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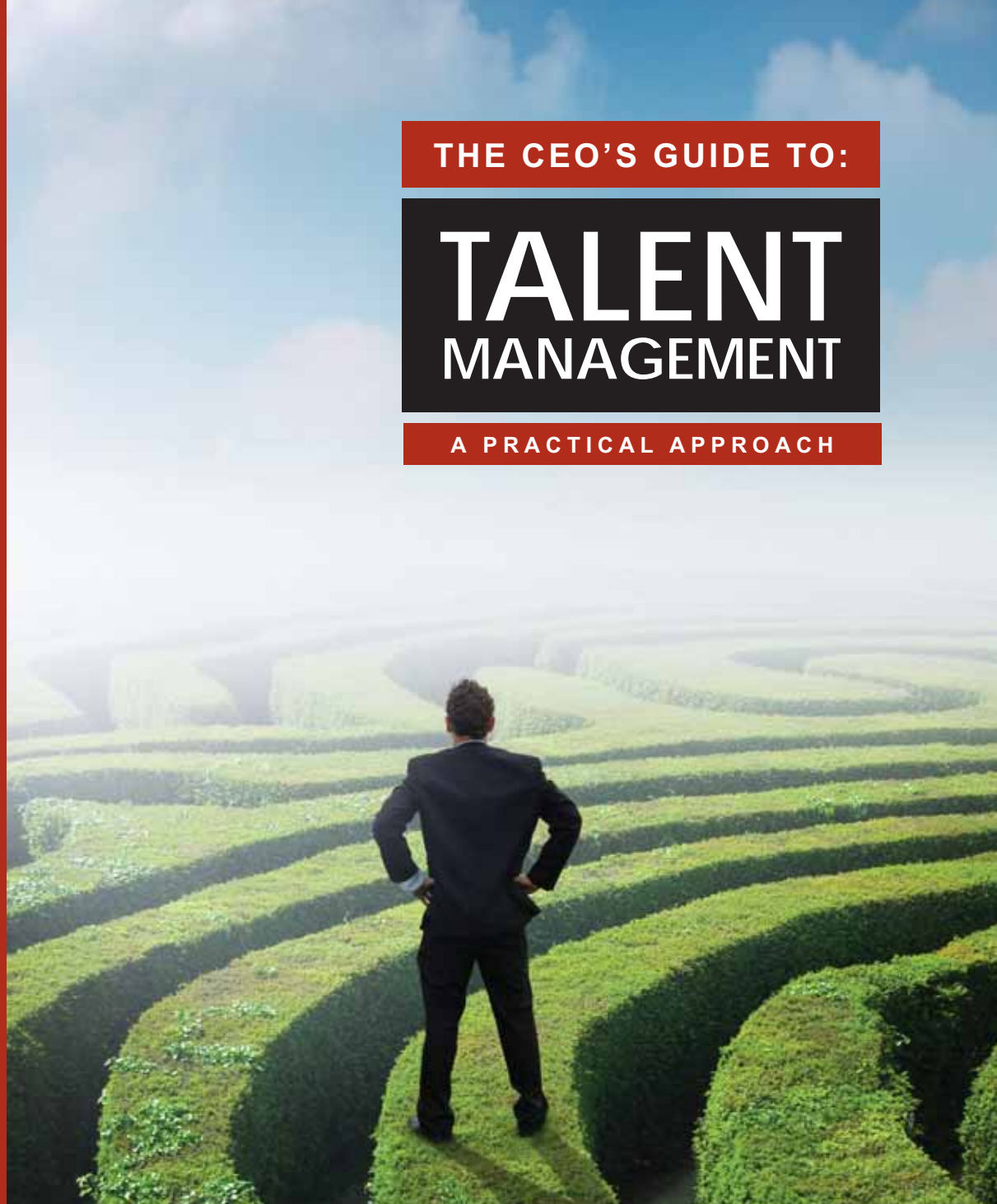
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THE CEO'S GUIDE TO:

TALENT MANAGEMENT

A PRACTICAL APPROACH



The Talent Management Expert | 

THE CEO'S GUIDE TO:

TALENT MANAGEMENT

A PRACTICAL APPROACH

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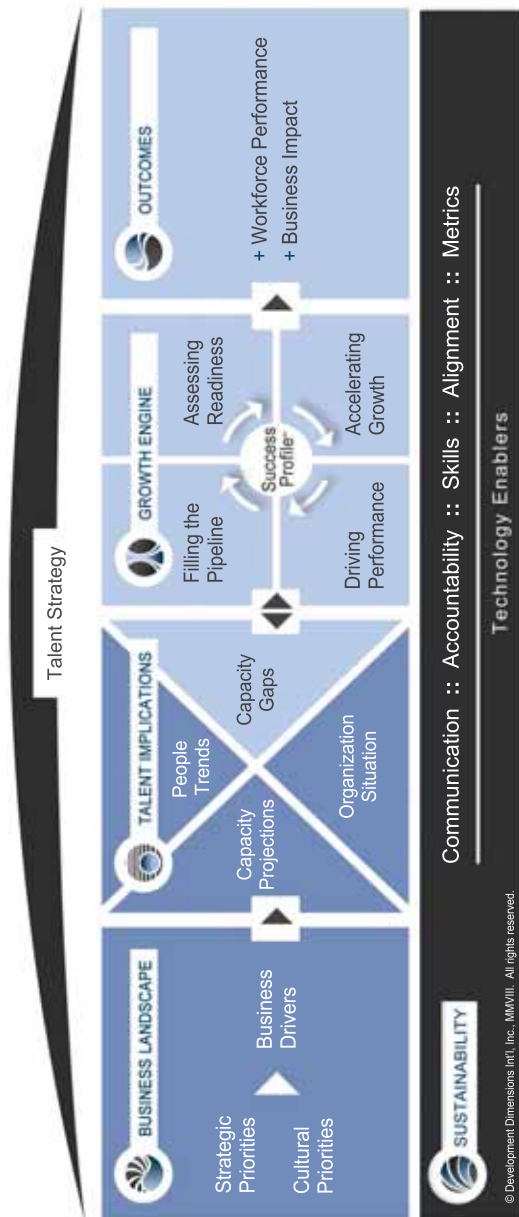


Figure 1
DDI's Comprehensive Talent Management Model

SECTION : ONE

WHAT IS TALENT MANAGEMENT?

A CEO we talked to told us that while he couldn't provide statistics linking talent management to performance, he partially attributed his company's growth from \$6.4 billion to more than \$10 billion over four years to the exceptional quality of his people. The company, a leading provider of medical devices, has seized opportunities ahead of some of its competitors. One of the crucial elements of this company's success: This CEO spends about half his time on talent management.

Yet we still talk to senior VPs of human resources every day who complain that their CEO still treats talent strategy as an afterthought, failing to grasp both how it supports the CEO's plans for the business and his or her role in steering its course. And while we talk to CEOs who know talent management needs to be a personal strategic priority, they seem unsure about the best path for their own company.

The changes in the global economic landscape over the past few years have no doubt fed this uncertainty, as CEOs have confronted the need for their organizations to change course, re-evaluate long-term plans, and reorder strategic priorities. While executives have had to try to figure out what their organizations need, and need to be in the future, it has become apparent that nobody really knows what the future will look like.

However, we contend that the rise and ebb of the global economy has provided an invalid template for executives when it comes to talent: Economic growth and contraction are cyclical; the need for talent is not. The war for talent that received so much attention over the past decade did not go away during the global recession. As author Claudio Fernández-Aráoz pointed out in a December 2009 column in *BusinessWeek*, the number of managers “in the right age bracket for leadership roles” will shrink by 30 percent by 2015. He also warned that the global war for talent is “being ignored in many C-suites.”¹

On the other hand, CEOs who make strong commitments to talent management—like the CEO of the \$10 billion company we cited above—are the ones who find their organizations best positioned to execute their business strategies and ensure long-term viability and success.

In these pages we will demonstrate the importance of talent management to meeting your strategic goals and taking your company to the next level. What’s more, we’ll offer some straight talk about what you need to know and what you may not have thought of, and show you what critical roles you need to play.

So what is talent management? We’re sure you’ve seen many definitions. In simplest terms, it’s the recruitment, development, promotion, and retention of people, planned and executed in line with your organization’s current and future business goals. Because it is aimed at building leadership strength in depth, it creates flexibility to meet rapidly changing market conditions. A structured talent management process will systematically close the gap between

the human capital an organization currently has and the leadership talent it will eventually need to respond to tomorrow’s business challenges.

Penetrating the organization wider and deeper than succession planning, an effective talent management system builds a winning organization by:

- :: Connecting corporate strategy with the quantity and quality of leadership required to execute it.
- :: Defining what great talent looks like.
- :: Putting the best talent in every job.
- :: Developing the right skills at every level.
- :: Identifying and aggressively developing high potentials as part of a proactive succession management process.
- :: Managing the performance of all employees—at all levels—to drive bottom-line performance.

“The competitive advantage of any company comes from excellent execution. The execution of strategy is driven by the behavior of leaders.”

Maarten Hulshoff, CEO,

Rodamco Europe N.V. (The Netherlands)

SECTION : TWO

WHY IS TALENT MANAGEMENT A CEO PRIORITY?

Over your career, you'll doubtless have seen management theories come and go. In the '80s, marketing reigned supreme as Porter's insights on competitive forces made strategists of us all. In the '90s, competitive edge was to be had through reengineering and "lean." As we've exhausted the differential advantage these afford, off-shored the production they support, and added value through how, not what, we deliver, attention has come to rest on the quality of leadership as a driver of business performance.

Unfortunately, this realization hits at a time when demand exceeds supply. The underlying demographics have been well-rehearsed: From 1998 to 2008, while the workforce was expected to grow by 12 percent, the number of 25–44 year-olds (the age cohort from which tomorrow's leaders must emerge) was expected to decline by 6 percent.² This is not only a North American concern; Europe and parts of Asia face similar challenges.

History, too, plays its part. The '70s saw dramatic reductions in investment in talent development, and the de-layered organizations of the '90s provided less opportunity for incremental development in a variety of progressively more responsible roles. New Economy companies were voracious consumers of high-quality people in entrepreneurial roles who, 10 years before, would have ascended on more structured career ladders, acquiring leadership skills along the way.

Over the last 10 years economic growth, new market expansion, and globalization have kick-started many organizations' need for job-ready leaders of a different caliber—mobile, adaptable, culturally aware, and technologically literate. Consider Trend Micro—headquartered in Japan, with its R&D function in China and its worldwide sales operations in California. When we ask the custodians of resourcing plans across the globe how they frame the challenge, two-thirds of human resource (HR) professionals believe it will be significantly more difficult to find middle and senior leaders in the future.³

Then there's the economic turmoil of the past few years, which many believe has ushered in a new era where organizations must aggressively control costs and make prudent decisions about where to invest resources. This new "business normal" has added an additional dimension of complexity to the talent management needs of organizations, as many of the blue-sky growth strategies of just a few years ago have given way to a more uncertain and unpredictable future that will demand pipelines of leaders—at multiple levels—with different skill sets than were needed before.

Most organizations today are in the midst of launching some type of transformation, business model shift, or change initiative in order to remain competitive and secure their position for the future. This is reflected in The Conference Board's *CEO Challenge 2010* study, which found that the top four CEO priorities were excellence in execution, consistent execution of strategy by top management, sustained and steady top-line growth, and customer loyalty/retention.⁴ Successful execution of these new strategies, however, demands talent.

Figure 2

Industry-adjusted Return on Equity and Leadership Development Strength Index

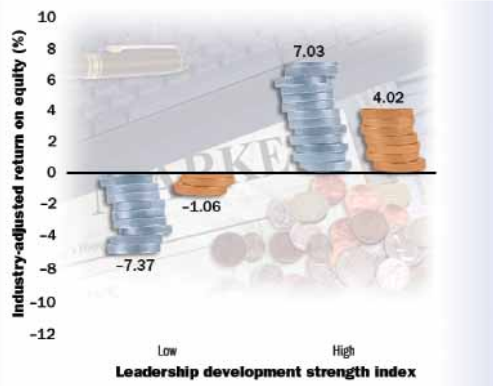
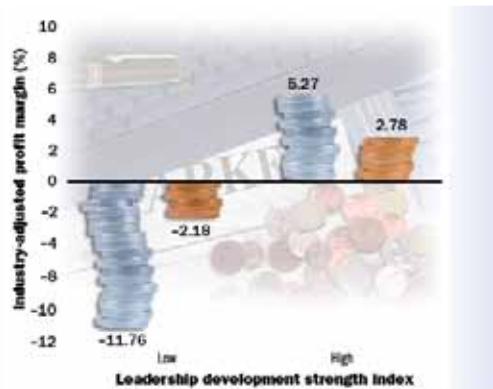


Figure 3

Industry-adjusted Profit Margin and Leadership Development Strength Index



And CEOs know it. In a DDI survey with the Economist Intelligence Unit,⁵ 20 CEOs interviewed for the study said that talent management was their responsibility, taking as much as 50 percent of their working time—a very large amount when one considers a top executive's crowded agenda.

It's axiomatic that it pays to leverage the resource on which companies spend, on average, one-third of their revenues. But beyond this simple truth, there's a plethora of research that underscores

the quantifiable connection between talent and business performance, and explains the increasing investor scrutiny this attracts:

- ∴ A 2009 study by the Hackett Group⁶ found companies with more mature talent management capabilities post 18 percent higher earnings than typical Global 1000 companies.
- ∴ DDI's Leadership Forecast 2005–2006⁷, showed that companies with stronger leadership development systems enjoy higher returns on equity and profit when compared to their competitors. (See Figures 2 and 3)
- ∴ A study from IBM and the Human Capital Institute showed that organizations that apply talent management practices demonstrate higher financial performance compared to their industry peers.⁸
- ∴ Hewitt Associates reports that the vast majority of top financial performing companies (85 percent of the top 20 in a field of 373 companies) hold their leaders accountable for developing talent, compared to just 46 percent of leaders from the other organizations.⁹

More than this, talent is a rapidly increasing source of value creation. In 1982, The Brookings Institution found that 62 percent of an average company's value could be attributed to its physical assets (e.g., equipment, facilities), with only 38 percent attributed to intangible assets (e.g., patents, intellectual property, brand, and, most of all, people). Yet just one generation later in 2003, these percentages more than reversed themselves, with 80 percent of value attributable to intangible assets and just 20 percent related to tangible assets.¹⁰

Another development that characterizes the recognition of the importance of talent management is the growing understanding that it isn't merely a practice, but a distinct function that should be viewed as an integrated whole. Talent strategy, while it must be clearly connected to business strategy, is more than an extension of business strategy. As such, talent strategy must be approached with deliberateness and the appropriate application of time, mind-share, and resources to ensure its successful execution.

Finally, for some companies, the most urgent driver to engage with the talent agenda is CEO succession. CEO turnover has exceeded 300 percent over the past several years, with no let up in sight. A January 2009 *Wall Street Journal* article pointed out 61 companies in the Standard & Poor's 500 stock index had changed CEOs in 2008. This figure was up from 56 in 2007.¹¹ As this data makes clear, boards and investors are putting senior leaders under a microscope with scrutiny most intense at the CEO level. Inspiring shareholder confidence in business continuity requires that there is a "Plan B" should emergency surgery be required—and organizations are taking note. Research by DDI and Aberdeen Group showed that 52 percent of all organizations were pursuing formal succession initiatives in 2008. This marked a robust one-year jump from just 44 percent in 2007.¹²

But smart companies are getting wise to talent as a differentiator, and this same pressure to demonstrate both consistency and agility is permeating up and down the org chart—not just at the C level, but at all levels. Every CEO we talk to tells us that demand for leaders exceeds supply from first line leaders up. The pressing question, then, is how to accelerate the process of nurturing and maturing leaders so that absence of talent is never an impediment to your business goals. As with all change initiatives, it's only when you, the CEO, invest your time and energy that it is internalized by the entire organization and truly shapes your company for the better.

“The way in which I give myself the emotional strength to [make tough talent decisions] is to tell myself that for the good of the organization we need the best leaders in place and that if I'm not willing to make it uncomfortable for somebody who just is doing an all right job but just isn't going to take it to the promised land, then I'm doing the rest of those people a disservice. You have to do what's good for the team.”

Tom Wilson, CEO

The Allstate Corp. (United States)

SECTION : THREE

EIGHT THINGS CEOS DON'T GET ABOUT TALENT MANAGEMENT

No one better understands the importance of talent to an organization than the CEO. Or at least that's what everyone would like to think. The truth, though, is that CEOs, stretched thin by the grueling day-to-day demands of running the business, too often overlook or fail to appreciate the time, commitment, and personal involvement required for talent management.

Of course, many CEOs do get it. One chief executive we spoke with took offense at the suggestion that CEOs pay short shrift to talent. Then again, he is an exemplary talent champion known for writing personal notes to employees and scheduling monthly dinners with his organization's rising leaders.

Still, in our experience, CEOs don't always take full measure of what talent management requires of their organizations—and of them personally. On the following pages, we offer eight things that we repeatedly see as areas where CEOs lack awareness or focus.

We've found that it's rare for a CEO to come up short in all of these eight areas. Then again, we've also found it to be rare that a CEO is not deficient in at least one. But a deficiency in even one area is still enough to torpedo an organization's talent management efforts, regardless of the good intentions of senior leaders and other stakeholders.

ONE:

When it comes to talent management, what you say—and do—matters more than you may realize.

Good luck building real consensus, an actionable plan, or both without hashing it out through extensive, and sometimes passionate, conversation. The best CEOs know this, of course. They also know the difference between talk as a means to formulate, implement, or execute strategy, and talk as a substitute for these things; the high-level talking happens, it just never translates into action. When it comes to talent strategy, we've seen this happen more often than we care to admit. Research bears this out: a whopping 96 percent of chairmen in a recent survey ranked talent management as highly important to the success of their organization, yet one-third of organizational succession plans are ineffective and show no signs of improvement.¹³

Admittedly, often the problem is that talent management can defy swift action. It takes careful deliberation about the future direction of the organization. It requires the building of processes and systems, and the gathering of data on your organization's current talent (often with the help of those in multiple departments, functional areas, or business units). And then it demands strategic decisions about who will be developed and how, who will be placed in which jobs, and when they are ready.

But just as action is what matters when it comes to talent management, talk—your visible, verbal support as an articulate advocate, as well as your commitment of your senior teams' time to talent-related dialog—is critical, too. Just as critical, in fact, as your personal investment of time and energy. And, when the CEO is invested and leading the charge—that's the CEO's job, after all—talk begets action. One SVP of HR we have worked with insists that without CEO support, an organization may as well not even bother with talent management. We would add that if the CEO's support isn't known far and wide across the organization, if he or she isn't the “leading voice” when it comes to the importance of talent management, the value of that support will be minimal.

Walking the talk is important but, make no mistake, so is the talk itself. And the whole organization has to see you in action.

((**YOUR ROLE**))

As your organization's lead talent champion, it's up to you to commit yourself and your team to an ongoing dialog that drives unity and focus on current and future business needs. Importantly, you will set the tone for business-focused action by holding people accountable for their talent management roles, and by advocating, measuring, and tracking success. A strong emphasis on outcomes, versus solely focusing on process, ensures that talent management efforts don't get bogged down in an unproductive maze of forms, software applications, and subjectivity—the very foes of action.

You'll also need to facilitate consensus and keep relentless focus on the prize (your organization's vision) to guide decisions that drive talent management across your business.

REALITY CHECK

✓ *How visible is your support for the organization's talent management efforts? Key test: Would your leaders and key stakeholders down through the ranks honestly say that talent management is definitely one of the CEO's top priorities? Likewise, how many of these same stakeholders would describe your senior team as true talent scouts?*

TWO:

Your talent strategy doesn't automatically support your business goals.

Your leadership needs are informed by your business strategy and execution plan, including measures of success. Yet, most companies' strategic business plans don't incorporate an aligned strategic talent plan. This amounts to not thinking through how the business strategy will be executed. You may have the positioning, the capital, and the processes to accomplish the business outcomes you desire, but without the needed quantity and quality of talent, execution simply won't happen. This is especially important as organizations have, in recent years, had to switch gears rapidly, abandoning one strategic path (e.g., aggressive growth, market expansion, acquisition) for another (e.g., long-term cost containment, innovation).

To ensure your business and talent strategy compliment each other, start with the end in mind. Based on your business strategy, what future challenges will leaders likely need to address? What kind of leaders do you need, and how many? (See sidebars on

conducting a talent audit and forecasting a leadership capacity gap, on pages 18 and 19 respectively.) What knowledge, experience, skills, and personal attributes will be critical to their success? (Organizations tend to focus on skills and knowledge, forgetting that more likely causes of failure are inappropriate personal characteristics or experience. DDI's Success ProfileSM approach to defining required leadership capabilities, which is based on a holistic picture of what is required for success, is illustrated in Figure 4.)



Figure 4

DDI's approach to defining required leadership capabilities.

Further, the prescription for success differs for different roles and challenges. For example, based on his track record, James might appear to be well-suited to drive an organizational turnaround in an international operation. But, when the requirements for success in that role are viewed holistically (i.e., inclusive of knowledge, skills, and personal attributes as well as experience), questions about whether or not James is really the right person emerge: Does he have what it takes to deal effectively with the ambiguity associated with a new market in an emerging economy? Or is he better placed

in a different role where more linear thinkers thrive, such as one focused on operational excellence and process synergy (e.g., lean manufacturing, supply chain)? It's only when the full Success ProfileSM for a role is taken into account that you can begin to have meaningful discussions about what is required for role effectiveness.

((YOUR ROLE))

To begin translating your talent strategy into action, work to build consensus about how to mobilize the energy of the organization in a common direction and clarify accountabilities. This can be accomplished through a well-focused, well-facilitated session with your senior executive team. The outcome of this session should be a clear definition of the following elements:

1. **Key strategic priorities (the Whats):** These are the handful of highest impact priorities, which provide focus for people's energy and drive key business initiatives that will expand business, increase market share, or improve profitability—in short, propel your organization ahead of the competition.
2. **Cultural priorities (the Hows):** These are the core organizational values, beliefs, and expected behaviors that define how work is being accomplished, and how employees interact with one another and customers. You will likely have these in place—but are they tightly aligned with strategic priorities?
3. **Business drivers:** These are the broad challenges to which leaders must step up to drive the successful execution of the strategic and cultural priorities (e.g., driving change, penetrating new markets, controlling cost, etc.). They may be common across levels and units; alternatively they may be different in different markets or segments.

REALITY CHECK

- ✓ *Can you articulate your talent strategy and—just as important—how it ties to and supports your business strategy? If not, there's a good chance your business and talent strategy are out of alignment.*

Conducting a Talent Audit

Once the business landscape—strategic priorities, cultural priorities, business drivers—has been articulated, an important question demands your attention: What are the talent implications? Answering this question demands a talent audit, an in-depth evaluation of your short-term and long-term leadership needs, and the quantity, current capability, and potential of your talent relative to the business landscape.

Talent audits typically involve assessment of significant groups or whole strata within the organization (e.g., the top two senior leadership levels), to give a robust evaluation of an organization's capability to execute desired strategy, as well as individual readiness to step up to various leader imperatives (e.g., new market penetration, drive horizontal integration). They provide a solid basis for decisions on restructuring or redeployment initiatives, and may lead you to change your thinking about a strategy's viability and timing (e.g., developing alternate sales channels). Of course, the data they yield is also an invaluable basis for development, whatever decisions around placement might ensue.

Forecasting a Leadership Capacity Gap

By starting with the current quantity of leaders at each organizational level and projecting changes based on factors such as promotions, retirements, and changes in the business over a specified timeframe, you can forecast a future leadership capacity gap. This identified gap helps to define the scope and breadth of the organization's talent management efforts.

Figure 5
Sample leadership capacity gap calculation for the director level.

| Level | Years Projected | | Preliminary Talent Gap | | | Projected Talent Gap | | | Projected Talent Gap after internal sourcing | | | |
|----------|-----------------|---------------|------------------------|-------------------|-------------------|---------------------------------|-------------------|------------------------------|--|--|----|----|
| | Current year | Forecast year | Current Headcount | Planned Headcount | Current Vacancies | % promoted out of role per year | Retire % per year | Resign, Terminate % per year | % positions historically filled successfully through internal promotions | Target % filled through external hires | | |
| Director | 2010 | 2015 | 30 | 45 | 3 | 5% | 4% | 1% | 15% | 40% | 25 | 13 |

“Our ultimate financial results are a reflection of the success or lack thereof of our development program. At the end of the day, what differentiates us from some of our competitors is the quality and capabilities of our people.”

*William Hawkins, COO
Medtronic Inc. (United States)*

THREE:

Talent management isn't (just) succession planning.

Many companies claim that they have a talent management strategy when, in fact, what they have is a contingency plan for replacing those occupying the top slots. Of course, succession planning is a critical component of any talent strategy, but the two are not synonymous.

Companies that are serious about talent management look across all levels and functions—they don't just limit their time and finite resources to succession management.

Their approach is defined by three key distinctions:

1. They balance the focus on “critical” positions and key players (which is often what succession management is about) with broader strategies to support leadership transitions at every level—from individual contributor to leader, to leader of leaders, and so on. In effect, they segment their talent base.

2. Their energy is directed at building a “pipeline” of a ready supply of leaders, rather than matching individuals with a specific future role. Companies that do this well designate “talent pools” of those whose growth they want to accelerate, and whose members are the subject of differential development focus.
3. They are careful not to treat all roles alike. They plan for the future security of “business critical” roles—those roles identified as adding unique value, which may be hard to fill, and where the variability of performance can have the strongest consequences.

If there is one rule of thumb that should guide your talent management efforts, it's this: Your talent pipeline is only as strong as its weakest link. While there's no denying the importance of succession management, successful organizations need effective leaders at *all levels* and in *all functional areas*. If you're weak in one area of the pipeline, it's likely to affect other areas of the organization, as well. Focusing exclusively on succession management precludes this crucial whole-organization focus on talent management, and amounts to choking off the upward flow of your talent pipeline.

Plus, building a strong talent pipeline is the most effective way to mitigate future risk, by ensuring that your organization will have the leaders it needs to address future challenges.

((YOUR ROLE))

Work with your senior team and strategic HR leaders to define the major value-creating roles and areas in your organization—not just the top leadership positions. These will be those on which the execution of your business strategy hinges. Then, again working with HR, determine what will be required to develop the leaders you're going to need for those critical roles tomorrow.

REALITY CHECK

- ✓ *While you might have the effective senior leaders you need for today, where will leaders of tomorrow come from if you aren't strong at the front line? How are you going to deliberately plant the seeds of growth at the front line, and systematically promote their development?*

Don't Forget Mid-level Leaders

While there is a tremendous level of awareness of the need to focus on succession management and high potentials, organizations are increasingly acknowledging the need to develop mid-level leaders. As the critical link between the strategic level and the front lines, mid-level leaders have an important, if overlooked, role in strategy execution. Yet, research shows that they lack the skills to be effective:

- Almost 50 percent of global corporations rate their mid-level leaders as fair or poor.
- 44 percent of senior leaders identify ineffective middle management as the single greatest barrier to achieving company objectives, while 30 percent believe their organization is "paralyzed" by ineffective middle management.
- Only one in four mid-level leaders themselves thinks they are doing a "very effective" job.

(Sources: Bersin & Associates TalentWatch, Fall 2008; Hay Group, 2007; DDI Leaders in Transitions Report, 2008)

To close these gaps, mid-level leaders require level-specific development targeted to their unique roles. Any talent strategy intended to cover the entire leadership pipeline must account for this development.

FOUR:

Your eye for talent isn't that good.

In his book, *Talent is Overrated*, FORTUNE magazine senior editor Geoffrey Colvin introduces us to two young men working in a well-known global consumer products organization in the 1970s, who every afternoon engage in a game of "waste-bin basketball" in their work area.¹⁴

If you had been the CEO of that organization and had rounded the corner one afternoon when they were in mid-game, what would you have thought of these two young men? Would you have pegged them as having what it takes to someday become highly respected and successful leaders? Yet, that's what their future held. Who were they? One was Steve Ballmer, who would become CEO of Microsoft. The other was Geoffrey Immelt, who, with much fanfare, succeeded Jack Welch in the top job at General Electric.

The lesson of this story is clear: Seeing isn't always believing; drawing knee-jerk conclusions about talent can be risky. We've encountered many CEOs who are supremely confident in their ability to spot talent. Still, more are beginning to understand that their eye for talent isn't necessarily as sharp as they once might have thought. Especially when it comes to making selection, development, and deployment decisions that can have huge, long-term ramifications for the company.

This isn't about one's ability to "judge" people. It's about the fact that as organizations have grown more complex and more global, CEOs simply don't get as many opportunities to work with and get to know people like they once did. And those fewer opportunities can provide misleading evidence at best. See a mid-level leader make a dynamite presentation, and you might conclude that she should be tabbed for a senior job in one of your business units. But the truth may be not that she's a leader with exceptional potential, but that she's a gifted presenter. Come upon two guys playing waste-bin basketball, and you could just as easily draw the wrong conclusion about them.

Through its systematic approach, talent management is all about preventing those mistakes. An integral part of that approach is gathering the data required to make accurate talent decisions. That's where assessment comes in.

There are two different reasons to assess leaders: 1) for potential and 2) for readiness (performance, as we will discuss later, is best ascertained by gathering performance feedback). When an individual is assessed for potential, the assessment will look at a number of factors, including: learning agility, receptivity to feedback, and propensity to lead. If individuals display these factors, there is a better chance they will succeed as they move up the leadership ladder.

Assessment of readiness, on the other hand, is done against the Success ProfileSM for a specific role (e.g., CFO, VP Marketing). This assessment provides a prediction or signal that someone is capable of moving into a specific role or position and succeeding.

There is tremendous value in each of these assessments, as they both provide the objective data needed to understand current talent capability and gaps. This is why many highly effective organizations use both, using assessment for potential to focus on growth and assessment for readiness to inform promotion and placement decisions.

Plus, it's far more effective than relying on being able to "spot" those who are ready for key jobs right now or those who can be developed to step into those jobs in the future.

((YOUR ROLE))

Avoid overly simplistic, reductionistic interpretations. Open your mind to the fact that instinct is no guarantee of the right decision. Use the objective assessment options available to support accurate evaluation of—or "due diligence" on—your talent. Check for business focus—what do the outputs of the process look like, and how will they help you make difficult and high-risk placement decisions relative to desired business outcomes? Often, specialist HR consulting firms can help in this area, providing more visible objectivity and scalability.

REALITY CHECK

✓ *Are you given to making talent decisions based on your "gut instinct," or based on criteria such as whether you'd enjoy a dinner conversation with the individual? That isn't always bad, but better is to confirm those gut instincts by gathering comprehensive assessment data—and go against your instincts when the data clearly shows otherwise.*

FIVE:

Potential isn't everything.

One of the biggest overarching mistakes we see CEOs and their organizations make is confusing performance, potential, and readiness. It's important to understand that each has a distinct definition:

- ∴ Performance is how one is performing now in his or her current role.
- ∴ Potential is one's likelihood of leadership growth.
- ∴ Readiness is one's fit with a specific role, job, or job family.

Confusing these three concepts can lead to disastrous decisions about talent. Those who perform effectively in one job won't necessarily succeed in a job at the next level. Those with potential need to be developed. And even those who have been identified as having potential and have benefited from development may still not be ready to take on a challenging role or job.

We spoke to an Olympic gymnastics coach who offered her perspective on what it takes to spot potential in young gymnasts. She looks for traits such as attitude and mental toughness in girls who are still years away from competing at the highest levels. Similarly, in business, when looking to identify those with leadership potential, it's not current performance that matters (though current performance must be the starting point for identifying potential) as much as what sort of leader an individual is capable of growing into in the future.

Unfortunately, just 34 percent of companies feel that they are effective at identifying those with potential to lead early in their careers¹⁵, yet those that do perform better. Common mistakes include:

- ∴ Focusing on current performance alone.
- ∴ Inconsistent criteria.
- ∴ Unchallenged perspectives and opinions.
- ∴ Provincialism—"promote your own" strategies.
- ∴ Singular focus on strengths (no consideration of leadership derailers (see Executive Derailers sidebar below)).
- ∴ Identification without subsequent diagnosis of development needs.



Figure 6

((YOUR ROLE))

Taking into account the critical differences between potential, performance, and readiness, it's your job to make sure your organization is doing an effective job of identifying those with the most leadership potential. Because resources (i.e., time, money, development opportunities) are always in finite supply, you have to be diligent about investing those resources in that small segment of your organization's leaders—typically no more than 10 percent of the leader population—that represents the greatest future payoff for the organization.

REALITY CHECK

✓ *Think of the last five people you, or your senior team, promoted into higher-level leadership positions. How many of those promotions were made primarily based on past job performance? How many of those individuals failed because they lacked the potential and or readiness to excel in the higher-level job?*

SIX:

You believe you have a talent strategy.

But maybe you don't.

We've encountered many CEOs who have worked long and hard with their teams to carefully map "high-potential" individuals to specific future jobs. Because of their efforts, these CEOs tend to be confident that their organizations have a cohesive talent strategy. They couldn't be more mistaken. Think about it: How could such a narrow, static approach—without contingencies or accommodations for the evolving nature of people, roles, or the business—support a dynamic business strategy?

Talent management is not about mapping an able candidate to a specific future job, but strategically enhancing organizational leadership capability on a broader scale.

DDI sees five components as key to spotting and optimizing high-potential talent, and all of these components are part of a strategic approach—a systematic growth engine—that zeros in on the unique decisions associated with evaluation of high performance, potential, and readiness, and takes into account their interconnectivity:

- 1. Evaluating current performance.** As touched upon in the previous section, this means assessing the effectiveness of a person's performance and behavior in their current role, which should be done *before* evaluating potential. We believe that sustained high performance in the current position is a pre-requisite for potential. Of course, current performance is best assessed by managers and coworkers (through a sound performance management process). It also can be gauged using the metrics that define successful performance in a position, such as the revenue goals, close rates, and other measurements that define relative effectiveness in a sales job.
- 2. Identifying potential.** This means determining which individuals have the most growth promise. Who will take the best advantage of and respond positively to differential development opportunities? Who will support the organization's values, and also be able to apply what is learned productively within the organization?

If you can identify potential effectively, you can focus your investment on those individuals who will generate the highest ROI in terms of their ability to grow quickly and broadly. Based

on our experience, the nomination process should focus on the factors that comprise potential, which include Propensity to Lead, Learning Agility, Passion for Results, and Adaptability, among others—which are very difficult to develop (see Figure 7 below). For example, a leader, who we'll call Elaine, may have been overwhelmingly successful in a regional manager role with her industrial products company. However, a holistic assessment, targeted against the Success ProfileSM for a higher-level role profile, showed that she lacked Adaptability, a necessity for placement in an international role—where most of the company's future growth was likely to be. Therefore, Elaine's growth potential was lower than it might have appeared, when based solely on her performance in her current job.



Figure 7

DDI identifies hard-to-develop attributes, most predictive of leadership potential.

3. Creating an Acceleration Pool[®]. Once you have screened for leadership potential, those meeting the criteria are admitted into a “talent pool,” or, more accurately—since the point is that they will be the target of more focused and rapid development—an Acceleration Pool[®]. The beauty of such a pool is that it provides flexibility and, eventually, greater organizational self-sufficiency around your current and future talent needs. It becomes the first port of call when high-value roles need to be filled and special assignments emerge. It also provides a forum for emerging leaders to share experiences and learning as well as group development focused on the business.

Larger companies operate such a pool at several levels, and sometimes even within functional areas (e.g., IT or finance). It is not, however, an elite club; sustained performance is the only continued pass in, and participants need to understand and reciprocate the commitment the organization is making. As such, it is a powerful retention tool.

4. Assessing readiness for leadership transitions. A vast array of assessment tools exists to help make subjective decisions. Each has different strengths and needs to be applied discerningly, according to the needs of the business and seniority of the level or role, to help you and other stakeholders make better talent decisions. Of course, past performance appraisals can be a good starting point, but they provide insight in relation to current, rather than future, roles. Likewise, a 360° survey focusing on others' perceptions of one's performance in a current role is a powerful diagnostic for development, but isn't predictive in selection decisions. Here, simulations work better because

they allow more objective observations and evaluation of promotional candidates as they “test drive” a stretch (future) role that they have not previously held. A “day-in-the-life” behavioral assessment, giving candidates opportunities to interact in a variety of scenarios and make decisions under pressure, is one such example. Behavioral assessment also is proving valuable in measuring the competencies and personality traits that have come to the forefront as being important during the economic downturn. Assessment can identify those leaders at risk for failure as their organizations have moved into uncharted waters.

For senior leadership assessment, personality inventories complement behavioral data because they reveal styles, tendencies, and potential derailment risks. Personality data can also help explain surprising observations or aid predictions of whether an individual has the orientation to make certain types of role shifts, for example, from an operational to a strategic role.

- 5. Accelerating development.** After assessment, a robust, actionable development plan is needed for individuals to bridge the gap between their current strengths and growth areas, and their readiness for a future role. The development priorities that must be the foundation of a plan need to focus on both the individual’s growth areas or strengths that match what the business needs of its leaders, their own role requirements, and their personal goals and objectives. Ideally, assessment feedback and development planning will offer insight and focused strategies that target all three facets.

DEVELOPMENT PRIORITIES

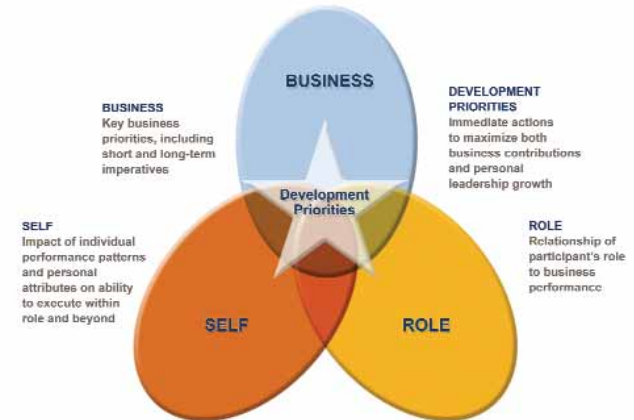


Figure 8
High ROI development activities sit at the intersection of business, role, and individual needs.

Development may be in the context of a new job assignment (i.e., on-boarding after a selection has been made), in preparation for a possible promotion or new assignment (i.e., in the case of future success or in-place development), or in structured training for fundamental leadership skills as leaders reach new career passages. Executive development will need to be more individualized than at lower levels, where classroom skill-based training can be extremely effective. For mid- and executive-level leaders, group leadership programs can be especially valuable, particularly when you are driving a business model shift or cultural transformation (e.g., becoming more customer driven through innovation). Programs for executives typically are designed as more of a “learning journey,” complemented by self-insight tools, experiential exercises, and action learning—with peer networking and executive mentoring built in.

In any context, though, you need rigor in how development is executed if it is truly to become part of the ethos of your organization. This is especially true of the acceleration of high-potential leaders, where development progress is a key measure of the success of your talent management system.

((YOUR ROLE))

As having an executable talent strategy goes far beyond identifying specific individuals who will eventually step into your key roles, the CEO's various roles are equally multifaceted.

When it comes to evaluating current performance, your role is to model and champion management focus on:

- :: Defining clear performance expectations and measures which can be easily cascaded down.
- :: Committing time to managing performance (observing, coaching, giving feedback) such that this data is current and readily accessible across the organization.
- :: Balancing considerations of assessment results with behavior.

While you should always be on the lookout for those with potential in your organization, you also need to ensure that you have structured pools for systematically identifying, developing, and deploying talent. You need to be an active contributor to the talent review discussions through which pool participants are selected. You also need to promote rigor and challenge so that selections into the pool truly represent your company's best bets.

To make your acceleration pools successful, your strongest contributions can be to:

- :: Take personal ownership of the "C" level acceleration pool (those who have potential to succeed to your senior team). Drive creative opportunities for your senior team to gain exposure to prospective candidates—through special assignments, executive committee presentations, etc.
- :: Know who's in other pools and why, and meet as many acceleration pool members as possible.
- :: Be an active and engaged sponsor of development initiatives for leaders across the pipeline.

When it comes to assessing individual readiness, leverage the expertise of HR to create the right mix of tools for your purpose and budget. Once these tools are in place, take the lead in understanding and applying the data they produce to underpin your talent decisions.

Finally, keep in mind that one of your most important roles is that of chief coach and teacher. In addition to coaching your direct reports, leading a talent management strategy means getting involved with leaders further down the organization as a scout, a mentor, and a model for your vision of leadership.

REALITY CHECK

- ✓ *Do you know, without a doubt, who your successor will be? If you know, maybe the truth is that you don't know enough about your organization's high potential leaders. Ideally, there will be multiple people, each with a unique set of strengths and qualifications, who could step into your job some day.*

Conducting a Strategic Talent Review

One of the most important benefits of an executive assessment center is the ability to leverage the data and insights gathered on participants to make scenario predictions about how best to deploy talent in the organization. The structured process for forming these scenario predictions is the strategic talent review.

In a strategic talent review, the senior team, led by the CEO or an HR executive acting as a facilitator, looks at various scenarios for the future of the business, and evaluates the readiness of the organization (as a whole) to meet business priorities (e.g., moving from an acquisitional to an organic growth strategy). The senior team then examines, and discusses, in depth, a short list of high-potential leaders to determine either their readiness for target roles or what development they need to get ready. For each leader, considered are his or her education and knowledge level, experiences, and accomplishments. Also considered are the data and insights gathered during assessment. This evaluation of individual readiness with respect to target roles is important, especially given the formidable challenges that leaders typically encounter when transitioning from one leadership level to the next (e.g., moving from an operational role to a strategic role).

For example, let's look at the fictional example of Jorge, a senior director in the generics division of a pharmaceutical company. In a relatively short time with the organization, Jorge has also held the positions of director, risk management; operations director, med-surgical; and senior analyst, corporate finance for Asia—and he has been highly effective in each of these roles. His education background includes a bachelor's degree in engineering, an MBA, and a supply chain black belt certification. Among his key accomplishments are helping to negotiate a successful \$200 million acquisition.

During a strategic talent review, the senior team considers Jorge's knowledge and experience alongside the data and insights gathered during an assessment center. The assessment report snapshot (Figure 9) shows that he is proficient in 11 of the 13 target competencies and is strong in two, Empowerment/Delegation and Driving Execution. This snapshot view also shows both his positive personal attributes (Ambition is an identified strength) and those executive derailers that could lead to failure (Risk Averse, Arrogant, and Attention Seeking). Finally, the report summarizes his strengths to leverage, his growth areas, and the performance implications (the job challenges in which he is likely to excel or struggle) (Figure 10).

In addition to Jorge, the team also takes a similarly in-depth look at other high-potential leaders and makes decisions about who is ready to step up and where, who needs more time, and what they need to do to grow.

What we have found to be most interesting and, therefore, most valuable about a strategic talent review is that the outcomes are often surprising, both at an organizational and, especially, at the individual level. When individuals are examined in depth and alongside others, they may prove to be a better—or poorer—fit with a targeted role than was previously assumed. As a result, better, more accurate talent decisions are made.



Figure 9

Outputs of in-depth assessment give you the critical data needed to make successful talent decisions.



Figure 10

Assessment data also helps to determine development priorities and support crucial placement decisions.

“The best kind of development is putting someone in a job that tests them where they haven’t been tested before.”

*Michael Critelli, CEO,
Pitney Bowes (United States)*

SEVEN:

A team is more than the sum of its parts.

Since you're the CEO, you no doubt hold firm to the belief that your organization strives to hire only the best people. When it comes to your team, you personally make sure of it. But in defining “best,” do you mean best fit with both the job and your team? You should.

As with any business decision, the broader context within which promotion or selection decisions take place has a major bearing. Too often, “the best player for the play” is chosen for a job, without regard to whether this is also the “best player for the team”—and this isn't necessarily the same person. It can be hard enough finding someone with the right blend of attributes for the role, without adding the filter of how their personal characteristics, strengths, and weaknesses will compliment the group they're joining, but failure to assess and explore this dimension is at the root of much sub-optimal team and individual performance. Most organizations we know also want to build diversity (to reflect their customer base, to bring in new ideas, to enhance cultural expertise, etc.) when they appoint people to a team, so seeking differences as well as obvious “matches” is advised.

What happens when a team is overloaded with individuals with like strengths or skills areas? Consider what would happen if everyone on a senior team is entrepreneurial, and always looking ahead to

and excited about the next best opportunity. Lacking pragmatists, who then from this team will be able to focus on execution? Similarly, what if everyone on a team is risk averse? How able will the organization be to capitalize on new opportunities, where success is far from assured?

((YOUR ROLE))

When making a hiring or promotion decision, ask yourself both questions—is this person the right fit for the role? AND is this the best person for the team? Remember that if the answer to the second question is “no,” then this is also likely to become the eventual answer to the first. Do you know how to ensure that you will enable desirable differences to drive positive synergy—or will you let those differences dissolve into dysfunction or conflict? Of course, driving positive synergy requires insight around both incumbents and new individuals introduced into the team. If you have inadequate data, seek the support of others who do, or HR, who will be able to provide a range of tools to bring some rigor to your thinking.

REALITY CHECK

✓ *Are you spending an inordinate amount of time on interpersonal issues within your team? If so, you know the implications. But also consider the lost time and productivity down through the entire organization when your culture reinforces hiring “stars” over those who are truly the best fit with their job and their team.*

EIGHT:

All leaders should be responsible for developing their people—and they need the skills to do so.

Do you think that all of your leaders are “talent advocates?” After all, that’s what’s expected of them, right? Think again.

Our data on over 1,000 senior leaders shows that developing and championing talent is one of their weakest areas. In fact, the reality is that many mid-level and senior managers struggle with the idea of development as being anything but remedial. They may have by-passed key career transitions, which have left important leadership skill deficits, yet fail to prioritize—or are even dismissive of—training opportunities. Leaders like this tend to focus on correcting “weaknesses” rather than capitalizing on each person’s unique talents. It has been said that these leaders are successful despite, and not because of, their deficient skills.

But if every people leader has the skills to scout for “high potentials,” has meaningful performance discussions and coaches for success, builds creative development plans and makes effective hiring/promotion decisions, talent management processes will have momentum of their own. For this, managers need enlightened role models—beginning at the top. Beginning, that is, with you.

Experience and research into how best to create measurable results from development has led us to eight principles for success, which apply from the CEO on down:

1. *Accurate diagnosis is the first step in effective development.* It builds commitment to change and enables you to target development activities to high priority individual or group needs.
2. *Ensure development is tied to where your business is going—now and in the future.* The “sweet spot” is where this aligns with an individual’s job role and career aspirations.
3. *Developing talent needs to represent a balance between fixing weaknesses and leveraging strengths.* Changes in leadership style are hard to come by. Give leaders the opportunity to shine in what they do best while working on just a few development needs.
4. *Prioritize potential.* While everyone in your organization should have opportunities to build their skills/knowledge, precious resources must be concentrated on those in value-creator positions with the highest potential.
5. *Effective development requires a blend of activities including mentoring, classroom learning, coaching, job assignments, action learning, etc.* Combine these activities to best fit specific development goals and accommodate individual learning styles.
6. *Do not underestimate the role of management support.* It’s not just about leaders modeling the same behaviors they expect to see in their people. It also requires managers to spend time planning, reviewing, and re-focusing the development of their people, and recognizing their achievements.
7. *Creating learning tension will maximize your return.* Is there a tight link between learning a new skill (or new knowledge) and applying and measuring it on the job?
8. *Developing others becomes a measurable management performance objective.* What’s key here is creating process tension. Mentors and leaders need to be held publicly accountable for development progress. This open comparison of results ensures that championing development becomes a part of the “day job” at all levels of leadership.

((YOUR ROLE))

As CEO, insist that HR has a proper system in place to develop talent management skills in leaders at all levels. Beyond this, your personal investment will have the most significant impact:

- :: Use every opportunity to participate in off-sites and learning sessions with your leaders of the future.
- :: Make time to introduce and contribute to these events with your knowledge of the business and stories of pivotal points in your own career. If need be, your presence can take the form of a pre-recorded video.
- :: Engage your Board in these activities.
- :: Ensure that you hone your own coaching skills and prioritize time to evaluate the performance of and coach your immediate team.
- :: Demonstrate your own commitment by getting involved as a mentor with a handful of stars from further down the organization. You will learn as much as your mentees!

REALITY CHECK

- ✓ *Does it seem that you have many managers destined for great things in the organization who then don't develop as you need them to? One reason may be that they aren't getting the support, development opportunities, mentoring, and learning tension required to perform and grow to the next level. These are critical elements that skilled leaders can—and need to—provide.*

“I tell people that I wouldn't be in my job today if I hadn't been the beneficiary of a process that was conscientious in helping to develop me, to get me the right experiences, to help me to develop as a person and as a leader. So I've become very passionate about making sure that in an organization as big as we are, we have visibility and transparency to people at all levels.”

*William Hawkins, CEO,
Medtronic Inc. (United States)*

The Importance of Measurement

Measurement facilitates management. That's as true in talent management as it is in sales, production, customer service, or any other area of an organization where performance and effectiveness can be quantified. Surprisingly, though, measurement is not always part of an organization's talent management approach. We say surprisingly because of this fundamental question: How can organizations improve their talent management initiatives, and recognize if their talent management investments are producing returns, if they don't know what's working and why?

What do organizations need to measure? Examples of valuable measures of talent management effectiveness include individual job performance, and the business impact of a talent management initiative.

It's the CEO's job to instill a measurement mindset in your leaders and HR professionals with key talent management roles. Insist that measures focus on impact—especially impact on the business.

Both lead measures (those related to talent management process) and lag measures (outcomes) need to be part of your organization's talent management measurement discipline. (See Appendix A for extensive lists of common lead and lag measures.)

“This mentoring is what I do as an important part of my job. I've created other CEOs. I want to help people reach their potential, and if someone's not reaching it, I want that person to know what's preventing him from reaching it.”

*Shiv Nadar, Founder and Chairman,
HCL Technologies Limited (India)*

SECTION : FOUR

A ROADMAP FOR SETTING YOUR TALENT STRATEGY IN MOTION

Knowledge and recognition of the critical roles you play as the CEO are necessities for your talent strategy to be successful. But, of course, it's the execution of your talent strategy that ultimately matters.

The following talent roadmap represents the key steps that define an effectively executed talent strategy:

- 1. Create your vision.** Clearly define the talent capital you need—now and for the future—to support your organization's strategic and cultural priorities.
- 2. Based on your organization's business drivers, articulate crucial leadership requirements.** Determine what it will take for your organization to succeed over the next 3-5 years. What are the key challenges (business drivers) that leaders must face to successfully execute on your priorities?
- 3. Identify high-potential leaders.** Identify those leaders in your organization who demonstrate the highest promise to be great leaders.
- 4. Assess readiness and select talent.** How do you know who's ready for a key role—and who's not? Gauge readiness of leaders to assume leadership roles in your organization. Leverage the assessment and selection data you collect to make successful hiring and promotion decisions.

5. **Accelerate development.** Determine and deliver the right mix of experiences aimed at developing your senior executives and high-potential leaders.
6. **Deploy talent.** Decide how you will deploy your talent. At the end of the day, the ultimate objective is to determine who will have the highest probability of achieving your vision and executing successfully against your business and cultural priorities.
7. **Ensure alignment and accountability for performance.** An important axiom suggests “you can’t manage what you don’t measure.” So actively manage and track performance metrics—across balanced scorecards, performance management practices, and day-to-day coaching. Maintain a balanced focus on both classical revenue growth and profit indicators, AND talent growth and ROI on development investments.

“When you’re thinking about leadership, it’s important to think about everybody in the organization, not just succession planning starting at the most senior role.”

*Tom Wilson, CEO,
The Allstate Corp. (United States)*

IT’S AS SIMPLE AS THIS.

No one in the business is going to remain focused on something they don’t believe you’re watching. Ensure you attend regular reporting and progress updates, reviewing the key metrics associated with the project. **You need to be your organization’s Chief Talent Advocate.**

Your HR team can help you isolate people-related metrics and consolidate tracking information, which is the day-to-day responsibility of your managers to gather and report. Other indicators will be tied to existing metrics such as customer satisfaction, retention and loyalty, cycle times in manufacturing, or market share in a service environment. During major change or growth, it’s both simple and face-valid to link measures of speed-to-outcome to talent management effectiveness. Whatever you do, find and communicate measurement criteria to your leaders at all levels so that they have a personal stake in talent management execution.

All quotations cited come from The CEO’s Role in Talent Management—How Top Executives From 10 Countries Are Nurturing The Leaders of Tomorrow, The Economist Intelligence Unit with Development Dimensions International, May 2006.

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ABOUT DDI

For over 40 years, DDI has helped the most successful companies around the world close the gap between where their businesses need to go and the talent required to take them there.

Our areas of expertise span every level, from individual contributors to the executive suite:

- :: Success Profile Management
- :: Selection & Assessment
- :: Leadership and Workforce Development
- :: Succession Management
- :: Performance Management

DDI's comprehensive, yet practical approach to talent management starts by ensuring a close connection of our solutions to your business strategies, and ends only when we produce the results you require.

You'll find that DDI is an essential partner wherever you are on your journey to building extraordinary talent.

Take a closer look at www.ddiworld.com/talentmanagement.

Appendix A

LEAD MEASURES

- Success profiles completed for value-creator positions
- Early high potential identification process in place
- Regular audit of talent against future business requirements
- Implementation of acceleration pools for value-creator roles
- Development plans created and in place for value creators
- Selection and promotion systems based on success profiles in place and used
- Retention/engagement discussions held with key value creators
- Strong performance management systems in place and used
- Manager accountabilities tied to effective talent management
- Increased job satisfaction and engagement ratings
- Increased perception of growth opportunities within the company
- Increased percentage of value creators/high potentials completing plan
- Executive review board established with clear roles and responsibilities
- Value creators/high potentials perceived value of the acceleration pool process
- Percent participation in learning and development activities
- Positive development impact measures

LAG MEASURES

- Talent engagement scores
- Percent of internal vs. external hires
- Decreased labor turnover
- Time required to fill critical positions
- Percent of goals completed by associates and value creators
- Cost per hire
- Relationship of talent engagement scores to execution
- Increased percentage of high-potential retention
- Increased percentage of leadership diversity
- Increased performance against strategic leadership roles
- Decreased percentage of external hires for key positions
- Decreased percentage of positions without ready successor
- HR strategic value-creation ratings
- Return on investment from action learning programs

Footnotes

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