ISSUE 11: 2013

Developing Leaders

Executive Education in Practice

Leadership Beyond the Hype
Michigan's John Branch

Social Networking = Better Working
Columbia and New York Fire Department

Up-Scaling at CCL
Dave Altman VP MENA Interviewed

The 'I' of Leadership
LBS's Nigel Nicholson

The Companies that Grow their Own

RBL Reveals How the Top Companies Develop Top Leaders

Feeding Curious Minds
IEDP Ideas for Leaders

www.iedp.com

How Top Companies Develop their Leaders

By Robert P. Gandossy and Erin Wilson Burns

Everyone knows good leaders make a difference. Good leaders know talent creates value. It is intuitive even if evidence is elusive. At least one seminal piece of research found that differences in executive leadership accounts for as much as 45 percent of organizational performance.

But in spite of leader intuition and some compelling research, "more than half of companies today cannot immediately name a successor to their CEO should the need arise" (according to a Heidrick & Struggles/Stanford University survey), only 15% of companies in North America and Asia believe that they have enough qualified successors for key positions, and nearly 60% of companies are facing leadership shortages that are impeding firm performance.

Executive development programs can play a critical role in creating a sustainable leadership capability in organizations. Ingerick et al. confirm what leadership development professionals know from experience: "for various reasons (e.g., poor performance, voluntary turnover, etc.), … the turnover rate among executives is high, with roughly 30% to 50% of executives, on average, leaving an organization in a given year. As a result, organizations must have a means for regularly, and continually, replacing their senior leadership. For many organizations, having an internal [executive development program] constitutes the most reliable and sustainable means of renewing their supply of executive talent."

Looking specifically at CEOs, Stanford University researchers James C. Collins and Jerry I. Porras found that companies that took executive development and succession planning seriously were six times more likely than other companies to promote insiders to CEO. Couple that finding with research documenting that home-grown CEOs delivered 4.5 percentage points per year higher shareholder returns than externally appointed CEOs did, and even a casual observer can quickly see the business case for the high levels of investments most companies make in executive development.

The lion's share of what is spent on developing talent and future leaders is formal executive development. The question is does it have an impact? And what are the 'rules of the road', the lessons learned from the companies that are really good at developing leaders? What do they do differently? There are six best practices that differentiate the best from the rest:

1. The CEO and the Board need to lead the way
2. Provide a comprehensive menu of leadership assessments for objective evaluations and to focus leader development
3. Use custom, business-based executive training and have your leaders teach
4. Integrate job assignments to accelerate development
5. Hold leaders accountable and measure what matters
6. Promote your Leadership Brand

Let's examine each best practice.

At least one seminal piece of research found that differences in executive leadership accounts for as much as 45 percent of organizational performance

1. **The CEO and the Board need to lead the way.**

Without the passionate and visible involvement of the CEO – and increasingly, the Board – developing great leaders is not possible. Leaders at Top Companies understand that talent and leadership creates value. It is that fundamental understanding and belief that leads them to be actively engaged in every step of the talent process, particularly executive development and succession.

There is no better indicator of what executives value than where they spend their time. A.G.Lafley the former Proctor & Gamble CEO, and now current CEO Bob McDonald, spend extensive time in talent reviews with P & G's executives, mentoring emerging leaders and teaching in executive development programs. Their involvement is repeated by executives in Top Companies all over the world (see Table 1.1).

One of the things that consistently stands out across previous and current rounds of data collection is the level of involvement of the Board of Directors. Top Companies for Leaders have Boards of Directors who spend more of their time directly on leadership activities (see Table 1.2).

2. **Provide a comprehensive menu of leadership assessments for objective evaluations and to focus leader development**

Top Companies use a wider variety of assessments to assess senior leaders than other companies – this gives both the organization and the individual leader a more comprehensive view of how much and what kind of development is needed (see Table 2.1).

Many leading companies give executives a battery of tests and then integrate the results of those tests into one comprehensive picture that helps the executive understand a bigger picture of their current performance and development opportunities. This often includes examining team roles, personality dimensions, cognitive potential, career development

Table 1.1: Board of Directors and CEOs at Top Companies spend more time on more leadership capability-building practices than their counterparts at other companies.

	Board of Directors		CEO	
	TCFL	Other	TCFL	Other
Reviewing talent and succession planning	96%	77%	100%	81%
Creating development plans	32%	19%	72%	44%
Leading/participating in company programs	60%	27%	100%	62%
Coaching/mentoring	56%	30%	92%	61%
Identification of high potentials (or equivalent)	60%	27%	100%	62%
Calibration of high potential pool	32%	18%	76%	52%
Recruiting critical talent	40%	27%	76%	59%
Retaining critical talent	36%	22%	76%	56%

Table 1.2: Top Companies for Leaders have Boards of Directors who spend more of their time directly on leadership activities

	Top Companies with leaders spending > 20% of their time	Other companies with leaders spending > 20% of their time
Board of Directors	58%	13%
CEO	76%	37%

levels, and personal values. GE takes this further. Two-person HR teams provide a 10 to 15 page report with a detailed appraisal of an individual's strengths, weaknesses, and suggested development moves. They spend four to five hours with each candidate and conduct a 360-degree 'reference check' talking to as many as 30 people. Following a review with the executive and his or her manager, the report goes to the CEO Jeff Immelt and the Vice President of Human Resources.

Another differentiator of assessment at Top Companies is that it is more aligned with what is expected of leaders – expectations that are clearly laid out in leadership competency models. These include what we call 'foundational competencies' – those expectations of leaders that are common, generic and cut across many institutions – and 'differentiating competencies' – those capabilities and skills that differentiate leaders in their enterprise. Top Companies have more and better-defined foundational and differentiating competencies; their expectations of leaders are clearer, sharper. Top Companies have much better defined 'theory of leadership' – one that highlights how leaders there are expected to standout from leaders elsewhere.

Executive assessment is then integrated and aligned with this theory of leadership. Each executive is assessed against expectations that are unique and relevant to the organization and its customers and other external stakeholders, development priorities are clear, and advancement and rewards are tightly linked.

Creating and following up on executive development plans is also critical to ensure value comes from the assessment process. In the words of one Top Company: "All senior

Table 2.1: Top Companies use a wider variety of assessments in evaluating and developing senior leaders than other companies

	Top Companies	Other Companies
360 degree feedback	88%	61%
Performance ratings	100%	87%
Competency-based assessment	84%	66%
Personality assessments	36%	33%
Simulations/Role-play exercises	36%	21%
Values inventories	32%	14%
Cognitive tests	32%	14%
Leadership-style inventories	48%	24%
Behavioral interviews	72%	45%
Career Interest Inventories (e.g., customized job fit, culture fit measures)	48%	22%

Table 3.1: Top Companies use more customized training in developing senior leaders than other companies.

Leadership Education Practices (received at least 80% of the time)	Top Companies	Other Companies
Customized leadership training	100%	76%
Vendor provided leadership training (e.g., off the shelf)	32%	37%
Customized e-learning programs available online	28%	25%
Vendor provided e-learning programs available online	28%	19%
Executive education courses	68%	57%
External degree programs (e.g., executive MBA programs)	24%	33%
Simulations	32%	12%
Case studies	64%	23%
Leaders as teachers	88%	41%
External perspectives included in curriculum (customers' needs, analyst reports)	76%	28%
Customized training program	76%	39%

executives have individual development plans. They take this very seriously and meet with the CEO to review progress on these development plans. This kind of execution is part of our DNA."

3. Use custom, business-based executive training and have your leaders teach

In looking at executive-level leadership education, most of the global Top Companies provide customized leadership development programs; other companies are more likely to use 'off the shelf' programs(see Table 3.1).

In the past, according to Jim Bolt the chairman of EDA, "executive development typically meant sending a few high-potential leaders off to university mini-MBA open-enrollment programs. Now it more likely involves custom-designed internal programs/processes used to develop the specific capabilities needed to achieve the organization's strategic objectives. This shift from 'traditional to strategic' is by far the most important trend in the field of executive development."

"This shift from 'traditional to strategic' is by far the most important trend in the field of executive development."

76% of Top Companies include external perspectives in their leadership training curriculum and only 28% of other companies do. This can take many forms, though is most commonly done by inviting industry experts, customers, regulators, or other key external stakeholders to speak at annual leadership conferences or executive development sessions. Some organizations have seen success by involving the marketing department in efforts to promote awareness of customer expectations through video montages or external consultants relaying customer feedback.

Another major difference between Top Companies and others is that their leaders teach. Leaders at Top Companies are twice as likely to regularly use leaders as teachers in their internal training programs. Andy Grove, the chairman at Intel, believes that training and development is one of the highest leverage activities a manager can perform. He personally taught new hires – not just senior executives – in boot camp-like sessions, teaching, pushing, and challenging. Jack Welch spent much of his time in GE Crotonville's pit and current GE CEO Jeff Immelt has followed the same path. Eighty-five percent of all the programs at GE are taught by GE leaders. Nearly all of P & G's programs are taught by the company's leaders, its board, or P & G alumni. In describing her role as one of the top leaders at P & G, Melanie Healey says, "If I were to sum it up, it's to live, learn, and pass it on."

Top Companies are twice as likely to regularly use leaders as teachers in their internal training programs

As senior leaders at Top Companies teach other leaders in the organization, they not only send a message about the importance of investing in future leaders, they invest in developing their own knowledge, skills, and abilities.

4. **Integrate job assignments to accelerate development**

We have long known that leaders learn best from on the job experiences. More than three-quarters of Top Companies indicate that job assignments based on development needs of the leader is the most effective leadership development method for senior leaders (tied with coaching from an external provider). There are three critical points wrapped into that little statistic that get at the heart of what differentiates Top Companies:

1. Top Companies have greater awareness and insight into executive development needs.
2. Top Companies have a process for placing executives into roles that addresses both business needs and development needs.
3. Top Companies find ways to support leaders in these stretch assignments – often through coaching.

5. **Use measures that matter and hold leaders accountable**

It is old axiom that if you measure something, you will get more of it; and if you then reward it, you will get even more of it. In looking at the organization's overall ability to build the executives it needs, Top Companies regularly measure the overall organization's capability. For example, Top Companies are more inclined to measure the effectiveness of their overall succession planning practices (100% v. 48%), including number of qualified candidates per position and number of positions with specific number of 'ready now' candidates. Not coincidentally, 88% of Top Companies (v. 44% of other companies) have more than 3 candidates slated for a typical senior management position and 100% (v. 61%) fill senior management positions with candidates from the succession plan when filling positions internally. By measuring a leading indicator of executive leadership bench-strength, Top Companies ensure they are focusing organizational resources on building the executives they need. At one Top Company, a team conducted a study of the psychometric profiles of officers and directors they had fired and used the information to inform their future executive talent strategy. If you have an executive unexpectedly resign or be fired, how deep is your bench? How long does it take to get the successor identified? -in place? Given the significant impact executive-level positions have on the organization's ability to consistently deliver expected results that is a metric that matters.

Top Companies are also differentiated by the fact that they are more likely to hold leaders accountable through compensation for developing direct reports (88% v. 38%). Leaders at top companies are also rewarded (e.g. promotions, compensation) for the strength of the talent pipeline in their business unit(s) (88% v. 49% of others) – the results of this measurement strategy shows up in the higher levels of time leaders in Top Companies spend in these types of activities. For example, at American Express 25% of the incentive

The Top Companies for Leaders study is the most comprehensive longitudinal study of talent management and leadership practices around the globe. It was conducted again in 2011 for the sixth time with the overall results published in Fortune Magazine and run by The RBL Group and Aon/Hewitt. This round, 470 companies participated, each completing a detailed questionnaire. From those submissions, finalists were identified and hundreds of interviews were conducted with senior executives. Results were published in the November 4, 2011 issue of Fortune Magazine and are available online at: http://money.cnn.com/galleries/2011/news/companies/1111/gallery.top_companies_leaders.fortune/index.html

pool is based on the Employee Scorecard. "Our goal is to keep the scorecard simple enough so that leaders can see how they impact the overall employee measure," says Tom Leitko, vice president for organizational capabilities and performance. "It is quite motivational," he adds. "Our people, including senior management, pay a lot of attention to the scorecard."

6. **Promote your Leadership brand**

Leadership investments are business investments. Companies make them because they believe they will help them succeed. Communicating to stakeholders the quality of current leadership and investments and results in improving the quality on an ongoing basis generates stakeholder confidence that leads to greater market value. Top Companies

What you say matters less than what you do... Saying you are building strong leaders who embody your leadership brand only works when leaders actually do

all have intentional efforts to build reputation for leadership (100% v. 66% of other companies) and they are more likely to systematically communicate with internal and external stakeholders about how leadership investments impact business results (88% v. 61%). Top Companies are also more likely to target communications to investors and analysts (66% v. 48%) and customers (80% v. 69%) – a key to generating intangible value from leadership investments.

In *Reporting on Human Capital*, David Creelman finds that GE and IBM lead in reporting on their investments in human capital, including leadership development. "If there is one thing that makes GE stand out it is that they seem to know why they are reporting what they are reporting. They don't report on human capital matters just because it's fashionable, they do it because it highlights how they are executing their strategy and they always try to provide some sort of metric." IBM's reporting is similarly impressive because they focus on a capability that drives value: innovation. IBM makes a point of highlighting how their innovative HR practices infuse the company with a focus and growing capability for innovation – a source of future value for IBM and shareholders." For executive development, this means tying investments, measures, and key messages to the business case and communicating that clearly to critical stakeholders.

As every specialist in child development will tell you, what you *say* matters less than what you *do*. The same holds true for leadership reputation. Saying you are building strong leaders who embody your leadership brand only works when leaders actually do. Top Companies have done a better job of building awareness throughout the organization about what their leaders should know, be, and do (96% v. 77%). They reinforce that by factoring how leaders achieve results into who gets promoted (72% v. 43% strongly agree) and that leads to results: 80% of Top Companies v. 50% of others strongly agree that their senior executives act as role models to support what the organization wants to be known for by external stakeholders.

Conclusion

Executives matter. They, more than any other group in an organization, have a significant impact on short- and long-term results. As a result, investors weigh the quality of leadership, particularly executive leadership, almost as heavily as industry factors in making investments decisions.

Erin Burns has over 15 years experience in leadership development and consulting and has been involved in the Top Companies for Leaders research since 2008. She is responsible for the development of new products and methodologies in RBL's leadership practice.

Bob Gandossy is the author of 6 books and over 60 articles on leadership, talent management, HR strategy, innovation, the future of HR and the global workforce. He helps clients build more effective HR strategies and leadership practices drawing on his own leadership experiences, years of consulting to the world's most admired companies, and the Top Companies for Leaders Study.

Despite much discussion about the need for leadership development in corporate and public organizations, and the considerable industry that surrounds it, this is the first authoritative periodical focused entirely on this area.

Developing Leaders looks at the critical confluence between the provision of executive education and the real everyday needs of organizations to strengthen their management teams, their corporate performance, and their leadership.

The publication presents the latest thinking and most recent developments in both academic and commercial executive education provision worldwide, what it is achieving and which are the best models for success, sharing the experience and expertise of top leaders and world class educators.

Developing Leaders is published in both hardcopy and online “page turning” format. The quarterly magazine complements the IEDP website - the definitive resource for executive developers worldwide.

www.iedp.com

iedp