

# **The CEO's role in talent management**

How top executives from ten countries are nurturing the leaders of tomorrow



A paper by the Economist Intelligence Unit  
in co-operation with Development Dimensions International (DDI)



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### Preface

*The CEO's role in talent management: how top executives in ten countries are nurturing the leaders of tomorrow* is an Economist Intelligence Unit white paper, in co-operation with Development Dimensions International. DDI is a global human resources consulting firm specialising in helping multinational organisations identify and develop exceptional leadership talent.

The Economist Intelligence Unit bears sole responsibility for this report. The Economist Intelligence Unit's editorial team conducted the interviews, wrote and edited the report. The findings and views expressed in this report do not necessarily reflect the views of the sponsor. James P. Rubin is the author of the report.

Our research drew on desk research and in-depth interviews with CEOs and COOs across a range of industries. Our sincere thanks are due to the interviewees for their time and insights. We would also like to thank Lucy McGee and her team at DDI for their support during the research process.

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## Executive summary

### The CEO's personal priority

The management of a company's pool of talent is now too important to be left to the human resources (HR) department alone and has become the responsibility of the top executive. This is the main finding of a study by the Economist Intelligence Unit in co-operation with Development Dimensions International (DDI). The study consists of interviews with 20 corporate leaders. All 20 corporate leaders interviewed for the study said that talent management is their responsibility. Of the 18 chief executive officers (CEOs) and two chief operating officers (COOs) interviewed, seven say they spend 30–50% of their working time on talent management, and a further seven executives estimate their time commitment to be about 20%, a substantial percentage, given a top executive's crowded agenda.

The remaining executives say it is a priority and either spend 5–15% of their time on talent management or could not provide a time estimate. In the words of Tom Wilson, the COO of Allstate Corp.: "The most important thing I have to worry about is people." And John Swainson, the CEO of CA Inc., says: "I would say on a long-term basis, as the CEO, I have primary responsibility for the issue of organisational health and ensuring that the management team remains vital, relevant and refreshed, and that we create a process to nurture and facilitate our own succession. That is one of the two or three most important things that a CEO must do."

Almost all the companies whose senior executives were interviewed generate at least US\$1bn in annual revenue and possess strong brand recognition. They cover a broad cross-section of industries, including

### The main points

- Chief executive officers (CEOs) are increasingly responsible for, and involved in, talent management. The heads of human resources departments play an important, supporting role in executing talent strategy.
- CEOs spend a large amount of their time—often more than 20%—on talent management. However, this effort is not typically guided by a formal talent strategy explicitly linked to the company's overarching goals or embedded in the business planning process. Rather, CEOs engage in selected supporting activities where they believe they add value.
- Talent management has become more important because of a growing recognition that it helps to drive corporate performance, even though the exact impact is hard to quantify.
- Good talent management is not undertaken in a piecemeal fashion but consists of comprehensive development programmes. These include the identification of leadership potential, performance evaluations, targeted development activities and job experience.
- Many CEOs mentor executives in their organisations—an additional and important part of the programme. They regard the development of the next generation of leaders as one of the best ways of leaving a strong legacy.

retail, manufacturing, financial services, energy, technology, consumer goods, real estate, consulting, pharmaceuticals and medical devices. The 20 corporate leaders interviewed are located in ten major industrial countries, including the US, the UK, Japan, Australia and India. The firms include CA (formerly Computer Associates) of the US, which was founded just 30 years ago, and the Co-operative Group, a UK-based conglomerate with roots in the mid-19th century. One company, Johnson & Johnson China, is a subsidiary of the New Jersey-based pharmaceuticals giant. Two



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others are respectively units of the Swiss-based Bossard Group, a maker of fasteners, and US-based Delphi Corp., a provider of mobile electronics, technology and transport components (see corporate leaders' profile box).

The executives come from diverse backgrounds. Mark Zesbaugh, a former chief financial officer and accountant, was just 37 in 2001 when he became CEO of Allianz Life Insurance Company of North America, a division of Germany's Allianz Group. Shiv Nadar founded the Indian company he leads, HCL Technologies, in 1991. Lars Josefsson of Vattenfall of Sweden had previous CEO experience and was an engineer by training. Cindy Lau, the only woman in the group, became the managing director of Johnson & Johnson China a year ago, after 11 years as head of marketing at her company.

### Key features of CEO-led talent management

Despite the variety of backgrounds, all the interviewees share a similar understanding of the importance of talent management in identifying and grooming employees at all levels of the company so that they can rise faster up the corporate ladder. Talent management consists of many elements including performance evaluations to identify potential; psychological testing and assessment centres to determine capability gaps; training and development programmes, relocations, project work and job experience to accelerate development.

However, few of the executives appear to have a strategic approach to talent management of the same rigour as other business planning processes. One who does is Martin Beaumont, the CEO of the Co-operative Group, who sets clear targets. The Co-op wants to generate about 70% of its promotions from internal candidates; at present, the company uses headhunters

to find about 80% of its executives.

All of the firms evaluate executives annually or more frequently using scores and documenting the outcomes. CEOs hold follow-up meetings to discuss results and determine what programmes and job experience their subordinates need to improve their weaknesses. HR advises on what programming is most appropriate from a range of options, including off-site retreats, classroom and Internet learning, executive coaching and formal mentoring. Most of the executives mentor their direct reports and others on a more informal basis.

Good talent management promotes people based not only on their performance but also on the manner in which they have made their mark. "If I have a leader who's getting results but is damaging the organisation because of the way they've achieved results, that's not okay," says Mr Zesbaugh. And Robert Care, the CEO of Arup Australasia, a division of Arup Group, remarks: "If their [employees'] attitude isn't strong about the culture, ultimately that will undo you."

Talent management was traditionally the domain of HR and the role of the CEO and COO was intermittent and distant. Two factors largely account for increased CEO involvement in the past few years: the shift in focus towards intangible assets such as talent, and increased board scrutiny in relation to both ethics and performance. Now it is a strategic necessity for these executives not only to keep abreast of the latest developments in the company's talent programme but also to plot strategy, own associated initiatives and regularly participate in events related to talent management.

"The competitive advantage of any company comes from excellent execution," notes Maarten Hulshoff, the CEO of Rodamco Europe. "The execution of strategy is driven by the behaviour of the leaders." Says Thierry Porte, the CEO of Shinsei Bank in Japan: "Very specifically [my responsibility] is to be working with the senior team in developing their capabilities but also to assist them in coming up with ideas,

**"If their [employees'] attitude isn't strong about the culture, ultimately that will undo you."**

Robert Care, the CEO of Arup Australasia, a division of Arup Group.



concepts, procedures, policies to develop their workforce all the way through the organisation. It is one of the most important things that I can do.”

### Driving competitive advantage

The leaders in this paper say, in a nutshell, that talent management is a source of competitive advantage. They find that talented executives plan and execute strategy better and create a positive work environment. They believe that good talent management leads to greater productivity, and even faster revenue growth, although the exact impact is hard to quantify. “We’ve been able to show that there’s a definite correlation between high leadership scores on our leadership scoring process and success,” explains Ken Glass, the CEO of First Horizon National Corporation. “We have a whole lot of confidence that that’s just not soft and fuzzy stuff. It’s performance related.”

Mr Zesbaugh backs this up: “Our ability to execute is a direct function of a performance culture that we have in place.”

According to the interviewees, developing their most senior executives is especially important. If these leaders have the right skills and experience, their direct reports and middle managers below them will thrive.

“Our ultimate financial results are a reflection of the success or lack thereof of our development programme,” admits William Hawkins, the COO of Medtronic. “At the end of the day, what differentiates us from some of our competitors is the quality and capabilities of our people.” Medtronic’s sales have increased from US\$6.4bn to US\$10bn between 2002 and 2005, and net income has almost doubled from US\$984m to US\$1.8bn.

The executives interviewed say that good talent management increases job satisfaction and improves retention rates. The latter is particularly challenging in Asia where, according to regional CEOs, competition for strong managers is fierce.

It is expensive to recruit and train new executives and estimates of the cost vary widely. Wayne Cascio, the U.S. Bank Term Professor of Management at the University of Colorado, Denver, says the cost of hiring and training an executive is about twice the recruit’s annual pay. Some executive recruiting firms believe the cost is closer to 150%. Others estimate that it is even higher. These estimates include the cost of lost productivity while positions go unstaffed and new executives learn their jobs—which may take up to a year. Mr Swainson explains: “Companies that have strong management development and succession processes in place tend to have smoother transitions. When executives move on to other roles or leave the business altogether, that ultimately has a cost. Companies with sound talent management don’t wind up paying headhunters. But business continuity is the most important reason for strong talent management. The fact that people are prepared to move into positions rapidly and can assume those positions is an important thing.”

Yet it is becoming more difficult to keep people — this is the response of all 20 corporate leaders interviewed for this study. Employees who feel that their career path is blocked are more likely to leave and these employees have an increasing number of companies from which to choose. “People need to be lifelong learners,” says Scott Erker, the senior vice-president of selection solutions for DDI. “Companies have to provide them with opportunities to learn and develop and to further their careers without organisation-hopping. It is important for creating a positive work environment and full engagement.” Meanwhile, increased pressure to deliver results is already shortening tenures. “The one thing that I probably underestimated was the short-term focus that public companies now have to deal with in terms

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of Wall Street," admits Bill Zollars, the CEO of YRC Worldwide. "I knew it was crazy, but I had no idea how crazy it actually is. It's really gotten to the point where long term to most analysts is next week."

**"Talent management is about making sure that you have the right people in the right places for both themselves and the organisation."**

Michael Wilkins, the CEO of Promina.

The result is that organisations are paying closer attention to training and job assignments, creative changes in responsibility or an accelerated career track that may keep aspiring or existing executives in their positions longer. "If you're developing a leader pipeline, you are helping to empower the individual," replies Sharon Allen, the chairman of Deloitte & Touche USA. "In the end, it helps retention."

In fact, talent management is so important that some firms are even tying compensation to it. At least one-half of the firms interviewed cover employee development in annual performance reviews that determine pay increases. First Horizon National Corporation, for example, calculates part of its senior leaders' bonuses on their ability to meet certain development goals. They must provide training and assignments for their most promising managers and report to the board on their progress.

### The hands-on CEO

In the wake of legislation over the past five years requiring board members to scrutinise their companies more carefully, boards themselves have become involved in talent management. In most of the companies in the study, directors expected the CEO or COO to take charge of talent management and to update them regularly on individual executives. Mr Zollars has allocated as much as 40% of board meetings to talent management, and some of the executives wish they could spend more time on talent management. Other executives regularly discuss talent management both at formal meetings and in more casual settings. "People follow behaviour more than they do strategy, and leadership is about

mobilising behavioural change," says Mr Hulshoff.

The CEOs and COOs interviewed oversee the company's talent management activities. They carve out specific times to discuss talent management with senior staff and their boards but also refer to the topic at regular meetings. The amount of time they spend on talent management can sometimes be considerable. Messrs Hawkins and Care say they spend about 50% of their time on talent management; Majdi Abulaban, the managing director of Asia Pacific Delphi Packard, Electric Systems, and Mr Nadar and Mr Beaumont say they allocate about one-third of their time to this. "[Talent management] is about making sure that you have the right people in the right places for both themselves and the organisation, and needing to make sure that you as the chief executive are taking responsibility for the development of your leadership talent," adds Michael Wilkins, the CEO of Promina of Australia, an insurance company. "It's one of the best legacies that you can leave any organisation."

All of the interviewees regularly evaluate their direct reports as a basis for top-level talent decisions, often with written performance evaluations. Their companies conduct at least one lengthy formal assessment of top executives each year. The reviews combine written feedback and a scored section covering several leadership categories. Johnson & Johnson China measures people in several areas. Medtronic uses a similar rating system. Allstate asks employees to assess their managers in a quarterly survey.

All 20 executives interviewed for this study personally participate in at least one activity intended to develop talent, including off-site retreats and leadership programmes. Colin Reed, the CEO of Gaylord Entertainment, addresses small groups of incoming executives and meets them individually. Mr Hulshoff, facilitates group leadership exercises and speaks on strategy at these events. Ms Lau signs one-year contracts to help three promising executives at a time. Mr Porte, who meets regularly with executives,



plans to teach a weekly leadership class that will run 8-12 weeks and would like other senior executives to do the same. Michael Critelli, the CEO of Pitney Bowes, attends forums where employees of the provider of business machines ask executives to respond to even the most controversial topics. Mr Critelli says these meetings allow him to see how well his executives communicate with their employees.

Most of the interviewees acknowledge the role mentors play in the development of their own careers. All of them mentor subordinates one or more levels down the organisation. A number of executives help their subordinates to address pressing issues and provide career advice. "With mentoring, I'm looking at the people in terms of discussing their job content, discussing what to do next month and evaluating what they have done," notes Mr Hulshoff.

In other cases, mentoring overarches immediate job challenges and helps mentees navigate the organisation. Ms Lau held two one-on-one conversations late last year to persuade a talented executive to remain with Johnson & Johnson. The executive had received an offer at a higher salary from another firm before Ms Lau persuaded her that job satisfaction and opportunities for promotion were more important. The executive is now in line to fill one of Ms Lau's seven senior jobs.

But much of the involvement of top executives in talent management occurs on an ad hoc basis. All of the interviewees say they are available to their direct reports and executives well below that rank for casual coaching conversations about business issues and career decisions. At Pitney Bowes, Mr Critelli takes questions at his company's forums. Executives at HCL Technologies occasionally stop by Mr Nadar's office to confer with him about business problems. At Delphi, Mr Abulaban uses a conference room as an office so he can meet with groups more easily. Mr Care at Arup holds question-and-answer sessions at his company's eight offices and meets managers individually. "A lot I would characterise as me sitting with individuals, the

people that report to me in a wider leadership group and talking to them about how things are done, matters they're dealing with and how they might address them, do better," he explains. "To me that is all part of leadership training." Mr Glass of First Horizon answers e-mails from executives seeking career advice. Mr Hulshoff at Rodamco Europe likes to share ideas with executives and outside leadership consultants over a glass of wine.

### Tying talent to overall strategy

The interviewees say talent management must be aimed at supporting their overall business strategy. Rodamco Europe recruits and develops executives who can manage rapid growth. The company has been aggressively acquiring shopping centres in major European cities. Gaylord and Allianz seek to promote people obsessed with customer service. First Horizon requires managers to be strong at execution. "A lot of people have the same strategies we have but we do better in some businesses than our competition because our managers are very good at execution," states Mr Glass. Inchcape, a UK-based automotive distributor, has different leadership strengths in different countries.

The trend is that CEOs realise that one constant style of leadership does not meet all necessities. The type of talent must align with the direction in which the business is heading. In a few cases, executives help to design and drive a strategic approach to talent management which links to the wider goals of the business. Johnson & Johnson's method is among the most systematic, designed to support rapid expansion, and starting with selecting the best recruits: "The J&J strategy includes first how we expand the pool of talent from recruitment, second how we can expand the competency of the existing talent, and third is the retention of talent," explains Ms Lau.

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Maarten Hulshoff, the CEO of Rodamco Europe.



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A company's needs will change with time, too, as business strategy shifts. One of Mr Glass's predecessors excelled at formulating strategy but another was better on the people side. Mr Glass had more of a financial background. "Every leader takes that leadership position at a different point in time in a company's development and so different qualities are needed," he says.

Mr Zesbaugh says Allianz Life's parent company, the Allianz Group, has been making a more concerted effort to have an internationally diverse group of executives. Allianz Group has companies and offices in 70 countries. Some firms have been trying harder to incorporate more women and minorities into their leadership ranks in order to service increasingly diverse customers. Nevertheless, as shown by this collection of interviews, organisations have a long way to go in this area. The glass ceiling may have some cracks, but it is not yet shattered.

### The importance of succession

All of the executives interviewed say that succession planning is a crucial part of talent management and that transparency in this regard motivates employees to perform at a high level, thereby fostering stability.

**"Empowering is something we do very well. I see my role as how do I create multiple CEOs within the organisation."**

Shiv Nadar, the CEO of HCL Technologies.

"You need to be able to justify and communicate to people why they are on a list or not on a list. If you articulate why you have the views that you do, you lose fewer people," responds Mr Care.

According to most of the interviewees, firms that allow workers to languish without hope of advancement could lose them. About four in five of the Co-operative Group's senior executives were recruited from other organisations. Mr Beaumont found that ratio unacceptable when he became CEO in 2002 and has overhauled the company's talent management approach. Bob Rogers, the president of DDI, says companies are focusing more on succession partly because of pressure from

investors. "You don't want the investment community to think there's a lack of potential successors."

Consequently, all the firms had multiple succession plans to address different levels of leadership. All but one could identify their potential successors now and several years into the future. All could name potential replacements at other key positions. "Empowering is something we do very well. I see my role as how do I create multiple CEOs within the organisation," says Mr Nadar of HCL Technologies.

### A strategic role for HR

As talent management has grown in importance in recent years, so has the role of HR departments. This is positive news for senior HR professionals who have long been seeking greater involvement in matters of strategic importance. All of the interviewees say that HR departments are responsible for executing talent management strategy, being custodians of the talent management process and often provide guidance and fresh thinking about talent management programmes. They coordinate recruiting, help set job goals and compensation, introduce new development programmes, as well as monitor and report on individuals' progress. Allstate's head of HR vets candidates for leading executive positions and has a voice in selection.

Mr Zesbaugh expects HR to track talent management trends and programming at other companies. "I don't always have the luxury of seeing everything. What I look to them to do is come up with innovative ways to move our leadership to the next level." At Arup Australasia, HR serves as a sounding board for employees about development and their careers. Shinsei Bank works with a chief learning officer.

All but one interviewee say their director of HR is part of their inner circle, along with C-level executives. At YRC Worldwide, the head of HR is "my consigliere," says Mr Zollars.



### Accelerating leaders' development

The firms interviewed provide increasingly structured opportunities for executives to improve their leadership acumen through formal programmes, often off-site. Pitney Bowes conducts week-long retreats for vice-presidents. The events cover strategy, execution and personnel issues. Inchcape has created a leadership academy with Loughborough University in the UK. Executives may even pursue an MBA at the school. Medtronic designs its own curriculum for two- and three-day training events. It will soon require its leading executives to spend three separate weeks at different business units each year.

Asia Pacific, Delphi Packard Electric Systems sends senior executives to a two-week programme created with the University of Michigan and other shorter programmes. "As the executive progresses in the organisation from one level to another we have them go through specific leadership development training," says Mr Abulaban

All of the companies use mentoring, executive coaching or both. At Inchcape, Peter Johnson, the CEO, mentors his eight direct reports and four executives below that level. Rodamco Europe uses coaches to help bring under-performers up to speed. Mr Nadar helps executives at HCL Technologies to pick through problems and tries to meet with them often outside of work, "In a lot of ways, a CEO's job is chief mentor," he says.

But many interviewees say that on-the-job experience is also critical. When choosing and promoting managers, they prefer the person to have a broad background rather than expertise in one or two areas. Their firms encourage executives to pursue opportunities in unfamiliar settings, including international assignments and project work designed to hone new skills.

Mr Zollars recently named a rising star as US chief integration officer overseeing acquisitions and placed him on the China development team. The company has

been looking to expand in China through a series of joint ventures. Mr Zollars believes the new assignments will help this executive to improve his inter-cultural effectiveness and global acumen.

Johnson & Johnson sends Chinese executives to Europe and the US for one- to two-

year stints, where they can learn key account management, an established practice in these countries but less well-known in China. According to Mr Critelli,

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

When Mr Wilson was Chairman and President of Allstate Financial, he named a manager from inside the organisation to become treasurer, although the individual lacked experience. But to ensure he blossomed, Mr Wilson named two more-seasoned financial professionals to support this executive. "I was convinced that not only would he be able to learn the skills required to do the job but he would show the organisation that (enabling someone to grow into a position) was a good thing and it was rewarding in your career if you were a continuous learner."

### Challenges and risks

Companies must anticipate their future needs in order to ensure they have the skills to match them, for example, marketing and sales experience may be more important in two years' time than a comptroller's background. Many of the executives interviewed say that they have made good progress in developing a talent strategy that achieved this, but acknowledged several significant challenges in this regard. Most respondents believe that succession planning in particular is a delicate process requiring foresight and considerable diplomatic skill. They say their companies monitor progress and regularly revisit their succession plans to ensure that they remain future-facing.

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Other interviewees are of the opinion that timing promotions is difficult. If the process is too slow, there is a risk of losing a talented executive to a rival company—occasionally after a candidate has been developed for years. But promoting someone too quickly represents a risk to the business and can create resentment and job vacancies that cannot be filled lower down. Several respondents say it is difficult to

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promote executives over the heads of less-talented superiors.

“Figuring out how to manage where you put that individual and where you make room for the people under them that truly do have the potential to get to the next level is by far the biggest [talent management] challenge we have,” says Mr Critelli.

Mr Wilson says it is difficult bypassing an executive to promote a more junior manager. The higher-level individual may be affronted and decide to move on. But Mr Wilson believes candor is best in these instances. Strong talent management requires him to make tough decisions. “The way in which I give myself the emotional strength to do that is to tell myself that for the good of the organisation 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.”

According to a few interviewees, setting the right tone and mix of learning activities and promotions is also difficult. Mr Porte has had to adapt programmes that have worked in other countries to Japanese business culture. He says that convincing executives why talent management is important and getting them

to participate is also a challenge. “There are a number of challenges. Of course, one is creating the right structure for it and making sure that it’s not just something that people see as a burden, but really as an opportunity both for personal growth as well as for making a contribution to the company.” Mr Zesbaugh adds that he’d like to develop executives faster.

### Developing tomorrow’s CEOs

Most of the executives say their approach to talent management is influenced strongly by their own development. Ms Lau spent more than a decade as a marketing officer. She favors this role as a springboard to her position. Mr Zollars spent five years in Europe and a year in Japan earlier in his career. He now encourages executives to spend time overseas. Mr Hawkins moved around as an executive with another firm. He believes his experience, including a stint as a division CEO, was good preparation for the COO job at Medtronic. Both Mr Johnson and Mr Josefsson were CEOs before assuming their present roles. Mr Josefsson says that his previous experience prepared him well.

A number of the executives believe that no single job provides the perfect preparation to become the CEO. “What I look for isn’t necessarily the technical competency but the leadership competency,” replies Mr Zesbaugh. Indeed, according to Mr Abulaban, certain leadership qualities are universal. He says that it is easy enough to measure how effective leadership skills are, anywhere in the world. “The global way is how well people and teams respond to that leader. The true mark of an effective leader is whether the people are following the leader. Is his organisation delivering?”



## Conclusions

Despite the variety of experience and opinions of the executives profiled in this study, a number of common themes emerge.

- Strong talent management leads to greater workforce productivity and other benefits. Indeed, companies are increasingly realising that they cannot be successful unless they have a good strategy for developing talent.
- Given its importance, the strategy needs to be driven from the top. CEOs and COOs should oversee talent management strategy rather than delegating it to HR departments. HR, in turn, should be made responsible for supporting the strategy and executing it.
- Talent management should be explicitly linked with overall strategic planning and deliver the quantity and quality of leaders the company will need in the future to achieve its goals.
- Formal processes for identifying top talent, including performance evaluations, and strategic reviews of key talent should occur at least annually and incorporate written feedback to buttress scored categories. There are many other components required in a good programme, and a rigorous approach to obtaining reliable performance data is essential.
- Smart companies communicate effectively about the importance of talent management. By publicly recognising and rewarding deserving candidates with promotions and other awards, companies can cultivate an environment in which talent flourishes.
- A varied business background is the best grounding for the CEO and COO roles. As today's corporate leaders face such diverse challenges and opportunities, firms are looking for people with wide experience in terms of function, role, and, increasingly, geography.
- Talent development programmes should combine both theory and practice in the form of structured learning experiences and off-site meetings, as well as the proper business experience. They should be supported on a daily basis by coaching and mentoring activity.

For a PDF version of this report and individual CEO interview synopses, please go to [www.ddiworld.com/EconomistCEO](http://www.ddiworld.com/EconomistCEO)

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