



WHITE PAPER

OPTIMIZING YOUR LEADERSHIP PIPELINESM

By
TACY BYHAM, PH.D.
MANAGER,
EXECUTIVE SOLUTIONS
GROUP, DDI

JIM CONCELMAN
VP, LEADERSHIP
DEVELOPMENT

CHUCK COSENTINO, PH.D.
VP & PRACTICE LEADER
STAFFING & SELECTION

AND

RICHARD S. WELLINS, PH.D.
SENIOR VICE PRESIDENT

What will drive the success of your business? Aggressive top-line growth? Entering new global markets? Launching the next blockbuster product? Managing through an economic down-turn? No matter which future course you plot for your business, success will rely on flawless execution. And—in turn—flawless execution will largely depend on your organization's ability to choose and prepare the best possible leaders for tomorrow.

Organizations achieve sustainable success when they build strong leadership bench strength. Throughout his ten-year tenure as CEO of Quest Diagnostics, one of Ken Freeman's major areas of focus was on talent—identifying and developing the right team to lead others at critical stages in the company's evolution. Quest sailed through a merger with SmithKline Beecham, realizing a 300 percent increase in market value.

Another example is Doug Conant, CEO of Campbell Soup Company. According to *BusinessWeek*, "In just under six years since he came on board, Conant, 55, has transformed Campbell from a beleaguered old brand rumored to be on the auction block to one of the food industry's best performers." The stock doubled between

March 2003 and the end of 2006, outperforming the competition¹. His recipe for turnaround: investing his time in driving employee engagement and nurturing an environment where extraordinary leadership flourishes. And, there is no disputing the success of India's IT giant, Infosys. Founded in 1981 with just 7 people and 250 million in sales, the company now has over 100,000 employees in 22 countries and over \$4 billion in revenue. One of the secrets to their success, according to *Fortune Magazine*, is their ability to inspire, empower, and nurture the next generation of leaders. With a state-of-the-art Leadership Institute in Bangalore, leaders go through rigorous assessment and are offered a host of classroom, e-learning, and mentoring programs to accelerate their development.

While a handful of organizations are making progress, most still need to close the gap between their current leadership bench strength and the talent they require to drive future success. Consider the research below:

- > A 2007 DDI study in partnership with the Human Capital Institute involving over 700 HR professionals shows that 83 percent expect "retaining the right leadership talent to drive their business" will become far more difficult².
- > DDI's Global Leadership Forecast, with respondents from over 1,500 organizations, revealed that confidence in leaders at all levels to meet future business needs has dipped from 47 percent in 1999 to 35 percent in 2008³.

- > And, a 2009 Aberdeen/DDI study conducted in the midst of the recession still put talent retention at the top of their list of challenges. Developing leadership skills of existing managers and recruiting top talent were also at the top of that list⁴.

The Growing Need for Better Leaders

A talent management strategy is critical now more than ever for a number of reasons:

- > Shareholders, Boards, Customers, and of course the press scrutinize today's leaders. With CEO turnover exceeding 300 percent in the past five years, and 58 percent of all new executives failing within their first 18 months on the job, the cost of poor leadership adds up. In 2006, for example, 35 CEOs collected \$800 million in severance payments, and the costs incurred to replace these ousted executives were even greater⁵.
- > While the current recession may temper the mass exodus of baby boomers, they will still retire in record numbers, leaving organizations in search of experienced leaders to take their places.
- > Our recent research shows that upwards of half of the global workforce is disengaged year after year. High quality leadership plays a key role in employee engagement. When leaders don't have the skills to engage their workforces, business productivity, morale, and engagement suffer.
- > "Time to productivity" is becoming a key concern. The complexity and rapid growth of business today leaves leaders with far less time to achieve mastery in their roles. And mistakes are costly. At senior levels, ramp-up time can cost millions of dollars. And time to

productivity isn't an issue facing only the newly promoted. When M&As or restructuring change the scope of a leader's existing role, the pressure to adapt to a new culture or quickly develop new skills is tremendous.

- > Leadership is very much becoming a global value proposition, requiring organizations to find, develop, and nurture leaders who can work across cultural boundaries and manage multiple operations in different countries.
- > And, extraordinary leadership is every bit as important in times of economic crisis as it is during high growth. DDI's own assessment data shows that up to 50 percent of leaders lack the skills and personality attributed to a successful manager during a crisis.

There are significant negative financial implications for organizations that lack a solid pipeline of ready-now leaders. Consider a sales leader who has accountability for \$40 million of business. When this leader retires or is promoted, who will take his place? Will it be a great leader, or a mediocre one? If it is assumed there's just a 10 percent difference in the financial results achieved by these two leaders, then a small decrease in leadership quality could cost millions of dollars. Unwanted turnover, weak performing sales, inadequate coaching, delays, ineffective sales strategies, and missed opportunities contributed to this financial loss.

Leadership Pipelines Promise Answers

More and more organizations are executing talent management strategies to close the leadership gap and have leaders in place and ready to drive results. A robust pipeline



What is a Leadership Pipeline?

“A critical business process that provides organizations with a sustainable supply of quality leaders (at all levels) to meet the challenges of today and tomorrow.”

encourages promotion from within (which is less risky) and demonstrates to employees with potential that companies support a “grow your own” strategy.

The pipeline concept received considerable attention as a result of a book called *The Leadership Pipeline: How to Build the Leadership Powered Company*⁶ and later refined in a 2002 book authored by DDI called *Grow Your Own Leaders*⁷. We define our Leadership Pipeline approach as:

“A critical business process that provides organizations with a sustainable supply of quality leaders (at all levels) to meet the challenges of today and tomorrow.”

A strong pipeline is an integrated approach that must be supported by senior management. It is not a single program or tool, rather it’s a process that provides both the right quantity and quality of leaders in time to step up and meet pressing business challenges.

A sound Leadership Pipeline strategy ensures that assessment and development processes are relevant, just in time, and integrated. Companies like Toyota continue to develop efficient, high quality, and lean production processes. Money and competitive advantage are lost when inventory doesn’t arrive when needed, when too much is on hand, or when resources are wasted. The same applies to a haphazard approach to talent. Development resources are wasted, poor decisions are made, and the supply or quality of leaders are not commensurate with demand.

OUR APPROACH

A sound pipeline approach:

- 1) Focuses on early identification of those who have both the motivation and ability to be future leaders.

- 2) Ensures organizations diligently collect and use “intelligence” on the performance of their leaders to make sound selection, promotion, and placement decisions.
- 3) Provides these leaders with accelerated support and development to ensure success.

FIGURE 1: LEADERSHIP PIPELINE PYRAMID MODEL



The pyramid above has a number of key elements that are covered in detail in the next sections of this paper. In brief, the components of the pyramid are:

- > A strong foundation based on an organization’s specific Business Drivers and priorities.
- > Inclusion of four broad levels of leadership. If one level is not addressed, there is a weak link in the supply chain, impeding pipeline flow.
- > Painting a clear picture of leadership performance at each level through a process we call Success ProfilingSM.
- > Establishing Acceleration Pools to ensure those leaders with the highest potential receive the support, focused development, and organizational attention they need to succeed.

Pipeline Best Practice:
Start with where your business is going.

Those charged with developing organizational talent need to start with the end in mind by recognizing their current and future business needs, and designing talent strategies accordingly.

At DDI, we talk about these goals in the terms of Business Drivers. Business Drivers represent those priorities that leaders must focus on in order to successfully execute the strategic and cultural priorities of their organization. In our experience, a company or major division will have a core of four to five unique Business Drivers in addition to their unique strategic priorities.

Here's an example: A large automobile maker has made the implementation of Lean Manufacturing a strategic priority. Therefore, they identified *Drive Process Innovation* as one of the company's key Business Drivers. This Driver requires leaders who can encourage innovation, analyze information to generate and evaluate alternative courses of action, and set high standards and accountability.

Another example is something we hear often: a client looking to do business internationally might select *Expand into Global Markets* as one of their Business Drivers. A leader charged with international expansion should recognize global market forces, understand global business environments, and encourage implementation of strategies that penetrate new foreign markets.

Business Drivers help an organization's senior team and HR professionals frame talent development discussions in the terms of the business. It also resonates well with C-level executives. Dennis Wrasse, CEO of energy holdings company Pepco Holdings, put it this way:

"We have all these models and ways that behaviors fit into these models, and I really can't understand all of that. It's just too complex to understand what the implications are. But with these Business Drivers I can understand and so can everyone else. These are what we need our leaders to do in the future."

Pipeline Best Practice:
Define leaders who fit the profile for success.

Once you have determined your Business Drivers, you need to develop what success looks like for each level of leadership. Our Success ProfilesSM defines leader performance holistically, painting a picture of what a high-performing leader looks like. We include four types of factors that are important to consider when selecting/promoting or developing talent:

FIGURE 2: SUCCESS PROFILESM MODEL



1. **Organizational Knowledge**—What a Person Knows.
2. **Experiences**—What a Person Has Done in the Past.

3. **Competencies**—What a Person is Capable Of.
4. **Personal Attributes**—Who a Person is, or Personality.

Success ProfilesSM operationalize the Business Drivers. For example, in order to execute on the Business Driver *Enter New Global Markets*, a strategic leader would need to understand foreign cultures, have experience leading change, be adaptable and successfully manage ambiguity, and show entrepreneurial characteristics. Similarly, in an organization where employee engagement is critical, a people leader would need to know how to inspire employees, competently develop others, and have a strong motivation to coach direct reports. An individual contributor or functional specialist not yet in a formal leadership position may need strong networking skills, the ability to work across silos, and excellent communication skills.

When using a Success ProfileSM to select and develop leaders (as we'll talk about in more detail below) it becomes important to be realistic about those elements of the profile that can be developed and those that may not. Many are difficult to teach because they are personality characteristics. For example, it may be possible to teach someone to do business analysis or help them gain experience through a special assignment, but it's very difficult to develop a person's willingness to take risks or their humility. Hard to develop portions of a Success Profile, therefore, should receive more attention in the identification and selection of leaders.

Pipeline Best Practice: Manage leaders in transition.

If a leader is going to stumble on the climb up your leadership ladder, they're most likely to slip during a time of transition into their new role. Whether becoming a frontline leader for the first time or assuming a senior role with high visibility, making a transition comes with many challenges, such as:

- > **Increased visibility, widened span of control, and personal challenges.** The higher the position, the more eyes are watching. With visibility comes increased risk of derailment. Moving through the ranks demands that leaders delegate more, influence others at senior levels, and battle feelings of isolation.
- > **Constituency, span of influence, and business scope.** Leaders stepping up need to serve new audiences, and their decisions impact wider audiences, with each new promotion. Accountabilities also expand from teams to units to entire enterprises as leaders assume more advanced roles.
- > **Tactical control and consequences of failure.** On the informal or people leader level, leaders spend significant time focusing on day-to-day operations. At operational or strategic levels, leaders focus on broader strategic business concerns.

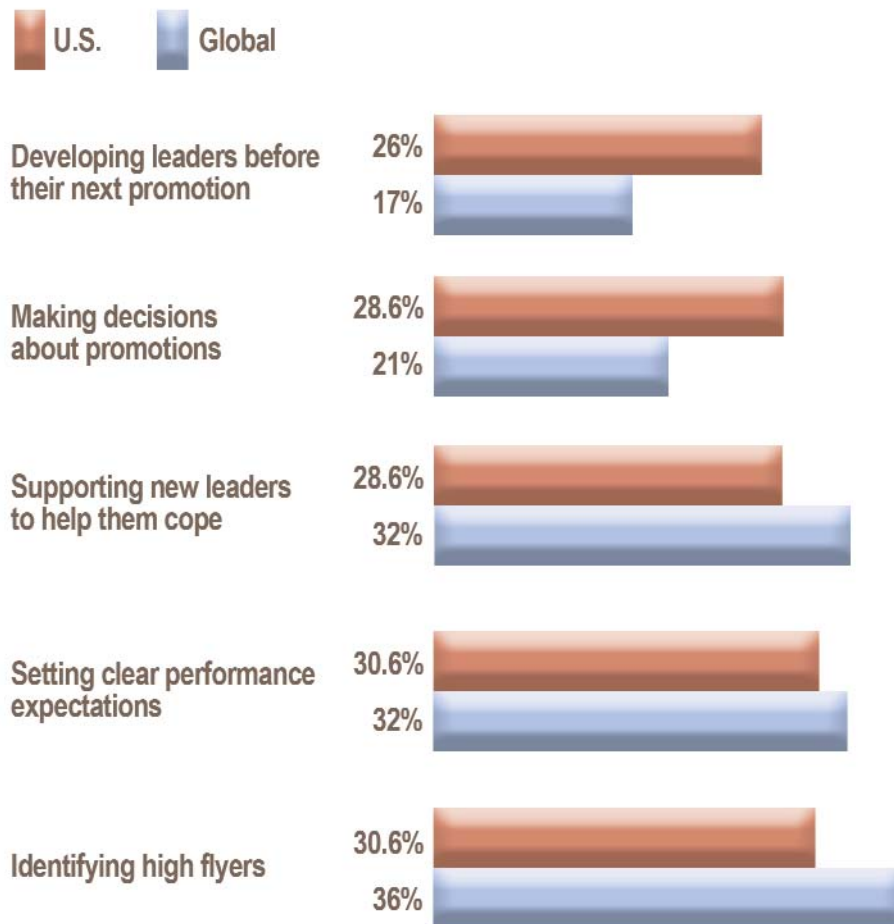
While CEO failures receive a lot of attention, at other levels transition failures create organizational inefficiencies, adversely affect employee engagement, negatively impact staff development, and hinder the execution of important initiatives. A key challenge is to help leaders rapidly and smoothly move through transitions.

We've found that contending with these challenges is no small feat. Our 2007 research study, *Leaders in Transition, Stepping Up, Not Off*[®], revealed that leaders feel making a transition is among life's most difficult personal challenges. Whether assuming a leadership role for the first time, taking control of a business unit, or stepping into a top senior position, leaders encounter significant changes in

the political network, job complexity, and human dynamics of the work environment, which cause tremendous stress.

More troubling is the fact that very few leaders said that their organizations were doing the right things to prepare future leaders. In fact, when we examined five best practice areas relating to managing transitions, leaders' responses showed a clear gap in this area. (See Figure 3):

FIGURE 3:
ORGANIZATIONS' ABILITY TO PREPARE LEADERS



Organizations must anticipate and understand the challenges leaders will face as they move up the ladder and must put into place the support systems that will help high-potential leaders make difficult transitions easier and smoother. Falling off the ladder midway up is not beneficial for the leader or the organization.

Most organizations use two approaches to building a strong pipeline. A “traditional process” (shown in Figure 4) looks at

promotions from one level to the next. Those first line leaders who perform well are considered for promotion to a mid-level position. Mid level managers who perform well will often be chosen for the next level up, and so forth.

However, a number of corporations have begun to supplement this traditional approach with something we call Acceleration Pools (see Figure 5).

FIGURE 4:
TRADITIONAL



FIGURE 5:
ACCELERATION POOLS



**Pipeline Best Practice:
Create Leadership Acceleration Pools.**

Acceleration Pools are groups of high potentials who are fast-tracked to assume growing leadership responsibilities. They are typically a subset of the total leadership population, two to three percent in large organizations, allowing organizations the ability to devote precious resources to those most likely to succeed over time. These leaders are carefully identified and demonstrate the strongest leadership potential.

Acceleration Pools have a number of unique characteristics that distinguish them from the more traditional approach. For those in the pool, development is intense and may be aimed at preparing them for a variety of

possible future roles rather than filling the shoes of a specific position. Pool members are often matched up with experienced coaches—either internal or external. High potentials are carefully and frequently reviewed by senior management teams. And they may move up and out of a pool based on their performance and organizational requirements.

One challenge organizations face is who to put in an Acceleration Pool®. Often organizations look only to past performance to identify their future leaders, and do not focus on future potential. Look for leaders who possess the following leadership potential factors (See Figure 6):



Common Beliefs about Assessment

Assessment solutions should accomplish the following objectives:

- > Focus on the whole person: their experience, personal attributes, and behavioral competencies, to name a few key components.
- > Incorporate multiple sources of input, such as combining interviews with tests and simulations.
- > Fit a specific purpose. For example, it may be incorporated into a selection process, provide information for development, be used to identify potential, or utilized to determine readiness.
- > Link assessment results with an individual's development plan.
- > Backed with solid reliability, evidence, and constant improvement.
- > Demonstrate value, which can be achieved through validation studies that illustrate how assessment predicts performance.

FIGURE 6: LEADERSHIP POTENTIAL FACTORS



These attributes are hard to develop, and are most predictive of leadership potential.

Pipeline Best Practice: Choose the right people to move up the ladder.

While entrance into an Acceleration Pool® is based on performance, promotion decisions should be based on actual readiness to advance. Assessing readiness not only helps you make accurate placement and promotion decisions, it also pinpoints the specific strengths and opportunities for further development.

Decisions about who to promote—and when they are ready—need to be based on in-depth assessment. Multiple approaches are available, including day-in-the-life simulations, online competency assessments, personality and leadership inventories, multi-rater services (360°), and objective behavior-based interviewing. Using a combination of these techniques is your best bet.

Assessment looks different at different levels. Figure 7 shows different levels of assessments, organized by level of leadership.

There are a number of factors that need to be considered in crafting an assessment solution. Those include purpose of assessment (development versus selection/promotion decisions), risk of wrong decisions, volume of candidates, and function or level of position to be assessed.

FIGURE 7: ASSESSMENT BY LEVEL



One example of how assessment works at an early career level: an organization was interested in identifying individuals in their current sales force who had the potential and motivation to be effective district sales managers (first level of leadership). All satisfactory performers with two years of experience completed an online diagnosis of their strengths and development needs and were given access to online leadership courses to build their skills. This data, along with interviews with a talent review team, was used to determine who would have access to an accelerated development program. Individuals selected for this program participate in a two to four hour computer-based assessment process to further define their strengths and development needs. After the development activities were



Common Beliefs about Development

Development solutions should accomplish the following objectives:

- > Ensure consistency of concepts and skills across all levels.
- > Align development with diagnosis.
- > Drive real behavior change.
- > Offer varied learning activities.
- > Encourage new skill application “on the job.”

When undertaking development solutions, measure, measure, and measure some more. Also, execution is absolutely critical!

completed, individuals were interviewed once again to assess their progress and determine who should be placed in the promotion pool.

At strategic levels, we worked with a German-based software services corporation who was entering into a strategic alliance requiring a process to identify the most capable leaders from both organizations. forty-two senior management posts at the three top levels of the combined organization needed to be filled from a pool of 87 incumbent managers. Together, we first established the selection criteria for the positions and created the selection process. Then, DDI designed robust, “day-in-the-life” executive assessment centers to accurately assess each candidate. The data gathered through the assessment centers enabled senior management to select the best candidates for the alliance leadership team. After the placement decisions were made, DDI coaches held personal meetings with candidates to provide them with feedback on the behavior they had demonstrated during the assessment and the results of a personality test they completed as part of the Acceleration Center®. This information then served as the basis for the individual’s own development planning.

TIPS FOR IMPLEMENTING A PIPELINE

Executing a pipeline strategy is a comprehensive undertaking. As such, we offer several tips to get the most out of this tremendous investment of time, money, and resources.

First and foremost, secure ownership at the most senior levels.

As a business process that crosses organizational levels and boundaries, a Leadership Pipeline cannot be successful without full

support and buy-in at senior levels. And if those at the top are not focused, who should be? What’s really more important than the future leadership of your business? HR and C-level executives need to partner in order to make talent management a priority. Every senior leader should be a talent scout who spots, nurtures, and retains leadership talent. Senior leaders should be the ones who choose the Business Drivers. They should also ensure that senior talent development isn’t siloed; that they “belong” to the organization, not guarded by individual departments.

Business Drivers must be at the forefront.

Many companies make decisions about when to promote leaders and where best to place them based on their performance against a Success Profile. The more important question to ask is if your next generation of leaders will perform relative to your Business Drivers. Back to where we started! The foundation of any pipeline is the Drivers. According to a 2008 Aberdeen/DDI study, 59 percent of Best-in-Class organizations have established clear linkages between leadership development programs and overall business objectives. Leaders must be assessed and developed around their ability to successfully innovate, go global, enhance customer loyalty, grow top line performers, or whatever is key to the success of your organization’s future. While it may sound obvious, we have witnessed numerous talent review processes when the question of whether a leader can execute against the business priorities is never asked.

Ensure new hires and new leaders receive solid onboarding.

Ensuring new hires and those transitioning to new levels of leadership receive adequate onboarding is critical to both individual and

organizational success. Solid onboarding helps to mitigate the risk that comes along with a new hire or a transition to a new level of leadership.

There are a number of best practices to make certain successful onboarding occurs:

- > provide new leaders and/or new hires with insights and a process so they can begin contributing quickly
- > get and keep them engaged in their job
- > position them for current and future success within the organization

These practices are imperative and should be considered when developing an onboarding program.

Use assessment and development processes that are proven and can be adapted for your organization.

There are a multitude of development and assessment options available, but few predict or change leadership performance. The best have a strong track record and are supported by validated research—conducted in a wide range of environments—that provide solid evidence of their effectiveness.

Also, what's a best practice for one company or at one level of leadership may not be appropriate at your organization, or at all levels. Adapt pipeline systems to meet your needs and culture.

Execute talent initiatives both globally and locally.

More and more organizations need talent pipelines that meet global business demands. In DDI's *CEO's Guide to Global Leadership*⁹, we explore the differences between those leaders who are able to operate in a single country or across geographic and cultural boundaries. While many Success Profile

characteristics are common to all leadership positions, there are several unique characteristics that separate outstanding global leaders. And, approaches to both assessing and developing leaders on a global basis present special challenges.

Striking a balance between the corporate headquarters and regional offices is another tricky element of global talent management. Pipeline approaches to top talent are normally centralized and guided by corporate headquarters. Other levels of leaders can be managed regionally, with the corporate office acting more as advisors rather than owners. We advise that corporate headquarters encourage and support mentoring and coaching, but empower their regional partners to uncover the right tools.

Weave in principles that ensure success.

How many great ideas have floundered in the execution stage? To sustain a pipeline initiative (or any other, for that matter), pay attention to the building of sound execution plans, effective communication, clear accountability, skill development, alignment with related systems, and success metrics as you design your process. Communication and accountability ensure everyone understands the whats and the whys of the pipeline, and what's expected of them. Major players in the process (HR, senior line managers, and mentors) need to have the expertise and skills to facilitate the identification and nurturing of those in the pipeline. For example, many leaders are asked to serve as coaches to up-and-coming leaders but never receive any training in mentoring, while others are asked to make critical promotion decisions but have no consistent method to evaluate candidates. Align processes and systems to reinforce your behaviors and outcomes (e.g., selection/

promotion, development, compensation, performance management, and information technology systems). For example, one major aerospace corporation we work with is exploring methods for giving bonuses to those leaders who excel at developing others.

Make sure all pipeline processes are built around your Success Profiles. For example, select against the Success Profile, use the results of these assessments to fuel the types of development offered, and utilize a performance management system that includes feedback and evaluation around the Success Profile.

Finally, it's important to measure along the way to gauge the success of your pipeline initiative. Useful metrics to consider include the number of internal and external promotions, retention of key leaders, time to contribution, employee engagement, and the actual performance of leaders who transition from one leadership level to another.

Measurement—both lead and lag—ensures long-term sustainability as well as providing evidence of the impact of a pipeline initiative.

For more information on DDI's Leadership Pipeline solutions, including white papers that address each level of leadership, visit www.ddiworld.com/leadershippipeline, contact your DDI representative, or call 1-800-933-4463.

It's a grow-or-die marketplace, and having the right talent strategy is crucial. Development Dimensions International will help you systematically and creatively close the gap between today's talent capability and the people you will need to successfully execute tomorrow's business strategy.

DDI is all about giving you the kind of business impact you want over the long term—that's what we call realization. The work we do together is tied to your organization's strategies and becomes part of your business and your culture.

If your business is multinational, DDI has precisely the kind of global resources needed to implement your talent initiatives effectively and consistently worldwide.

CONTACT INFORMATION

WORLD HEADQUARTERS
412.257.0600

E-MAIL INFO@DDIWORLD.COM

WWW.DDIWORLD.COM/LOCATIONS

ENDNOTES

¹Carter, A. (2006, December 4). Lighting a fire under Campbell. *BusinessWeek*, (4012), 96-101.

²Wellins, R. S., & Schweyer, A. (2007). *Talent management in motion: Keeping up with an evolving workforce*. Pittsburgh, PA: DDI Press.

³Howard, A., & Wellins, R.S. (2008). *Global Leadership Forecast 2008|2009: Overcoming the Shortfalls of Developing Leaders*. Pittsburgh, PA: DDI Press.

⁴Martin, K., Saba, J., & Lombardi, M. (2008). *The 2009 HR Executive's Agenda: Driving Business Execution and Employee Engagement*. Boston, MA: Aberdeen Group.

⁵Dash, E. (2007, April 8). Has the exit sign ever looked so good? *The New York Times*, 156(53908), 6.

⁶Charan, R., Drotter, S., & Noel, J. (2001). *The leadership pipeline: How to build the leadership-powered company*. San Francisco, CA: Jossey-Bass.

⁷Byham, W. C., Smith, A. B., & Paese, M. J. (2002). *Grow your own leaders: How to identify, develop, and retain leadership talent*. Upper Saddle River, NJ: Prentice Hall PTR.

⁸Paese, M., & Wellins, R. S. (2007). *Leaders in transition: Stepping up, not off*. Pittsburgh, PA: DDI Press.

⁹Tessman-Keys, D., & Wellins, R. S. (2007). *The CEO's guide to: preparing future global leaders*. Pittsburgh, PA: DDI Press