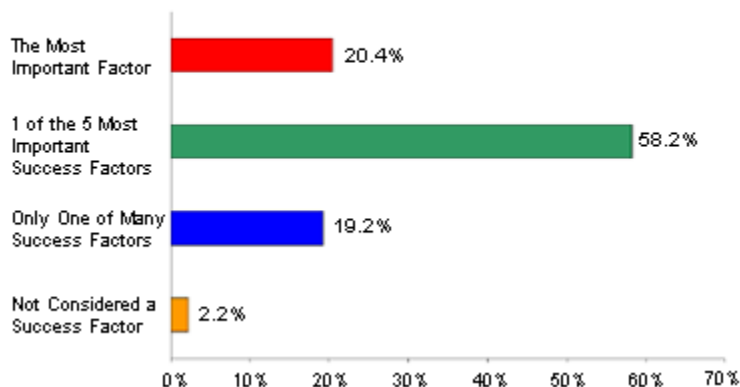
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For many companies, leadership bench strength and succession management – the availability of strong and deep pools of executive talent, able to assume a number of varied leadership roles at various levels -- is a major business problem, which demands breakthrough change in the status quo.

In a survey study in 2002 by the Center for Creative Leadership and *Chief Executive* magazine 78.6 percent of CEOs indicated leadership development was either "the most" important or "one of the top five" factors in achieving competitive advantage (Center for Creative Leadership, 2002). A majority (61.6 percent) of CEOs cited succession planning as their top issue.

2002 Survey of CEOs (Center for Creative Leadership)

Compared to other factors, how important is your company's ability to develop leaders in achieving competitive advantage?



Succession planning is often an administrative tradition that absorbs management time, but has little impact on producing new results. Often, filling in replacement planning

charts produces a false sense of accomplishment that may actually detract from actions that will produce a real change in leadership development.

While nearly three-fourths (73.4 percent) of CEOs in the CCL survey agreed that “their company's culture supports learning and development, only 44.2 percent have created and communicated a leadership strategy. Only half (50.1 percent) said their organization has a shared understanding of what effective leadership looks like.”

The solution to the problem of executive talent development is a clear and sustained leadership agenda, owned by the CEO and his or her executive team. In addition to embracing effective tools and processes, senior leaders must adopt a *mindset about talent* in which:

- Talent is a constant priority in decision-making.
- Blocks of time appear on the management agenda continuously, not annually.
- Difficult judgments are made that differentiate people regularly.
- Development is not an off-line activity, but the result of placing talented people in the right stretch assignments, supported by effective bosses and coaches (and occasional education or training).

New results begin with new expectations. There are few results more important to shareholders of today's large and small companies alike, than the next generation of leaders who will guide the enterprise forward.

An effective leadership agenda for building that talent mindset includes the following four elements:

1. A Vision
2. Clear objectives and priorities
3. A culture that grows leaders
4. A robust set of practices

Let's look at each of the four elements of an effective leadership agenda.

A Vision

The CEO sets a vision for talent development in the same manner that he or she sets a vision for the business. CEOs like Verizon's Ivan Seidenberg, Honeywell's former CEO, Larry Bossidy, and GE's Jeffrey Immelt, make it clear to the organization that in order to outperform competitors the business must attract and develop the best talent available. "To have better talent, you must have every leader in the company committed to that goal. HR can't do the job alone." (Michaels, et al. 2001). Companies that are outstanding in talent development don't get there through "best practices." They are characterized by a deep-seated belief in the role talent plays in the business.

In one large multinational pharmaceutical company, the CEO has expressed a clear vision that includes the following expectations:

- Superior talent is the key to discovering breakthrough medicines
- A deeper and more diverse bench of future leaders will distinguish us from our competitors
- Talent development is one of our three key business processes – it is how we will run the business.
- All managers in the business are accountable for talent development.

The CEO in a \$30 billion company recently told his chief HR executive that he had just finished reading Jack Welch's biography (Welch 2001), and that he was intrigued by what Welch characterized as the GE "people factory." He was very surprised, however, at the apparent amount of time Welch invested in people reviews and planning discussions. "How could a CEO possibly spend so much time doing that work?" he asked his chief HR officer.

Welch himself wrote in his biography: "For a guy who hates bureaucracy and rails against it, the rigor of our people system is what brings this whole thing to life. There weren't enough hours in a day or a year to spend on people." Talent development is not a slogan at GE. It is a way of life."

Clear Objectives and Priorities

Many companies that initiate new succession planning practices do so without a clear picture of the outcomes they seek. It is not enough to move forward with a vague sense of “improving leadership bench depth.” When new practices unfold without a clear sense of what results must be delivered they become activity generators (Kesler, 2002).

The CEO should work with human resources leadership to define a clear set of outcomes and targets for the process. An analysis of current strengths and weaknesses usually leads to some clear target areas. (In many companies the initial target for change is general-management bench depth.) Talent priorities should be defined by the business units, based on key capabilities required to execute business plans. At Merck, the priorities are largely in research and development today, and there is an intense focus on building the depth of scientific leadership in its research laboratories through both the identification of internal talent and the acquisition of new leaders.

A set of three-year outcomes should be drafted, and debated among the senior leadership team, guided by the CEO, aimed at filling critical gaps. Examples might include expectations regarding the number of “ready-now” candidates for GM positions (possibly differentiated by business segments), or strengthening the quality of scientific leadership in R&D, or achieving a percentage for retention among high-potential marketing leaders, and so forth. Specific targets should be built into performance plans for individual executives who should be held accountable for the achievement of those targets.

A Culture that Grows Leaders

People development, as a corporate way of life is, like most critical priorities, a matter of culture. The top executive must set those norms by laying out a set of principles or philosophies that will guide decision-making and shape the talent culture. These principles should be unequivocal statements that directly confront political dynamics that block effective cross-business collaboration on the talent agenda. The CEO in one

major multinational company communicated his expectation that “talent across the company is managed for the larger interests of the company. Our divisions are the stewards of that talent, but company-wide interests prevail.” Strong, clear statements of this nature should be discussed among the senior leadership team, to gain understanding and buy-in. The search for common principles may very well include debate around these and other issues:

- Expectations regarding the differentiation of talent
- Beliefs about hiring for potential vs. hiring for position (and the degree of risk taking in placing high potential leaders)
- Philosophy regarding the movement of people across businesses and functions
- The role diversity will play in staffing strategy
- The role of line leaders in the development of people

The chief executive at PBI Corp. placed the talent agenda at the top of her priorities, following a major re-organization. Historic norms at PBI were at odds with her intent to see her management team candidly working together to assess or calibrate each others’ potential replacements. The culture-change and the team-building effects of forcing the management committee to work together as an assessment and development forum were substantial.

At PBI Corp., as in many companies, when the management committee began joint “calibration meetings” to agree on ratings and rankings of key players, it was an uncomfortable process. These challenges were confronted by the senior leadership team as a new talent-focused culture was shaped:

- Executives characterized their own candidates in overly positive terms
- There was lack of candor in evaluating another officer’s candidate (for fear someone might be equally candid assessing one of yours)
- Members distrusted the judgments of others (including attributing motives, like “passing the trash” to other parts of the business)
- Running conflicts among the team members led to cheap shots about others’ candidates

- Information about the best players was held back in an effort to protect assets members believe they own

For change to happen, leadership teams should work together on a regular basis (at least 2-3 times per year) evaluating people and planning development moves. Executive teams must establish new norms, and investing working time in the talent agenda has a major influence on culture change.

Robust Practices for Talent Development

Focus on the Entire Talent Pipeline

In many companies succession planning is equated with replacement planning. This is a mistake. Replacement planning is focused narrowly on identifying specific back-up candidates for given senior management positions. Effective succession or talent-pool management concerns itself with building a series of feeder groups up and down the entire leadership pipeline or progression (Charan, Drotter, Noel, 2001). For the most part position-driven replacement planning is a forecast, which does little to *change* leadership readiness. In order to produce a change in results, decisions must be made and actions must be taken that alter the natural course of events. As in effective business strategy, effective talent-planning amounts to making choices today for the purpose of changing the outcome tomorrow.

At PBI Corp. there are very few succession or replacement charts. The annual review is nothing more than a summary prepared for the board of directors. There is a growing bench of current and future leaders, managed across three different talent pools, among three levels of leaders, guided by the COO and an executive team that has total visibility into those pools.

Rigorous Assessment

Differentiating levels of leadership potential is fundamental to effective talent management. Development potential is not easy to measure, but executives and their companies can do it much more effectively. A number of assessment techniques are

commonly used by companies. Regardless of specific tactics employed it is clear that multi-source ratings remain the most effective (Ryan, Barbera, Sackett, 1990; Giber, Carter, Goldsmith, 2000). Too often companies rely on a single manager's evaluation of candidate potential, which leads to halo effects and other problems. The best assessment alternatives engage the senior leadership team, in consensus-oriented, forced-choice comparisons of a field of future senior leaders, sometimes referred to as calibration committees.

Calibration committees must overcome the tendency to over-rely on past accomplishments to predict future performance – in other words, they must learn how to distinguish current performance from future potential. Accomplishments *do* in fact predict a great deal about future accomplishments. But they predict a candidate's future potential only with regard to positions of a similar level of task complexity to the role currently held.

Executives must make judgments about candidate fitness for roles that require step-function increases in ability to manage complexity. To predict potential to perform in a higher “band” of complexity – such as a move from functional management to general management – assessors must distinguish differences in processing speed, judgment and other personal characteristics upon which past accomplishments shed little light.

Members of an executive (assessment) team need to work with a common vocabulary and a calibrated sense of shared standards. Simple but effective tools and models are available to help this learning process and it is the role human resources leaders to teach these tools.

Experience-Based Development Strategies

Most development of senior leadership potential happens on the job, not in the classroom. But learning through experience is not a random process. It requires a thoughtful approach, based on the needs of individual candidates.

Early identification of GM potential is not about playing favorites with younger talent, it is about increasing the odds that a number of talented people will gain enough of this diverse experience (because it takes time) to actually succeed, to demonstrate results, at each level. These development assignments are always in short supply, so early differentiation is critical.

The development actions that have the most impact building future general managers are those aimed at giving target candidates continuously increasing levels of responsibility, at the right time intervals, in a series of challenging, but manageable jobs that are likely to develop greater abilities to manage complexity, especially in these areas of responsibility:

- Managing a business P&L
- Influencing results across complex organizational boundaries
- Leading large teams
- Being responsible for customers
- Developing business strategies and then being accountable for executing them

The path to the CEO role is a series of highly varied experiences that occur between a set of critical career crossroads. While there is no set prescription for the time that executives should remain within each of these experiences, leadership development occurs from real and sustained accountability during each of several stopovers in key roles (Charan, Drotter, Noel, 2001).

Other experiences can be designed into development plans that expand the horizon of future general managers. When Sam Palmissano became CEO of IBM, he reorganized the structure of teams at the top of the company. Today executives who are identified as high potential (based largely on demonstrated change leadership), may be nominated to sit on the senior leadership team, where they gain increased visibility and where they are further tested. Membership on this team is adjusted as leaders demonstrate varied degrees of leadership potential over time.

The CEO Must Set the Talent Agenda

No CEO would say that he or she was not interested in succession planning or executive bench depth. In the 2002 CCL survey of CEOs, more than half (54.2 percent) reported they are primarily responsible for leadership development. At some level succession is critical to all chief executives, if only to satisfy the demands of board committees (Charan, 1998; Rothwell, 2001). But the demands on the CEO's time are enormous and the best intentions often give way to more urgent (and less critical) matters. Major division heads of large multi-nationals bear similar responsibilities in their units, and the same pressures on time often limit their role in these practices.

The pursuit of leadership bench strength is not a race for talent. It is a steady, ongoing labor that requires discipline, decisiveness and responsible risk-taking. The solution to the gap in leadership bench depth is a clear and pervasive leadership-development agenda, managed over time, by executive teams at the top of the corporation and at the top of each of its major operating units.

Before companies set out to adopt best practices from today's leadership academy companies, the senior executives should define a leadership agenda for talent that provides context, focus and energy for those practices to succeed.

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Biographical Sketch

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