



Growing the talent garden

The world's best organisations place utmost priority on talent development, and implement highly effective processes to create a healthy leadership pipeline. So what are the secrets of a fertile and flourishing talent garden? >>

Jack Welch once described himself as a gardener, providing water and nourishment to his top 750 people. He encapsulated his main duty as chief executive of GE in two fitting words: "developing talent."

Welch did many things right as a business leader, famously growing GE's share price by 4000 per cent during his 20 years in charge. But his priority as chief executive to focus on growing GE's talent pipeline was absolutely correct. For this is what the best organisations do: they take leadership seriously. They care about talent, and devote time, energy and resources to developing leadership *throughout* the company, which in turn drives better business performance.

Hardy perennials

There is a wealth of evidence to indicate that developing home-grown talent fosters improved performance.

Various recent Hay Group research findings demonstrate that CEOs and senior executives at top-performing organisations typically spend long periods at their companies before taking the helm. This suggests that they are carefully developed and nurtured over a sustained period by the firms they eventually go on to lead, as their companies are paying close attention to leadership.

Chief executives of the top 20 World's Most Admired Companies¹ (WMAC) by overall industry score boast an average length in service at their organisations of more than 25 years (see page 3). On average, this is 2.5 times longer than CEOs among the lower ranks of the WMAC.

For example, Douglas Oberhelman at Caterpillar and Rex Tillerson of Exxon Mobil both joined their organisations some 37 years ago and both companies are ranked in the top 20 WMAC.

In the same vein, length in service averages over 28 years for CEOs of organisations identified recently by Hay Group as the world's Best Companies for Leadership². A similar pattern is found in Hay Group's global competency database, where the highest-performing CEOs have been with their firms for over 20 years on average.

And a separate study reveals that enduring length of service among the senior team has its own benefit, in that the longer teams work together, the better they perform³.

Most admired leaders

Over the last ten years, shareholder returns of the top 50 WMAC have outperformed the S&P 500 by almost three times.

Tellingly, a strong focus on leadership development and talent management has consistently been a standout feature of the WMAC.

Hay Group has identified the six key tendencies opposite that the WMAC are more likely to display than other firms when it comes to leadership.

The WMAC:

- 1 Place a higher value on leadership development.
- 2 Are more likely to use competency models and development programmes when choosing and promoting leaders.
- 3 Are less tolerant of inappropriate behaviour aimed purely at hitting targets.
- 4 Score more highly for emotional intelligence among their leaders.
- 5 Better equip their leaders with clear objectives, a supportive culture and the tools and technology to get the job done.
- 6 Are significantly happier with the quality and breadth of their senior leadership.

¹ Hay Group and FORTUNE magazine have collaborated annually since 1997 to identify, select and rank the World's Most Admired Companies and uncover the business practices that make these companies both highly regarded and successful. Alongside this study, each year Hay Group carries out additional research to uncover what makes these companies so successful – topics have included leadership development, innovation and talent management, and how companies sustain performance. The latest WMAC rankings were released on 1 March 2012. For more information on how the 2012 industry rankings and overall top 50 "All-Stars" list were determined, please visit: www.haygroup.com/fortune

² Hay Group has researched the Best Companies for Leadership since 2005. The study ranks the best companies for leadership around the globe and examines how those companies nurture talent and foster innovation in their ranks. In our latest study, which includes responses from 7,000 individuals at more than 2,300 organisations worldwide; General Electric topped the list, followed by Procter & Gamble, IBM, Microsoft and Coca-Cola. For further information, please visit: www.haygroup.com/bestcompaniesforleadership

³ *Senior Leadership Teams: What it takes to make them great*, Ruth Wageman, Debra Nunes, James Burruss and Richard Hackman (Harvard Business School, 2008). Authors Wageman, Nunes and Burruss are leadership specialists at Hay Group.

CEO length in organisational service at the top 20 WMAC in 2012 (in order by overall industry score)

Company	Industry rank in WMAC list	Chief executive	Length in service (years)
Apple	1	Tim Cook	14
McDonald's	1	Donald Thompson	22
Philip Morris International	1	Louis Camilleri	34
Koç Holding	1	Dr. Bülent Bulgurlu	16
Walt Disney	1	Robert Iger	16
Procter & Gamble	1	Robert McDonald	27
Nestlé	1	Paul Bulcke	33
Chevron	1	John Watson	22
Caterpillar	1	Douglas Oberhelman	37
Exxon Mobil	2	Rex Tillerson	37
Starbucks	2	Howard Schultz	30
Sistema	2	Mikhail Shamolin	1
Intel	1	Paul Otellini	38
IBM	1	Ginni Rometty	31
Ralph Lauren	1	Ralph Lauren	45
Wyndham Worldwide	1	Stephen Holmes	6
British American Tobacco	2	Nicandro Durante	31
Google	1	Larry Page	14
Qualcomm	1	Dr Paul Jacobs	22
Wynn Resorts	2	Stephen Wynn	31
		AVERAGE	25.4

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Home-grown success

When selecting a new CEO, organisations that emphasise talent management inevitably have a richer pool of home-grown potential to draw from. They are better placed to source the right leader at the right time from among their own.

A long-time employee of an organisation will inevitably possess a detailed understanding of the business' unique intricacies that an external hire would take many years to acquire. The long-serving executive will have a ready grasp of the organisation's history, culture and structure; its all-important relationships with stakeholders,

such as staff, customers, suppliers and shareholders; and the increasingly complex market environment in which it operates.

With this in mind, it's worth noting that incumbent CEOs should generally be involved in their own succession process, providing that they have the confidence of their board. Who better to understand those intricacies, and to help define their successor's role accordingly? By the same reasoning, having the next CEO shadow the incumbent can also be effective in making a smooth transition.

Nurturing potential

Yet despite the evidence showing that having a strong focus on leadership and home-grown talent drives better business performance, Hay Group research shows that a high proportion of organisations are not planning for the future:

- while over 90 per cent of WMACs have well-defined CEO and executive succession plans, only 65 per cent of peer group companies are making careful plans to ensure top team continuity
- in a similar pattern, 100 per cent of the Best Companies for Leadership have a sufficient number of qualified internal candidates who are ready to assume leadership positions compared to just 44 per cent at peer group companies.

So how do firms create a structured framework for successful talent development, in order to produce a healthy leadership pipeline? The answer will vary between different organisations. But in essence, the solution comes down to having a rigorous and systematic

process of planning for the future needs of the organisation, rather than for short-term wins, so as to align talent management with long-term strategic requirements.

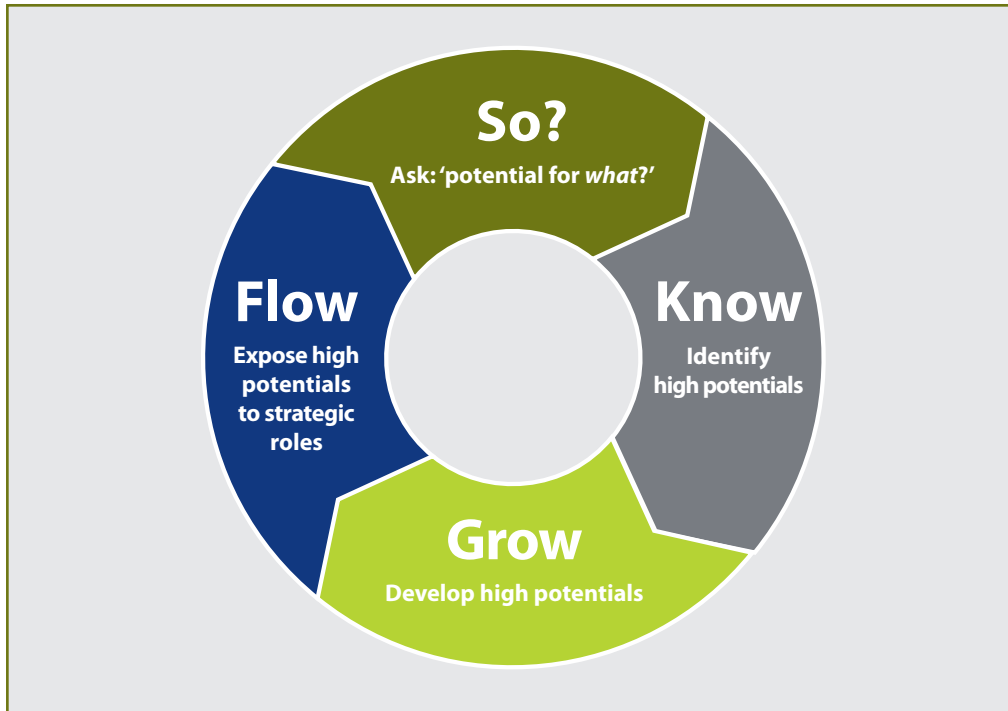
But this is where many companies fall short. Fixated on quarterly results, they stop at asking: "What do we need today?" They fail to define the blueprint for the future and therefore, inevitably miss the opportunity to enhance business performance.

This entails looking 10-20 years ahead, in order to understand the strategic demands on future leaders, what the leadership roles will look like as a result, and the profile of the people needed to fulfil those roles.


Through Hay Group's extensive experience in supporting organisations across the globe to develop strategic talent management approaches, we've seen some of the best organisations map out this procedure in a step-by-step, leadership development 'manual'.

The talent management process

So how can organisations define and set the blueprint for the future? Broadly speaking, an effective talent management process should entail four key steps: So?, Know, Grow and Flow.



So?



The first stage is to decode and define current and future demands on the business in terms of future roles.

It is necessary to understand how changes in strategic direction will impact the roles required, and the people needed to fulfil them, in order to drive future success.

Organisations therefore need to ask:

- potential for *what?*
- what will success look like – now and in the future?
- what strategies will be necessary?
- what skills, attributes and traits will be needed in a leader to deliver these?

These must be considered under various scenarios, which will demand different strategies, requiring different CEO capabilities and behaviours. One strategy may necessitate a marketing guru to create a brand that will engage new customers. Another might imply a cost focus, calling for an efficiency tsar.

Know



Firms then need to evaluate the depth of the talent pool available to them, and gauge the gap between this and future needs. It is vital to identify high potentials early on.

Some organisations use talent benchmarking forums to score individuals on an ongoing basis – being careful to measure potential, *not* current performance.

What is potential?

Talent management is the art of successfully identifying and developing people's potential. But what *is* potential?

Potential is the fit between an individual's current capabilities and possible future roles, taking into account the long-term capacity for personal growth and any possible derailers.

To evaluate potential requires organisations to be clear and objective about four elements:

- individuals' current abilities
- their development needs for future roles, from the next promotion to longer-term leadership positions
- their growth factors
- their derailers.

What are growth factors?

Growth factors are positive attributes that can accelerate an individual's development. Hay Group has identified four common growth factors, which can be objectively measured to assess an individual's long-term potential:

- eagerness to learn
- breadth of perspective
- understanding others
- personal maturity.

Evaluating each of these will help organisations to identify long-term potential, and make informed decisions about who to promote and where to focus the development budget.

There is also strong evidence that high potential people are better at creating an engaging and motivating work climate for their teams – and Hay Group research over the last five decades consistently shows that having the right climate can increase bottom-line performance by up to 30 per cent.

What are derailers?

Whereas growth factors hasten a person's career, derailers can halt progress altogether. They typically fall into two categories.

- 1 Individual factors, such as arrogance, a short-sighted focus on results or an inability to listen and learn.
- 2 Organisational failings, such as neglecting to develop talented individuals ('Grow'), the lack of a framework for role rotation and over-promotion too early in a person's career ('Flow').

Grow



The third stage is to reduce the gap between future demands and current talent supply by growing internal talent (and if necessary, recruiting external capabilities).

This entails the creation of continuous development programmes for high potentials, taking their growth factors and derailers into account.

Flow



The final stage is succession planning in action: optimising the talent flow around the organisation, and exposing the best talent to the biggest opportunities to provide the right amount of 'stretch'.

This means identifying the roles that each individual needs to experience, and the learnings they need to take from each role, then 'flowing' their career paths accordingly.

In our earlier example of our brand-driven strategy, time spent in marketing roles may be essential to instill a thorough understanding of all things brand-related. Under the cost-cutting scenario, financial roles might be considered mandatory experience.

Inside, out?

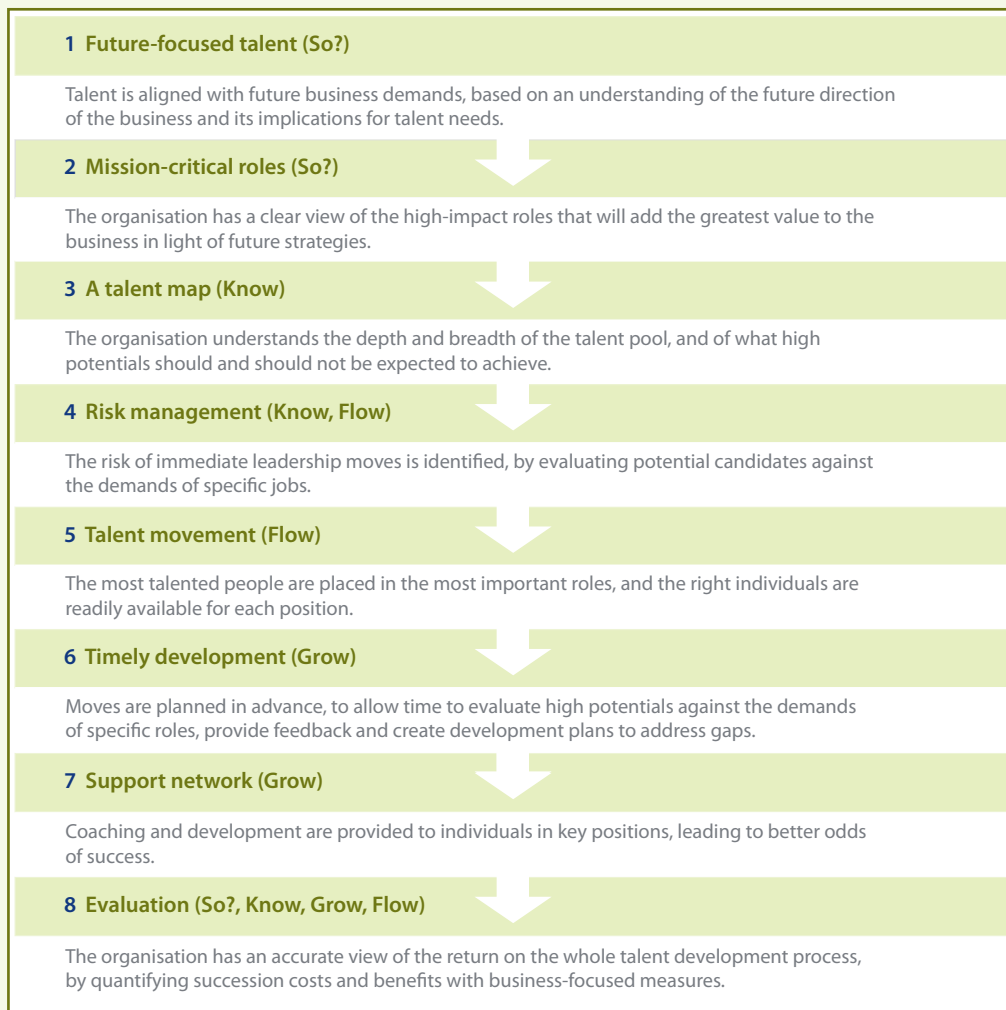
None of this is to suggest that CEOs must always be hired internally, and indeed the circumstances of the organisation and changing requirements of the role may prevent this. However whether hiring internally or externally, companies should seek independent expertise, support and advice

to help with strategic scenario planning, identifying what future strategies mean for the CEO role, and assessing candidates' fit with that role. This will provide an objective and evidence-based perspective so that the most suitable candidate is selected.

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Eight of the best

For organisations that take talent management and leadership development seriously, the advantages of being able to rely on home-grown talent, not to mention the positive impact on business performance, is clearly evident. The eight outcomes below are the key benefits that an organisation will derive from an effective talent management and succession planning process.



About Hay Group

Hay Group is a global management consulting firm that works with leaders to transform strategy into reality. We develop talent, organise people to be more effective and motivate them to perform at their best. Our focus is on making change happen and helping people and organisations realise their potential. We have over 2,600 employees working in 85 offices in 48 countries. For almost 70 years, we have been renowned for the quality of our research and the intellectual rigor of our work.

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