

Bench Strength

How are you
developing your high-
potential leaders?

by **Steve Krupp**

A shortage of capable leaders put an international chemical company in a tight spot. The firm was experiencing rapid growth, major acquisitions, increased competition, and efforts to expand its international reach. One of the biggest challenges was an urgent demand for general managers who could head businesses, but the pipeline couldn't supply enough talented people.

This talent gap has become a widespread problem, particularly among large, international companies focused on growth. They're feeling pinched because of the shortage of leaders who can manage a P&L, lead a business in an emerging market, or run a new acquisition. One Fortune 100 CEO told us, "Every time I want to buy something or accelerate growth into new markets, I look down our bench and see that I don't have the right players to play the key positions."

In 2007, Oliver Wyman – Delta Organization & Leadership gathered input from organizations that are known to successfully manage talent, particularly regarding the development of high potentials. We identified the following 16 organizations as best-in-class in this area and interviewed their executives to get a better understanding of the companies' practices: Avon, Bank of America, BASF, Dell, Dow, General Motors, Johnson & Johnson, McDonald's, Merck, Monsanto, Optus, PepsiCo, PPG Industries, SAP, Shell, 3M.

Several factors account for this shortage. Supply hasn't kept up with demand for leaders in both mature as well as hyper-growth markets, and investment in assessment and development has been insufficient. As organizations grow and become more complex—and change their business models to reflect this—they increasingly find they need different types of leaders for the future than the ones they have relied on in the past. And, in many parts of the world, the gap is about to widen as aging baby boomers approach retirement (Exhibit 1).

One executive of a major global company said, “We need to take leaders who have been slated as ready in five years and get them ready in two.” Another leader facing the problem described it this way: “We have to collapse time.”

Despite the daunting challenges, organizations are finding ways to accelerate development to meet the demands of global growth. Interviews with executives from 16 companies that were part of an Oliver Wyman – Delta Organization & Leadership best practices study indicate what some of the best companies in the world are doing to quickly develop leaders who can step into mission-critical roles. More specifically, the study looked at successful approaches to:

- Identifying and managing a pool of high-potential talent, specifically future P&L or general manager (GM) leaders
- Accelerating development and preparing leaders for bigger roles
- Building leadership capabilities that will support growth and globalization strategies

Integrate All the Elements

Based on our experience with clients and the material we gleaned from the best-practices study, our approach to identifying and developing the next generation of leaders centers on one key element: identifying high-potential talent to fill specific roles. We are also convinced that the development of key talent needs to be done in an integrated way and managed from the top down.

Coaching and mentoring are important, but not sufficient. Executive education is necessary, but not adequate. Stretch assignments and rotations are part of most development plans, but other opportunities are just as important. To be effective, the process must integrate all of these elements. This is especially critical if there is an urgent need to get talent ready to quickly step into roles where there are gaps in the pipeline.

Exhibit 1 The talent gap



A successful approach starts with a game plan that is based on an organization’s business and growth strategy. It should include a thorough forecast of what type of talent will be needed in the future, an assessment of risks, a process for accelerating development, and methods to measure success in building a bench. Most important, however, is identifying individuals in the leadership pipeline who can be developed to fill specific mission-critical roles, those that can make or break a company’s success.

What follows are the components of a plan (Exhibit 2) to develop high-potential talent, augmented with comments from executives interviewed as part of our best-practice research.

Governance

The CEO must own and sponsor the process.

No major initiative within an organization will succeed unless the CEO champions the efforts. When developing high-potential talent, the CEO can jointly sponsor the process with the executive team, an advisory council, or a Chief Talent Officer, but his or her visible leadership is crucial.

At McDonald’s, “The ultimate owner of the talent management process is the CEO,” said Neal Kulick, vice president of global talent management. “He has three top priorities, and talent management may be his top-most. All the CEO’s direct reports are strongly supportive of this priority.”

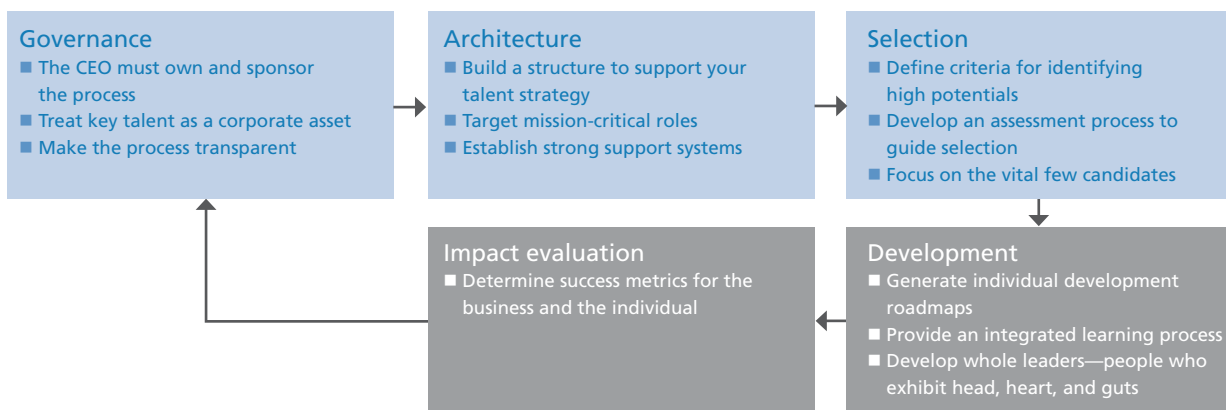
General Motors’ CEO also takes a hands-on approach and “personally vets the 100 people in the top-most high-potential pool, said Philippe De Schryver, director of global talent management. “He ‘owns’ the high-potentials.”

In many companies, boards also have become involved. “The investment of the board members is key,” said Hans Oberschulte, head of executive HR at BASF. “They know almost all candidates for the key functions.”

Treat key talent as a corporate asset. This ensures the appropriate focus and facilitates smooth transitions when moving high-potential talent across roles and boundaries. Historically, companies have faced problems when executives don’t want to let go of their best people. But if talent is viewed as a corporate asset, movement will be initiated by the top team, which helps eliminate territorial battles to hang onto certain people.

At Monsanto, “high potentials are considered corporate assets,” said a management development executive. “In a balanced way, senior executives consider the needs of the local or regional leadership as well as the corporate needs to identify and develop talent with enterprise potential. The executive team ultimately influences who goes where.”

Exhibit 2 Game plan for high-potential development



Make the process transparent. The best companies communicate openly with high-potential leaders. They indicate that the firm has great expectations for them and will be investing in their future. They also set expectations for what the company hopes to get back from this investment.

“Avon is very transparent around talent,” said Marc Effron, vice president of global talent management. “High potentials in our development programs are informed upfront: ‘You are here because the organization recognizes your potential.’ ”

At a technology company, executives talk “about the program in its various forms,” said an HR executive. “It’s part of key performance indicators for HR and senior management, too. However, they don’t talk about who specifically is in the program.”

Architecture

Build a structure to support your talent strategy. Focus on what you want to accomplish and how you plan to do it. When defining the framework that will suit your organization best, think in terms of a multidimensional approach that will accelerate development and broaden the participants’ experience. Other considerations include deciding on the high-potential talent pool composition and developing a communication plan.

“Monsanto uses strategic workforce planning to integrate its talent management with long-range business plans. This involves inventorying the talent pool, reviewing the skills and capabilities needed to execute the strategy, and finally making provisions to build talent,” said a company management development executive. “Building talent means not only developing internal talent, but also sourcing talent externally.”

Target mission-critical roles. The identification of crucial roles should be driven by business strategy, not by an automatic formula. This starts with a look at an organization’s business plan and growth strategy, and then moves to an assessment of capabilities and gaps. Projected needs will indicate which roles are most critical.

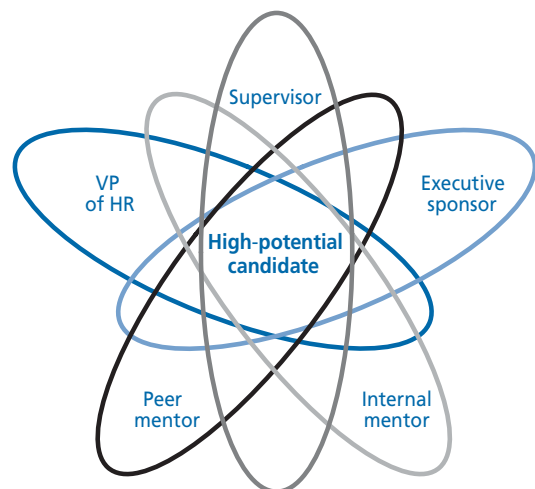
One global products company has a high-potential program connected to succession planning for the top 50 positions. It starts out with more than 50, but this number is weeded down to the top 50 mission-critical positions. Even the strategy planning process has a talent component. It also has a people planning process that asks, ‘what is our talent need?’

A health-related company, when it considers succession planning, looks at candidates in terms of roles. Candidates are either ‘ready now,’ ‘ready in two years,’ or ‘ready in two to five years.’

Establish strong support systems. Each high-potential candidate should receive a full range of support to accelerate his or her growth. This can include executive mentors or sponsors, an internal or external coach, an HR representative, manager, or executive committee member (Exhibit 3). One-on-one sponsorship can be especially effective for leaders who show the highest potential.

“High potentials are provided with comprehensive support to accelerate their development,” said Avon’s Effron. “They are at minimum surrounded by an external coach, an executive committee member, their boss, and a local HR leader.”

Exhibit 3 Support network



Accelerating development of the right people allows them to step into critical roles at critical times.

PPG Industries offers a support network for high-potential candidates. “The person’s supervisor is at the top,” said Alan Foss, manager of leadership development. “There is also an executive sponsor who represents the candidate’s input to the committee. There is an internal mentor, in addition to a peer mentor—someone they can share their experience with. The business unit VP of HR offers learning and development opportunities.”

3M has found that its mentoring program is a two-way street. “Senior executives mentor the people,” said Karen B. Paul, manager, talent management. “Yet we’re finding an unexpected benefit; mentoring also works the other way around in that the younger person can offer new and fresh insights to the senior level.”

Selection

Define criteria for identifying high-potential candidates. Selection should be based as much on future prediction for success as on current performance. There should be clear objectives and well-defined criteria and rating scales.

The global products company mentioned earlier uses three criteria: business results, people results, and its leadership model. Business results and people results are weighted 50/50 and are metric-based.

PPG uses two success factors to evaluate high-potential talent: performance, and skills and capabilities. The firm also judges aspiration and commitment. Foss said candidates must “be willing to make pursuit of a career a priority in their life, and they must be willing to make sacrifices. Senior-level high potentials are expected to go where the job takes you. The sacrifices that the company will ask them to make will be within reasonable per-

sonal limitations. When asked to make sacrifices, individuals are not penalized when they refuse the first time around, but when they decline multiple times, they are showing a lack of a commitment.”

SAP also uses two filters: potential indicators and final differentiators. “Potentials indicators are connected to change agility, interpersonal skills, business ownership potential, and drive for results,” said Paul Orleman, director of top talent management. “For each indicator, there is a defined set of behaviors. The final differentiators determine if the person is able to do a stretch assignment in the next 12 months, if they are mobile, willing to accept new challenges, capable of working cross-functionally within a diverse team, and have a history of superior performance.”

Develop an assessment process to guide selection. Many companies are not comfortable with rigorous, formal assessment, but it can help prevent false starts or unwise investments. Ideally, the goal is to complement qualitative judgments with quantitative assessment. The assessment also helps address the question: high potential for what?

In addition to using a competency model that assesses behavior, Monsanto also focuses on technical and functional competencies, which demonstrate performance. Dow looks at candidates’ “learning agility,” which is particularly valuable when trying to determine the potential of people early in their careers who haven’t built track records.

3M identifies high-potential candidates through a recommendation process. “The manager recommends them to their operating committee,” said Paul. “The team reaches a consensus, and the manager reports the feedback to the candidate. Once they are selected, they are then sent to a development center to get more details.”

Focus on the vital few candidates. Resist the temptation to go overboard and view everyone as high potential. Instead, differentiate the few people who have the most potential to play

important roles if given the necessary grooming and attention.

The technology company referred to earlier places so much importance on aligning capability with both current and future needs that the alignment forms one pillar of the company's values. "It's about attracting and retaining the right talent, leadership, employee engagement, capability, and getting all the fundamentals right," said a company executive.

"Employees are assessed on performance and readiness for advancement," said McDonald's Kulick. "Identification of talent is confirmed through roundtable sessions. The process is standardized across the world."

Development

Generate individual development roadmaps.

Each high-potential person should receive a plan based on an assessment of his or her needs that details the developmental journey to take in order to fill a specific role. Though they will be tailored to each individual, most plans should include stretch assignments and rotations through a variety of positions. In many cases, a global assignment should be part of the mix. Be clear on both the performance and developmental expectations.

Avon customizes its program based on the individual, not on roles. And at SAP, high potentials are offered individual action plans.

Steve Robison, leader of global talent development for Dow, said, "We really emphasize the kinds of experience you need for the critical positions: international assignments, joint venture experience, greenfields, P&L responsibility, turnaround business." Another company has a list of key experiences that must be completed to become a GM and maps the development plans for future GMs against this benchmark.

At BASF, key developmental experiences include international assignments that last for three to four years, and work in multiple-division and multiple-job families.

Rebuilding the Talent Pipeline at PPG

When global manufacturer PPG Industries downsized in the 1990s, it collapsed three layers of management and found itself without a ready supply of talent. To broaden and deepen the talent pool, the firm recognized a need to accelerate development early in the careers of people who showed potential. Today, developing high-potential talent has become an integral part of the culture.

A yearly organizational capability assessment helps determine whether PPG has the right people to execute its strategy. Candidates to fill key positions are then identified through three criteria: performance, skills and capabilities; aspiration; and commitment. Those people go through developmental programs tailored to three tiers: new functional managers, leaders taking on global roles, and future GMs.

Alan Foss, manager of leadership development, said the firm places its best talent in "difficult positions" as part of their development, mitigating the risk involved by monitoring the transition and relying on a support network of coaches and mentors. An executive committee led by the CEO tracks progress of the future GMs.

As one indicator of the program's effectiveness, PPG assesses how many leaders in the program have moved to new positions within two years, and Foss said they are pleased with these results. In addition, business units that draw on corporate-wide talent outperform those that rely on their own internal talent pools.

More and more companies are defining the experiences necessary for key roles and then working backwards to design a development roadmap that includes them. This has become an urgent priority because of the demand to get more leaders ready sooner for these positions.

Provide an integrated learning process. It's best to integrate a variety of approaches to learning.

Choosing the Elite at SAP

At SAP, a global software giant, top talent makes up 9 percent of the company population, and 2 percent of that select group are considered high potential. Paul Orleman, director of top talent management, said that the nomination and selection process for the elite group works as follows:

- Managers use two filters to identify candidates: potential indicators and final differentiators. The indicators include such capabilities as change agility, interpersonal skills, and business ownership potential. The differentiators determine whether the candidate can do a stretch assignment within 12 months, and whether they are mobile, willing to accept new challenges, and capable of working across functions.
- Managers nominate high-potential candidates and complete a fact sheet and analysis. They discuss the nominees and reach a consensus on who will be selected.

SAP measures progress annually. A survey tracks what happens to the high potentials, whether they have moved to a larger job or one with more responsibility. In 2006, 60 percent said that they have moved to a larger job, and 67 percent had been promoted. The board of directors is held accountable for filling key openings from the top-talent and high-potential pools, and has set specific performance targets against which directors will be measured.

Individual learning is important, but group experiences will give high potentials the opportunity to network and to get exposure to senior leaders. Targeted classroom learning can be effective for a high-potential cohort. Candidates and people in support systems need to understand that there is a clear plan for achieving both the performance and developmental objectives.

The global products company looks at the critical experiences people need to go through to

become a GM when designing developmental experiences. They ask: “Which business have you been in? Have you managed a combined portfolio, run a P&L, or a start-up business?”

SAP focuses on on-the-job development, providing a variety of opportunities that include a top-talent fellowship program, a strategy forum, and the chance to interact with the CEO at monthly breakfasts.

Monsanto uses an eclectic approach: in-house leadership development programs, action learning, and classroom instruction. New job assignments are considered the most effective way to develop talent, and are supported with external coaching opportunities and mentoring on a situation-by-situation basis.

A global health-care company uses a process that “involves several steps, including two group learning sessions—one in a developed market and one several months later in an emerging market,” said one of their executives. “The participants also receive intensive coaching and work on an individual project designed to help them identify potential areas of growth in their own businesses/markets.”

Develop whole leaders—people who exhibit head, heart, and guts. One-dimensional leadership may have worked in simpler times, but complex global environments demand more. In order to more quickly prepare today’s leaders for key roles, it’s important that they become whole leaders—people who can use their heads, demonstrate heart, and act with guts.

Many companies have found the head, heart, and guts framework is useful when assessing potential. Shell’s approach—Capacity-Achievement-Relationships—shares some similarities. Basic cognitive ability corresponds to capacity. Drive—perseverance, the ability to get things done, and a willingness to take risks—relates to achievement. And relational skills, or emotional intelligence, correspond to relationships. This is done at every level of their pipeline,

and experience indicates that candidates who demonstrate these three dimensions are most likely to succeed later as executives.

Impact Evaluation

Determine success metrics for the business and the individual. Specific targets should be set for each metric considered critical. It's best to track progress and report effectiveness at least twice a year using such data as cross-functional and developmental moves, promotion rate, program graduates, how often positions are filled by internal candidates, and high-potential attrition rate. Once this information is gathered, it should be reviewed with key stakeholders and used to make necessary adjustments to the program.

SAP's board has established a metric to assess promotions from the top talent pool. Each quarter, they track the percentage of key jobs in each functional area filled by candidates who have been identified as top talent or high potential. Since this measure was established three years ago, the percentage has climbed steadily: currently at 55%, the goal is to reach 70% by 2010. The board expects that the people they invest in will be able to step into positions and that when there is an opening, the high potentials will be the first candidates considered.

PPG tracks retention and looks at specific cases when people are lost, job movement (broken

down in 2-year and 5-year intervals), talent assessment ratings, diversity, length of tenure, age breakdown, potential for retirement, succession readiness.

Understanding the Implications

Companies expanding rapidly in hyper-growth markets need to identify and equip leaders who can scale up to bigger roles. But they do not have a pipeline of talent ready for these critical positions.

Organizations can't afford failure in this regard, as having the right leaders to step into key roles will make or break their strategy. They must create short- and long-term pipelines. Preparing the most talented people for specific mission-critical roles—instead of developing all managers for possible positions—is the most practical way to align talent and business strategies.

Even as companies begin to retract in some areas and prepare for a possible economic downturn, the focus on key talent will remain a high priority. Companies that take an integrated approach to managing, identifying, and fast-tracking key talent will create a strong leadership brand that yields a competitive advantage. ❖

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