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Growing Talent as if Your Business Depended on It

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The Idea in Brief

Like any manager, you can expect your firm to face periodic upheavals—for example, a major acquisition or the emergence of ominous new competitors. If you don't have the right people in the right roles to guide your company through such choppy waters, you put your company at grave risk. For example, you may be forced to promote untested junior managers or hire outsiders who can't adjust to your company's culture fast enough to successfully lead change.

How to mitigate such risk? Create an **integrated leadership development program**. Unlike stand-alone, ad hoc development activities, an integrated leadership development program is owned by everyone in your organization: CEOs and VPs develop plans for replacing themselves. Board members actively identify and develop rising stars. Line managers willingly relinquish their best performers to other units so emerging leaders can gain cross-functional experience.

Carefully crafted, your integrated leadership development program becomes a core part of your company's value proposition. You attract talented future leaders, establish the bench strength you need to execute crucial strategic initiatives, and boost shareholder confidence in your firm. And because rivals can't copy your program, it becomes an enduring source of competitive advantage—as giants such as Tyson Foods, Mellon Financial Corporation, and Starbucks have discovered.

The Idea in Practice

To create your integrated leadership development program:

Embrace Succession Planning

Too many CEOs consider the term "succession planning" taboo—akin to planning their own funeral. To build strong leadership teams, CEOs—and leaders at least three levels below—must embrace succession planning and integrate it closely with management-training and development programs.

Example:
When Orin Smith took Starbucks' helm in 2000, he established an exit date of 2005. He recruited Jim Donald as a promising successor. Then he groomed Donald for the CEO position by having him work in stores to understand the customer experience and visit coffee-roasting plants to observe operations. Eventually shouldering responsibility for North American operations, Donald developed his own succession plan—assessing and developing potential leaders who could take over his assignments and provide the right fit with the leadership team.

Involve the Board

Detached from daily operations and biases, your board of directors can objectively assess your company's leadership development systems and bench strength. Encourage directors to get to know your firm's rising stars:

board members will gauge the efficacy of your leadership pipeline, and emerging leaders will gain experience presenting to the top of the house—a key development opportunity.

Example:
Mellon Financial Corporation once required heads of major business units to give presentations to the board. But starting in 2002, CEO Marty McGuinn began having rising stars make these presentations. Unit managers accompany their emerging leaders to board meetings and answer questions only when absolutely necessary. But the future leaders get the floor.

Insist that Managers Share Top Performers

Motivate unit leaders to share brilliant junior managers with other units. High-potential leaders will gain exposure to your company's operations and see how the organization's parts collaborate to execute strategy. Cross-functional assignments also provide opportunities to master new business challenges, such as managing a turnaround or launching a product in a new territory. These assignments also enable rising stars to broaden their spheres of influence.

Example:
At Tyson Foods, unit leaders are held personally accountable for rotating emerging leaders through other parts of the company. The CEO and VP of HR monitor cross-functional development plans and ensure that unit leaders receive equally qualified managers in exchange for their outgoing ones. Tyson also links senior executives' compensation to their ability to circulate and develop emerging leaders.

In the thirteenth century, it took the College of Cardinals almost three years to anoint a successor to Pope Clement IV. To break the stalemate, one of history's most bitter organizational deadlocks, church officials began limiting the food and drink they provided the voting cardinals, eventually giving them just bread and water. Fortunately, today's cardinals don't seem to need such harsh incentives: It took them less than a week to choose Benedict XVI.

When it comes to succession planning (and, by extension, leadership development) in the business world, corporate boards could do with a similar sense of urgency—though we wouldn't necessarily advocate starving them into it. Traditionally, boards have left these tasks very much up to their CEOs and human resources departments. There's a simple reason why directors pay so little attention to these activities: They don't perceive that a lack of leadership development in a company poses the same kind of threat that accounting blunders or missed earnings do.

That's a shortsighted view. Companies whose boards and senior executives fail to prioritize succession planning and leadership development end up either experiencing a steady attrition in talent or retaining people with outdated skills. Such firms become extremely vulnerable when they have to cope with inevitable organizational upheavals—integrating an acquired company with a different operating style and culture, for instance, or reexamining basic operating assumptions when a competitor with a leaner cost structure emerges. In situations like these, businesses need to have the right people in the right roles to survive. But if leadership development has not been a primary focus for CEOs, senior management teams, and boards, their organizations will be more likely to make wrong decisions. Firms may be forced to promote untested, possibly unqualified, junior managers. Or they might have to look outside for executives, who could then find it difficult to adjust to their new companies and cultures.

Some companies, however, have not only recognized the importance of including succession planning and leadership development on the board's agenda but have also taken steps to ensure that those items get on the docket. Over the past three years, we have undertaken extensive fieldwork with many of these companies, conducting multiple interviews and analyzing their varied approaches to successful leadership planning and development. We have found that the best of their programs all share some common attributes. They are not stand-alone, ad hoc activities coordinated by the human resources department; their development initiatives are embedded in the very fabric of the business. From the board of directors on down, senior executives are deeply involved, and line managers are evaluated and promoted expressly for their contributions to the organizationwide effort.

By engaging managers and the board in this way, a company can align its leadership development processes with its strategic priorities. The company can also build a clear and attractive identity; its employees perceive that leadership development processes are what they are declared to be. Such coherence, identity, and authenticity, in turn, make it easier for the company to attract the future leaders it needs.

In the following pages, we'll describe what some of the companies we've been observing are doing to create strong, effective succession-planning and leadership development programs. First, let's take a closer look at where many companies go wrong when they set out to grow great managers.

Every Which Way

Tyson Foods, a family-controlled company based in Springdale, Arkansas, provides a good example of where companies can fall short in leadership development. Every time CEO John Tyson, grandson of the company founder with the same name, picked up a journal, newspaper, or business magazine, he saw yet another story of how iconic companies like General Electric set the standard in churning out future leaders, and he was frustrated in his ambition to leave a similar legacy.

It was a big ambition. Despite Tyson's size after its merger with IBP in 2001—the company's market cap was around $25 billion, putting it well into the *Fortune* 100—it had, in its 70 years, invested very little in leadership development. And the organization had no ingrained systems, tools, or processes to ensure a steady supply of qualified talent. When he took the reins in 2000, Tyson had made it his goal to change all that, and the company, over the next two years, experimented with several leadership development initiatives.

These experiments all followed a similar course. Typically, Tyson or a member of his senior management team would read an article or hear about an interesting initiative at another company, such as a mentoring program. Then he or one of his colleagues would chat with Ken Kimbro, the senior vice president of corporate HR, about the possibility of implementing a comparable program at Tyson (the Tyson Mentor Program, for instance). A few weeks later, a Tyson version of the initiative would be discussed in internal focus groups, and pilots would be developed.

One time, John Tyson was invited by the CEO of a prominent company to see how that organization monitored its emerging leaders' progress. When he returned to the offices, he cleared out an entire conference room and plastered on its walls pictures of Tyson's rising-star managers, with descriptions of their job experiences, educational backgrounds, strengths and weaknesses, and development paths. Another time, Tyson personally approved a budget to send the company's high-potential managers to leadership retreats on a remote Rio Grande ranch. The managers worked to solve actual business challenges facing the company, reflected on their personal leadership styles, and broadened their spheres of influence by meeting other high-potentials within the company. For its part, Tyson's HR group found it hard to keep up with the rush of programs.

Despite John Tyson's efforts and the popularity of many of his initiatives, the company's talent pipeline was still not producing enough quality leaders, and by the summer of 2002, the CEO realized that his ad hoc approach to leadership development was not working. He formed a senior executive task force to look into the problem. The team included himself, his direct reports, and a small group of external succession-planning experts, who were there to ensure objectivity and high standards and to help facilitate buy in.

The task force members took nothing for granted. They sat down with a blank sheet of paper and mapped out their ideal leadership development system for Tyson. The blueprint they came up with integrated succession planning and leadership development, made sure that promising leaders would be well versed in all aspects of the company's business, and put the accountability for succession planning and leadership development squarely on the shoulders of John Tyson's direct reports. "Leaders at all levels were either in or out," Tyson recalled. They couldn't waffle about contributing their time and effort to the new talent development system; they couldn't "protect" talent, hoard resources, or declare themselves immune from succession planning, he said.

An Integrated Approach

Succession planning was the critical starting point for Tyson's new program—as it was for all the leading-edge companies we observed. Succession planning should drive leadership development at a company; that sounds reasonable enough but is hard for many managers to accept. That's because many people, from the CEO on down, consider the word "succession" taboo. Planning your exit is like scheduling your own funeral; it evokes fears and emotions long hidden under layers of defense mechanisms and imperceptible habits. Perversely, the desire to avoid this issue is strongest in the most successful CEOs. Their standard operating procedure is to always look for the next mountain to climb, not to step down from the mountain and look for a replacement.

We recently conducted a leadership and talent management survey with 20 CEOs in large corporations, representing a variety of industries and locations. Although all 20 executives agreed that having the right talent in the right roles was critical for their companies' success and that a talent management program was important for developing effective leaders, almost half had no succession plans for VPs and above. Only one-fourth of the CEOs had talent pipelines that extended at least three managerial levels below them.

Meanwhile, those CEOs who are effective at building strong leadership teams tend not to have any reservations about succession; they embrace succession planning and integrate it closely with the company's management-training and development programs. When Orin Smith became president and CEO of Starbucks in 2000, for instance, he made it a top priority to plan his own succession. He established an exit date—in 2005, at age 62—which helped him push his business agenda. Ultimately, Smith's actions focused attention on emerging leaders throughout the company.

Two years into the job, Smith knew that the internal contenders would still be too unseasoned for the CEO position by his exit date. Starbucks was under pressure to grow its leaders as fast as the business was expanding, from approximately 8,500 global retail locations to about 30,000 sites, half of them outside the United States. Because of his early commitment to succession planning, Smith knew enough about the internal CEO candidates—and decided on an outsider, Jim Donald, as a promising successor. Donald had an established record in supermarket expansion as chairman, president, and CEO of Pathmark, a 143-unit regional grocery chain. He was recruited to Starbucks specifically to become the next CEO.

Starbucks gave Donald 90 days of dedicated immersion. He worked in the stores to understand the customer experience, and he observed firsthand the operations in the coffee-roasting plants. Then Donald was made responsible for North American operations, Starbucks's largest business. Progressively, he became accountable for more pieces of the company. One of his first major tests was to develop his own succession plan and to execute against it in order to move to a larger role himself. Smith and Starbucks's board members paid close attention to Donald's ability to assess and develop a talented leader who could take over Donald's assignments and provide the right fit with the leadership team.

As Starbucks's experience shows, CEOs need to embrace succession planning to achieve their own legacies and the financial success of the organizations they leave behind. By integrating succession planning and talent development, CEOs can alert the rising stars in their companies to potential leadership opportunities well in advance; and they and their boards can more accurately assess their bench strength. When the process runs smoothly, boards have a strong sense of whether a company's incumbent leadership team will be able to execute important strategic initiatives in the future. The company also gains because of minimal disruption to the business, shareholder confidence and positive analyst ratings, and reduced costs of external hiring for senior executive positions.

The consumer products company S.C. Johnson & Son also uses an integrated approach. Its performance appraisal program identifies the rising stars in the company's hard-to-fill management and technical positions, evaluates them through 360-degree feedback, and determines potential leaders' readiness for promotions. The well-oiled program also includes processes to identify "safe positions"—crucial jobs with reinforced retention strategies and ready replacements. The tight integration of succession planning with talent development has paid off: The typical manager at S.C. Johnson has been on the job for nearly 15 years, and nine out of every ten positions are filled internally.

At Tyson, just a few years after the formation of the initial senior management task force on leadership development, all of

John Tyson's direct reports are fully committed to the succession-planning process. In what they call the "talent alignment and optimization" initiative, or TAO, leaders from across the organization try to strike a balance between the supply of talent (rising stars) and the demand for talent (critical positions). Right after Tyson's strategic review process, which is held semiannually, the company's senior management team holds open and constructive discussions about the company's high-potential managers to ensure that the organization nurtures in them the skills necessary to execute current strategy while also preparing them to take on larger, more complex roles. And to make sure that rising stars are challenged and achieve long-term success at Tyson, the senior leaders work closely with HR to devise development paths that consider multiple career possibilities for high-potentials, three to five years out.

A Line and Board Responsibility

Many executives believe that leadership development is a job for the HR department. This may be the single biggest misconception they can have. As corporations have broken down work into manageable activities and then consolidated capabilities into areas of expertise, employee-related activities have typically fallen into HR's domain. The prevailing wisdom has been that if HR took care of those often intangible "soft" issues, line managers and executives would be free to focus on "hard" business issues and client interaction.

But at companies that are good at growing leaders, operating managers, not HR executives, are at the front line of planning and development. In fact, many senior executives now hold their line managers directly responsible for these activities. In this worldview, it is part of the line manager's job to recognize his subordinates' developmental needs, to help them cultivate new skills, and to provide them opportunities for professional development and personal growth. Managers must do this even if it means nudging their rising stars into new functional areas or business units. They must mentor emerging leaders, from their own and other departments, passing on important knowledge and providing helpful evaluations and feedback. The operating managers' own evaluations, development plans, and promotions, in turn, depend on how successfully they nurture their subordinates.

Line managers are held accountable not only for aiding in the development of individual star managers but also for helping senior executives and HR experts define and create a balanced leadership development system for the entire company. They must tackle questions such as "How will we balance the need to nurture future leaders with the pressures to eliminate redundant activities?" and "How should we encourage burgeoning leaders to take risks and innovate while maintaining our focus on short-term operations and profit goals?" (Firms shouldn't have to forgo their quarterly targets for the sake of developing high-potential managers.) Practical solutions to these and other challenges don't magically appear in HR conference rooms; they come from the line managers.

If line managers are held responsible for executing the talent development initiatives, the board should assume high-level ownership of the overall system. Traditionally, however, most boards have focused on CEO succession, giving short shrift to systematic leadership development. After all, there was little risk of a calamity occurring if the board *didn't* monitor the leadership pipeline. There was also little chance that the board members would be held personally accountable for the resulting weak talent pool. In A.T. Kearney's 2004 survey on the effectiveness of corporate governance, participating board directors universally acknowledged the importance of leadership development and succession planning. Yet only one in four respondents believed the board of directors was very good at these activities.

The CEOs of savvy companies realize that their boards are well placed to help them plan for new leadership to take the reins. Detached from day-to-day operations and biases, board directors can objectively look at the company's leadership development systems and bench strength. At Starbucks, for example, the board oversees a formalized succession-planning process for 2,500 positions. Its goal is to make sure the company always has the right people with the right values in the right places at the right times. As Orin Smith explains: "The values and behaviors of the individuals you choose go through the organization like a rifle shot; they can be felt at the line level within months. We can't afford to hire or promote people with the wrong values. It's a path to mediocrity."

A Leadership Development Checklist

To grow great leaders, companies should do the following:

- Launch a formal, high-level succession-planning conference for senior executives facilitated by corporate HR and outside experts; outline the leadership development process; and cascade it through the company.
- Create leadership development programs that fill holes in your company's talent portfolio to ensure a deep bench for critical positions in the firm.
- Let HR create tools and facilitate their use, but require the business units to own the leadership development activities.
- Have the board oversee all leadership development initiatives, and insist on continual communication by CEOs and other senior managers on their commitment to leadership development.
- Reshuffle rising stars throughout the company, taking care that A players are exchanged for other A players.
- Make sure that your leadership development program is aligned with your strategy, reinforces your company's brand, and has support from your employees.

Some boards are becoming aggressive in getting to know their companies' rising stars. Pittsburgh-based Mellon Financial, a 136-year-old financial institution, had long required the heads of its major business units to give presentations to the board. But in 2002, CEO Marty McGuinn saw potential value in having the company's rising stars make these presentations. Now, Mellon's unit managers accompany the rising stars to the board meetings. They answer questions when absolutely necessary, but the future leaders get the floor. As a result, the board can assess for itself the efficacy of the company's leadership pipeline and hear about corporate initiatives from the people who are actually "doing things." Meanwhile, the rising stars gain direct access to the board, gleaning new perspectives and wisdom as a result.

A Shared Resource

No leadership development program can be effective unless it provides mechanisms for exposing future leaders to the full range of the company's operations. By introducing their rising stars to new business units, geographies, and business challenges (managing a turnaround, for instance, or launching a new product in a foreign market), companies can help these executive-track employees broaden their power bases and spheres of influence while giving them a sense of how the different parts of the organization work together to execute the overall corporate strategy.

It's a reasonable goal but hard to accomplish. Why would the supervisor of a brilliant junior manager share that talent with another unit, knowing that productivity and profitability in his own unit might suffer? And what if the rising star misinterprets the transfer to another business unit (with perhaps fewer people and less revenue) as a negative gesture and considers leaving the company?

Tyson Foods faced just such challenges. Under the company's revamped leadership development program, business unit heads were obliged to share their highest-performing managers with other business units so these rising stars could gain cross-functional experience. Initially, it was hard for the unit leaders to do so, after years of hoarding talent and building personal fiefdoms.

To encourage sharing, John Tyson holds the business unit and functional leaders personally accountable for rotating emerging leaders through different parts of the company. Cross-functional development plans—essentially, the road maps for high-potentials' assignments to Tyson's different businesses—are clearly articulated at the succession conferences described earlier. These plans are monitored by Tyson and the vice president of corporate HR. Moreover, the CEO assures unit leaders that they will receive equally qualified managers in exchange for their outgoing ones. The company's talent-assessment practices have been refined so that the right qualities and skills are being measured across all businesses and functions. That is, Tyson realized that a manager's success in one area of the business was by no means a guarantee of success in another. So the company carefully retrofitted its performance assessment tools to measure the competencies, values, and skills that would be necessary for any future positions that a manager might pursue. The results are objective, so business unit leaders are exchanging “apples for apples,” not simply sending B players to other units and keeping their fingers crossed for a star in return. Tyson has also adopted formal performance-management review policies that link senior executive compensation to the movement and development of emerging leaders.

Mellon’s Marty McGuinn has a similar philosophy. His strikingly simple but powerful mantra is “Connect the dots.” That is, for Mellon to create a leadership development system that competitors cannot match, all its managers must map their discrete leadership development activities and processes to a coherent, companywide system. Managers in dramatically different functions, locations, and operating units are expected to share knowledge and talent that they think would enhance the whole system. (The sidebar “A Crash Course” describes how Mellon built its integrated leadership development system.)

A Crash Course

Most of the companies we studied developed their leadership programs over time or at least were under relatively little pressure in terms of talent management. Mellon Financial, however, had to build a new system under extreme pressure to support senior management’s efforts to transform the company.

By the late 1990s, the venerable organization comprised a wide range of businesses. The senior management team had articulated a business strategy that focused on high-growth opportunities and global expansion. Through the disposition of specific units, and through strategic acquisitions to build its asset management and corporate and institutional services businesses, senior management effectively transformed Mellon from a traditional commercial bank to a more focused financial services institution.

But CEO Marty McGuinn realized that the next generation of leaders would not be able to execute the new strategy without an enhanced set of competencies and a broader, more entrepreneurial mind-set, one that could include bundling products and services, cross selling to clients, and expanding into unproven global markets.

To meet this challenge, Mellon’s HR department created an extensive leadership development program that was rolled out to the whole company. Mellon’s senior management team was involved from the start. McGuinn and his team met frequently (in person and via e-mail) and conducted one-on-one discussions with emerging leaders at the company. Armed with these data, the executives helped Mellon’s rising stars understand the competencies they would need and developed plans for them to acquire those skills.

But McGuinn and Mellon’s human resources director knew that HR’s tools for leadership development would not gain traction among managers if they were not owned and implemented by the business units. Mellon’s managers had a reputation for being results driven and focused on achieving day-to-day goals. An HR-mandated mentoring program or 360-degree feedback assessment initiative, no matter how shiny and slick, might seem like a distraction to these people—and would ultimately be futile.

McGuinn, therefore, instituted a policy that leadership development tools would be created in formal centers of excellence consisting of three to six resident experts. The tools would then be offered to the business units through a specialized distribution network of human resources business partners (HRBP)—liaisons between the centers of excellence and the business unit heads. The HRBPs were charged with understanding the strategies of the business units and the competencies they wanted to develop and execute. The HRBPs would use that information to determine, in collaboration with the unit leaders, which leadership development tools to use. Because the units’ strategies varied considerably across Mellon, McGuinn and HR granted the HRBPs wide latitude in their decisions about how, when, and why to use particular tools.

Aligned, Attractive, and Authentic

As Tyson learned, an effective talent development program is more than just a portfolio of off-the-shelf components such as competency-profiling tools, 360-degree feedback, and online training. It is a carefully thought-out system that you have to develop for yourself.

As a CEO assessing a new program, the first question you need to ask yourself is whether the constituent parts of your program combine to enable the company to compete more effectively. A company that operates in a highly innovative environment, for example, needs to know whether its leadership development system actually enables it to produce better innovations more quickly than its competitors. If the system rewards individuals who produce the most predictable rather than the most innovative results, it is misaligned.

Misalignment usually occurs when companies have developed, tested, and rolled out initiatives ad hoc, without any high-level planning or a defined time horizon. The first iteration of Tyson's mentoring program, for instance, was barely linked to the company's existing leadership development activities and strategic goals. Little thought went into the matching process; rising stars weren't necessarily assigned mentors in the businesses and functions that could have helped them the most, so significant developmental opportunities were lost.

Misalignment can also occur when a company's 360-degree feedback and performance-management instruments measure (and reward) behaviors that are inconsistent with the company's values and culture. It may be counterproductive, for instance, to reward managers for their skills in acquiring new customers if the company's overall strategy is to focus on existing customers by cross selling and offering bundled products and services.

The second question you need to ask is whether your leadership development system reinforces the perceptions you want people to have about the company. We've found that there is a direct relationship between a strongly defined leadership development program at a company and the types of job candidates the company attracts, external stakeholders' perceptions of the business, and employees' understanding of the firm's values and strategies. For example, Starbucks employees, all of whom are called "partners," are attracted to the job in part because of the company's talent identity. They want to be that cheerful, smiling-to-the-music person behind the counter who helps customers start the day out right with a *venti* or a *grande*. The company's leadership development program reinforces this identity: Its hiring and promotion processes put equal weight on an employee's functional capabilities and his or her ability to fit in with the company's values and beliefs system. And to preserve the company's culture in this time of rapid growth, Starbucks has added a component to the program, called Leading from the Heart, which helps existing managers transmit Starbucks's customer-friendly (and brand-centric) ethos to new hires.

The third question you have to ask is whether your employees think the company's leadership programs are legitimate. They will take the program seriously only if they know these talent management elements will affect actual business decisions instead of just padding personnel folders. They must also believe that those individuals whom the system recruits, selects, and promotes are truly qualified for their positions and aren't just being rewarded for their political allegiances.

Companies need to address the issue of authenticity head-on. Senior executives at Mellon realized that some people might be skeptical about the company's new talent development initiatives: Many managers felt they were too busy dealing with day-to-day operations and client relations to take time off to attend the company's mentoring program. Recognizing this skepticism, HR included in the sessions case studies of mentoring relationships and how they helped to improve results on the job. (The sessions themselves are data driven and led by senior operating executives.) Specifically, the sessions demonstrate the positive correlation between the productive relationships a manager can have with his or her team members and the economic effectiveness of that group or division. Most executives find it a compelling proposition that, with help from the mentoring program, they can actively improve their employees' skills, increase people's commitment to work, boost information sharing, and create better-trained employees who are willing to accept greater responsibility.

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The companies that shared their stories and knowledge with us highlighted several critical aspects of leadership development—in particular, CEOs' awareness and acknowledgment of the importance of succession planning; boards' increased activity in system oversight; managers' refocused attention on people issues and processes; and HR's role in facilitating the entire organization's ownership of leadership development. As their experiences demonstrate, a leadership development program need not be a ragbag of training programs and benefits. Properly thought through, it can be a major part of a company's value proposition—one that competitors can't even understand, much less copy.

Our colleague Gianni Montezemolo passed away just before this article was published. We'd like to thank him for his contributions to this research.

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