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THE CEO'S GUIDE TO:

# TALENT MANAGEMENT

Building a Global Leadership Pipeline

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THE CEO'S GUIDE TO:

# TALENT MANAGEMENT

Building a Global Leadership Pipeline

By

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## SECTION : ONE

### What is Talent Management?

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

Yet we still talk to senior VPs of human resources every day who complain that their CEOs still treat talent strategy as an afterthought, failing to grasp both how it supports their plans for the business and their role in steering its course. And while we talk to CEOs who know talent management needs to be a personal strategic priority, they seem unsure about best practices and the best path for their own company. What we want to demonstrate in these pages is how talent management can become the most critical process in meeting your strategic goals and taking your company to the next level.

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

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

- Connecting corporate strategy with the quantity and quality of leadership required to execute it.
- Driving leaders' accountability for the cultural strategies that support business goals.
- Identifying those individuals with the highest leadership potential across the organization early in their careers.
- Assessing high-potential talent against a holistic and future-facing definition of leadership.
- Accelerating the development of high-potential talent and improving the quality of executive leadership.
- Enhancing the focus on growing better leaders at all levels, from first line upwards.

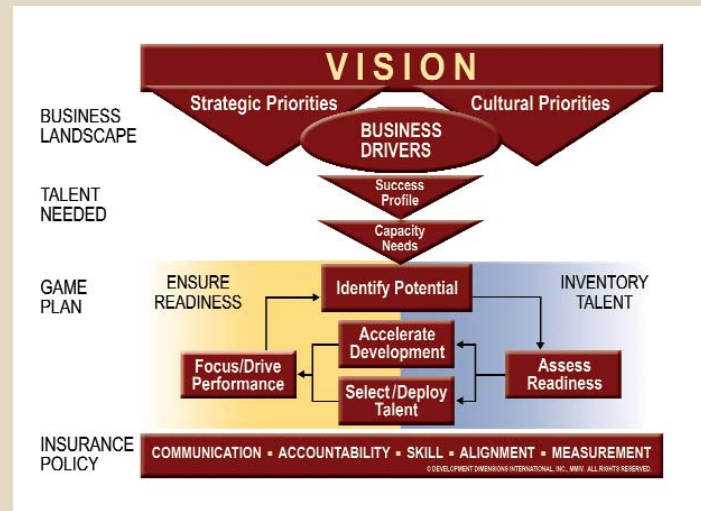


Figure 1 DDI's Comprehensive Talent Management Model

## SECTION : TWO



*“I would say on a long-term basis, as the CEO, I have primary responsibility for . . .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.”*

**John Swainson, CEO  
CA Inc. (United States)**

### **Why is Talent Management a CEO Priority?**

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

Unfortunately, this realization hits at a time when demand exceeds supply. The demographic factors underlying this have been well-rehearsed: From 1998 to 2008, while the workforce is expected to grow by 12 percent, the number of 25–44 year-olds (the age cohort from which tomorrow’s leaders must emerge) is expected to decline by 6 percent.<sup>1</sup> This is not only a North American concern; Europe and parts of Asia face similar challenges.

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

In the past 5 years, economic growth, new market expansion and globalization have kick-started many organizations’ needs for job-ready leaders of a different caliber—mobile, adaptable,

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

**Thierry Porte, CEO, Shinsei Bank (Japan)**

culturally aware and technologically literate. Consider Trend Micro—headquartered in Japan, with its R&D function in China and its worldwide sales operations in California. When we ask the custodians of resourcing plans across the globe how they frame the challenge, two-thirds of human resource (HR) professionals believe it will be significantly more difficult to find middle and senior leaders in the future.<sup>2</sup>

It’s tempting to regard the solutions to your own pipeline deficits as the province of human resources specialists and a good headhunter. However, in both the 2003 and 2004 *CEO Challenge Reports*<sup>3</sup> issues of leadership talent and employee engagement were identified to be among primary CEO concerns.

In DDI’s *2005–2006 Global Leadership Forecast*, meanwhile, over 4,500 leaders from around the world cited improving and leveraging talent as their second business priority (on a list of 14), preceded only by improving customer service relationships.<sup>4</sup>

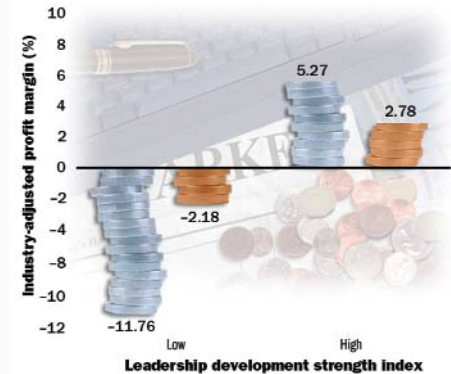
**Figure 2**

Industry-adjusted Return on Equity and Leadership Development Strength Index



**Figure 3**

Industry-adjusted Profit Margin and Leadership Development Strength Index



In a recent DDI survey with the *Economist Intelligence Unit*,<sup>5</sup> 20 CEOs interviewed for the study said that talent management was their responsibility, taking as much as 50% of their working time—a very large amount when one considers a top executive’s crowded agenda.

It’s axiomatic that it pays to leverage the resource on which companies spend, on average, one third of their revenues. But beyond this simple truth, there’s a plethora of research that underscores the quantifiable connection between talent and business performance, and explains the increasing investor scrutiny this attracts:

- DDI’s *Leadership Forecast 2005–2006* (Wellins, R. and Bernthal, P., 2005, DDI), showed that companies with stronger leadership development systems enjoy higher returns on equity and profit when compared to their competitors. (See Figures 2 and 3)
- A 1999 study by Sibson & Company and McKinsey<sup>6</sup> showed a direct link between quality of succession management programs and shareholder return.
- Hewitt Associates reports that the vast majority of top financial performing companies (85 percent of the top 20 in a field of 373 companies) hold their leaders accountable for developing talent, compared to just 46 percent of leaders from the other organizations.<sup>7</sup>

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

**Maarten Hulshoff, CEO, Rodamco Europe N.V. (The Netherlands)**

More than this, talent is a rapidly increasing source of value creation. In 1982, The Brookings Institution found that 62 percent of an average company’s value could be attributed to its physical assets (e.g., equipment, facilities), with only 38 percent attributed to intangible assets (e.g., patents, intellectual property, brand, and, most of all, people). Yet just one generation later in 2003, these percentages more than reversed themselves, with 80 percent of value attributable to intangible assets and just 20 percent related to tangible assets.<sup>8</sup>

**Finally, for some companies, the most urgent driver to engage with the talent agenda is CEO succession.** CEO turnover has exceeded 300 percent over the past five years, with no let up in sight. Boards and investors are putting senior leaders under a microscope with scrutiny most intense at the CEO level. Inspiring shareholder confidence in business continuity requires that there is a ‘Plan B’ should emergency surgery be required.

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



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

**Tom Wilson, COO**

**The Allstate Corp. (United States)**

## SECTION : THREE

### Ten Traps and How to Avoid Them

In most companies, the processes and tools around identifying potential and accelerating the development of top leadership talent are facilitated by HR. In the best companies, however, a strong sense of personal responsibility to spot, nurture and retain talent is deeply embedded in every leader's approach to their role, and is evident in how they spend their time. This stems from a perception that the CEO sees talent as a strategic priority, and is the constant champion of those initiatives that drive it.

On the following pages, we list some of the snares we commonly see in the design and execution of talent management strategies. Each is followed by a component, which, with your personal commitment, will help you realize genuine business impact.

*“We don't sit down each year and justify our spending on leadership management. It's a given that it's beneficial and that it's a good investment. We see when we put a new person into the job who's good or better, the business results get better.”*

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

*“Companies that have strong management development and success 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...The fact that people are prepared to move into positions rapidly and can assume those positions is an important thing.”*

**John Swainson, CEO, CA Inc. (United States)**

### ▣ TRAP 1

#### PAYING LIP SERVICE TO A TALENT MANAGEMENT STRATEGY.

'CEO support, CEO support, CEO support. Without it, you might as well not bother' according to the SVP of HR at Panasonic. That organization has it, and uses this to ensure that the supply of talent within this globally expanding business keeps pace with its growth. A whopping 96% of Chairmen in a recent survey ranked talent management as highly important to the success of their organization, yet one third of organizational succession plans are ineffective and showing no signs of improvement.<sup>9</sup>

### ○ YOUR ROLE

Ensure that you and your team can provide unified answers to the following fundamental questions:

- What are the pressing business drivers for growing our talent?
- What business value should we expect if we're successful at talent management?
- What will impact leadership success and failure in our organization?
- Are we prepared to differentiate focus and investment in our employees based on their leadership potential?
- What actions are taken as a team and individually to improve our talent?



Use all the support a strategic HR leader can offer in designing a strategy, synchronize the timing and focus of the people plans with your business planning process and outcomes, and retain personal ownership of the execution. Above all, stay involved. The beauty of a strategy in this, as in other matters, is that once it's devised and launched, it provides momentum and meaning to the separate steps of the process, and is easier to measure than a series of isolated initiatives.

## ❑ TRAP 2

### NO CLEAR DEFINITION OF 'LEADERSHIP.'

Start with the end in mind. Based on your business strategy, looking to the future, what challenges will leaders need to address? What knowledge, experience, skills and personal attributes will be critical to their success in doing this? (Organizations tend to focus on skills and knowledge, forgetting that inappropriate personal characteristics or experience are more likely causes of failure.) Further, the prescription for success differs for different roles and challenges; our experience is that there may be a greater disparity between roles than between organizations. For example, the success profile for a leader expected to drive double-digit growth may differ from one required to institutionalize lean manufacturing.

## ○ YOUR ROLE

Work with HR and your senior team to articulate with absolute clarity what characterizes successful future leaders across senior, middle and first levels of your organization. Ensure these profiles reflect what leaders need to do to drive strategy execution, and keep them current as your organizational goals change.

## ❑ TRAP 3

### CONFUSING TALENT MANAGEMENT WITH SUCCESSION PLANNING.

Many companies claim a talent management strategy when what they have is a contingency plan for replacing those occupying the top slots. Successful organizations make three key distinctions:

- They balance the focus on 'linch-pin' positions and key players with broader strategies to support leadership transitions at every level—from contributor to leader, to leader of leaders and so on. They segment their talent base.
- Their energy is directed at building a 'pipeline' or ready supply of leaders, rather than matching individuals with a specific future role. Companies which do this well designate 'talent pools' of those whose growth they want to accelerate, whose members are the subject of differential development focus.
- They are careful not to treat all roles alike. They plan for the future security of those roles, which both add the most value and where there is the highest variability of performance.

## ○ YOUR ROLE:

Champion a 'learning culture' that prepares people to handle each major transition, assignment and career move. This requires that all leaders:

- **Become talent scouts**, responsible for unearthing early potential, and are celebrated as such.
- **Actively support and track their people's development**, as well as modeling personal growth themselves.
- **Are held accountable** through the performance management system for measurable objectives in growing leadership talent.
- **Have incentives to support talent processes**, for example, bonus linkages to their talent-related achievements.

Work with your senior team and strategic HR to define the major value-creating roles in your organization. These will be those on which the execution of your business strategy hinges.

*“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.”*

**Robert Care, CEO, Arup Australasia (Australia)**

## □ TRAP 4

### SHROUDING THE PROCESS AND GROUND RULES IN MYSTERY.

Some organizations are wary of de-motivating their steady but unexceptional performers, but transparency in your talent management processes is generally a better policy. In some companies it is widely known that there is a high potential talent pool, and members know they will receive differential development focus and support. Others are less overt about the process, and many organizations prefer discretion around individual names. Either way, clear nomination and selection criteria, consistently applied, help generate energy and engagement in line managers around the strategy and stimulate aspirations in those seen as having the most growth promise. Once the process is clear, create essential ground rules, foremost of which is: ‘No one department or manager owns the talent.’ We know of exceptional leaders who reluctantly leave great companies just because their managers won’t countenance a move to another operating unit, although there’s no bigger job ready within the existing team.

## ○ YOUR ROLE

You need to help frame the process and criteria, then communicate them. Give those nominated clear expectations about what commitment they’re making and what the organization expects of them, and in turn, what the organization intends with

every step of the process. Make sure, also, that all stakeholders understand what the process is NOT—for instance, a guarantee of future promotion. CEOs need to insist that top talent is the property of the organization as a whole, and provide adequate funding for organization-wide initiatives as evidence of this.

## □ TRAP 5

### WAITING FOR THE CREAM TO RISE.

Your senior managers may argue that they know who their successors are when they look at the next layer down in the organization, but strength in depth comes from spotting talented people currently 5, or even 10, years away from senior roles and accelerating their readiness for bigger challenges, sooner. For example, ICI looks for leadership potential in their new graduate recruits.

## ○ YOUR ROLE

Your role is as chief talent scout, looking beyond the usual suspects, getting out to the field and onto the floor, looking and listening for standout performers. Make it clear to your entire senior management team that this is their job too, and provide clear criteria. Don’t confuse this with decisions about readiness for bigger jobs, which should be based on some form of assessment—it’s simply the first step in narrowing the funnel for a differential focus on key players.

*“Because the total (Johnson & Johnson) strategy focuses on growth and innovation, the HR strategy has to tie in to how can we grow faster. So the strategy includes how we can expand the pool of talent from recruitment, how can we expand the competency of existing talent, the third is the retention of talent.”*

**Cindy Lau, Managing Director, Johnson & Johnson China (China)**

## □ TRAP 6

### USING SUBJECTIVE DATA TO MAKE CRUCIAL DECISIONS ABOUT TALENT.

Most critical business decisions are founded on in-depth information and careful analysis. Sadly, the same due diligence is not as often applied to leadership promotion, placement and development decisions. Companies such as Citigroup, GKN and Nissan perform robust diagnoses of specific, individual development needs in relation to the target level they may eventually occupy. Such analysis should take account of the whole person, including personality traits, and lead to a tailored personal development plan. Generic training programs for your high potentials need to be viewed with caution unless there are obvious needs in common, such as understanding your business strategy.

## ○ YOUR ROLE

Learn about the wide array of objective assessment options available to support accurate evaluation of—or ‘due diligence’ on—your talent. Check for business focus—what do the outputs of the process look like, and how will they help you make difficult and high-risk placement decisions relative to desired business outcomes? Often, specialist HR consulting firms can help in this area, providing (more visible) objectivity and scalability.

## □ TRAP 7

### IGNORING QUIRKS OF PERSONALITY IN PROMOTION DECISIONS.

It’s a common mistake to overlook potential personality ‘derailers.’ Derailers become obvious during times of stress, increased visibility or challenging transitions, and include styles and traits, which may have been helpful at earlier career stages. For example, confidence may veer into arrogance (i.e., over-estimating one’s own importance), passion may slide into volatility, and highly sociable individuals may become self-promoting. Derailers can have significant consequences when senior leaders are allowed to display them unrestrained by self or others. They should be uncovered at the diagnostic stage (TRAP 6), and individuals made aware of them.

## ○ YOUR ROLE

The best CEOs remain mindful of potential derailers when planning placements and promotions and are not seduced by candidates’ intellect or results to date into believing ‘derailers’ won’t have an impact.

*“You may get somebody onboard and discover that they are not really as good as you thought. That can strain growth. In a business like ours, there is such an incredible interdependency that the lack of an effective leader in one part of the organization can actually strain another.”*

**John Swainson, CEO, CA Inc. (United States)**

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

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

## □ TRAP 8

### LAZY THINKING ABOUT DEVELOPMENT SOLUTIONS.

If your IT manager has a future as a strategic leader, give him the corporate e-procurement strategy to develop and implement, so that he's exposed to every area of the business, rather than sending him to a business school for a month. If this new accountability pays off, you'll have a way of measuring the success of your talent management strategy that goes right to the heart of the business. The magic is in the mix of classroom training, action learning projects, special assignments, new challenges, manager support, reading, etc. But the trick is to ensure that people know what they're expected to gain from a job experience, and have the resources to help them reflect and distill the learning.

## ○ YOUR ROLE

**As CEO, you are uniquely placed to see what's occurring in your business** that might represent a development opportunity. Determine the outcomes you want by way of measurement and ensure creative thinking about development options as well as the organizational support the individual might need for success.

## □ TRAP 9

### IGNORING THE TEAM MOSAIC.

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

## ○ YOUR ROLE

**Ask yourself both questions—is this the right fit for the role? AND is this the best person for the team?** Remember that if the answer to the second question is 'no,' then this is also likely to become the eventual answer to the first. It's essential, also, that you keep others honest and hold them to the same questions in decisions in which you're less directly involved. Of course, this requires that you know the individuals involved, or can rely on the advice of those who do. If you have inadequate data, seek the support of HR who will be able to provide a range of tools to bring some rigor to your thinking.

*“It's understanding not only the individual nature of the candidate or the potential colleague but the culture into which he's going to be operating and whether that fits.”*

**Peter Johnson, CEO, Inchcape plc (United Kingdom)**

## □ TRAP 10

### ASSUMING YOUR MANAGERS AT ALL LEVELS ARE 'TALENT LEADERS.'

Our data on over 1,000 senior leaders shows that developing and championing talent is one of their weakest areas. In fact, the reality is that many mid-level managers upward struggle with the idea of development as being anything but remedial. They may have by-passed key career transitions, which have left important leadership skill deficits, yet fail to prioritize—or are dismissive of—training opportunities. They tend to focus on correcting 'weaknesses' rather than capitalizing on each person's unique talents. But if every people leader has the skills to scout for 'high potentials,' have meaningful performance discussions and coach for success, build creative development plans and make effective hiring/promotion decisions, talent management processes will have momentum of their own. For this, managers need enlightened role models.

## ○ YOUR ROLE

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

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



*“[Talent management] is about making sure that you have the right people in the right places for both themselves and the organization, and needing to make sure that you as chief executive are taking responsibility for the development of your leadership talent. It’s one of the best legacies that you can leave any organization.”*

**Michael Wilkins, CEO  
Promina Group (Australia)**

## SECTION : FOUR

### What Best-in-class, Excellence in Talent Management Looks Like and Your Contribution

For over three decades, DDI has helped thousands of organizations around the world achieve superior business results through selecting, developing, and retaining exceptional talent. Over the course of this time, through both experience and extensive research, we have developed a process which incorporates best practices and serves as the foundation for a talent management system. Addressing each of these components, in turn, will help you build a strategy for managing talent, which truly supports what you're trying to achieve as a business.

*“What we want to do is force managers out of managing people and into leading people. They have to have good quality people in the next level. And those people...have to know what the strategy is, know how to execute it and have to be capable to execute it.”*

**Scott Mac Meekin, CEO, Bossard Trans Pacific (Singapore)**

### STEP 1: STARTING WITH THE END IN MIND—YOUR CURRENT AND FUTURE BUSINESS NEEDS.

Talent management delivers real competitive advantage when your business goals and strategies are the starting point for determining the quality and quantity of the talent you need. Proctor & Gamble, for example, considers business decisions and talent decisions as one. Reflect on the different talent needs of these organizations:

- “We are a global automobile manufacturer that has steadily lost market share. What sort of talent are we going to need to shake up the status quo, rejuvenate our brand, and drive the lean manufacturing initiative needed to turn things around?”
- “We are a utility in the midst of deregulation. Consumers will have choices. On top of that, we are getting into whole new businesses. How will the skills of the talent we currently have fit with our new entrepreneurial business model?”
- “We are acquiring one of our biggest competitors in the medical diagnostic arena. Who will oversee the integration? What is the right management team for our new company? Who will help us focus on quality and cost containment, while pursuing new markets? How will we ensure we retain the best?”

These real scenarios are vivid illustrations of the need to intertwine talent requirements with business needs—which means that the business and talent planning processes need to happen in synch. At the same time as strategic plans and forecasts are prepared for business units or functions, address the questions of who will execute each piece of the plan and what skills they possess (and need to develop) to enable them to be successful.

The first challenge organizations often wrestle with at this point is getting the senior team on the same page to prioritize strategic goals and the desired culture in terms of expected leadership behavior. Building consensus about how to mobilize the energy of the organization in a common direction and clarifying accountabilities are often the starting points for translating a talent strategy into action. This can be accomplished through a focused, well-facilitated session with your senior executive team. The outcome of this session should be a clear definition of the following elements:

**1. Key strategic priorities (the Whats):** These are the handful of highest impact priorities, which provide focus for people's energy and drive key business initiatives that will expand business, increase market share, or improve profitability—in short, propel your organization ahead of the competition.

Creating 'lead' and 'lag' measures brings these to life in your organization. Beware of becoming overly reliant on the 'lag' measures (e.g., revenue achieved) as opposed to the 'lead' (e.g., sales funnel), since it's the latter which allows for course correction when threats to strategy achievement emerge. (See Appendix A for sample measures.)

**2. Cultural priorities (the Hows):** These are the core organizational values, beliefs, and expected behaviors that define how work is to be accomplished, and how employees interact with one another and customers. You will likely have these in place—but are they tightly aligned with strategic priorities?

**3. Leadership imperatives:** These are the broad challenges to which leaders must step up, to drive the successful execution of the strategic and cultural priorities (e.g., driving change, penetrating new markets, controlling cost, etc.). They may be common across levels and units; alternatively they may be different in different markets or segments.

## ○ YOUR ROLE

While your organization may have articulated strategies and a core set of values, be sure that they are fully operationalized into a few concrete and measurable priorities that can drive competitive advantage. It's also important to go one step further and agree on the leadership imperatives required for successful execution. These elements define what you should expect from your leadership team, and connect your key strategies and the 'type' of leadership talent you will require.

You'll need to facilitate consensus and keep relentless focus on the prize (your organization's vision) to guide decisions that drive these three elements across your business. It is important to look at both the bigger picture (i.e., common 'end game') as well as unique leadership imperatives specific to different businesses. Use the realities of external business drivers and 'best bet' market opportunities as your yardstick.

Further, selection, promotion and placement decisions take on added significance in the context of a talent management strategy. Tempting as it is to reward a stellar track record of results alone, bringing someone in to the leadership team who is not seen to live the company values sends the strongest possible message that the quality of leadership is unimportant in your organization.

One of the chief advantages of a well executed talent management strategy is that you're obliged less often to take such risks on an unknown quantity because you have many more, better-informed options to promote from within.

*“I actively encourage the board to spend time in the bank meeting with various groups of people—without my presence—to see what they can pick up and understand. And then we sit down and talk about what’s been observed and what’s been learned and what things we need to focus on.”*

**Thierry Porte, CEO, Shinsei Bank (Japan)**

## STEP 2: WHAT KIND OF TALENT DOES THE BUSINESS NEED?

### SPECIFYING THE QUALITY OF TALENT NEEDED TO WIN.

This involves translating your unique requirements into concrete descriptions of the type and quality of talent you need. This means determining the ‘success profile’ for key organizational roles or levels, and sizing up both the quantity and quality of your leadership bench in relation to current and future business needs.

It may appear at first to be tactical HR activity, but your experience of the differing roles within and your intimate knowledge of your organization are critical to this step’s effectiveness. You are also uniquely placed to forecast the implications for talent of emerging business strategies, and can help ensure that your ‘success profiles’ are really future-proof.

DDI’s analysis over the last decades of why leaders succeed and fail has led us to believe that performance at any level is linked to four categories of capability:

1. **Organizational Knowledge**—What I know.
2. **Experiences/ Job Challenges**—What I have done in the past.
3. **Competencies**—What I am capable of.
4. **Personal Attributes**—Who I am.



**Figure 4** DDI’s approach to defining required leadership capabilities.

Many companies attempt to define one consistent leadership profile for all types and levels of leader. In reality, success profiles need to differ based on level (e.g., strategic, operational or front-line leader), role and, critically, changing leadership imperatives so that they represent the ‘wiring’ to execute effectively. Include technical or functionally-specific skills where relevant.

This ‘profile’ also provides the information needed to drive subsequent steps in the talent management process, and other HR systems such as on-boarding and performance management.



**Figure 5**



Our experience is that for aspiring and incumbent senior leaders, knowledge, experience, and competencies are all critical for success—but it is the personal attributes, especially potential ‘leadership derailers’ that are most likely to predict failure. This means it’s essential to measure a leadership candidate’s prospective derailleurs, and other personal attributes (including values and motivation) for selection into critical jobs.

## **O YOUR ROLE**

The language of derailleurs is so helpful for discussing the impact of personality on leadership style and team effectiveness that you may value diagnosing and understanding your own and those of your team. Your HR team should be able to facilitate this.

### **STEP 3: WHAT AND WHERE ARE THE GAPS?**

#### **SPECIFYING THE QUANTITY OF TALENT NEEDED TO WIN.**

Once you’ve determined what kind of leadership talent you need for a target level—say tomorrow’s executives—you need to quantify *how much* talent will be required to meet future business needs. Since the answer is usually “we need more than what we have today,” this analysis often shapes the business case for investment in talent management.

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

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

A capacity analysis of this sort would be designed to address these questions:

- What are your most significant business challenges?
- Have you a sufficient pipeline of talent to address these?
- What may be happening three to five years out that might impact the number and type of leaders you will need to drive success?
- Where are your most significant leadership gaps (e.g., you may have a sufficient number of potential leaders to drive innovation and product development, but may fall short on those required to work on global assignments)?
- How are such regular audits integrated into your business and strategic planning process?

## **O YOUR ROLE**

Insist that HR works with your senior team (and usually, the next level as well) to define success profiles specific to your leadership imperatives. Similarly, insist that business units provide a sound leadership/talent forecast as part of their business plan, visibly supporting its demands. (Many companies have leaders collaborate with HR business partners to do this.) A key next step is to discuss and challenge your team members’ projections and help them to think creatively around solutions to issues. We’ll talk later (Step 4) about the ‘Talent Audit’ as a more exact approach to gauging the readiness of your company’s leadership to deliver on strategy.

## STEP 4: IDENTIFYING HIGH POTENTIALS.

### UNEARTHING THE DIAMONDS.

As we've said, talent management is not about mapping an able candidate to a specific future job, but enhancing organizational leadership capability on a broader scale. This important step acts as a screening mechanism for those most likely to become tomorrow's leaders, providing a basis for a flexible 'pool', which individuals—for any number of good reasons—might move in and out of as years go by.

Unfortunately, just 34 percent of companies feel that they are effective at identifying those with potential to lead early in their careers, yet those that do, perform better.<sup>10</sup> Common mistakes include:

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

DDI sees three components as key to spotting and optimizing high potential talent:

## 4.1 EVALUATING CURRENT PERFORMANCE.

This means assessing the effectiveness of a person's performance and behavior in their current role, which should be done before evaluating potential. We believe that sustained high performance in the current position is a pre-requisite for potential.

### ○ YOUR ROLE

Of course, current performance is best assessed by managers and coworkers (through a sound performance management process). Your role is to model and champion management focus on:

- **Defining clear performance expectations** and measures which can be easily cascaded down.
- **Committing time to managing performance** (observing, coaching, giving feedback) such that this data is current and readily accessible across the organization.
- **Balancing consideration of results with behavior**, using the values of your organization as a unifying code, which sets expectations of leader behavior.

*"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."*

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

## 4.2 IDENTIFYING POTENTIAL.

In other words, this means determining which individuals have the most growth promise. Who will take best advantage of and respond positively to differential development opportunities? Who will support the organization's values, as well as being able to apply what is learned productively within the organization?

If you can identify potential effectively, you can focus your investment on those individuals who will generate the highest ROI in terms of their ability to grow quickly and broadly. Based on our experience, the factors that comprise potential are very difficult to develop. Figure 6 on page 34 shows the ten factors.

*“A lot of people have the same strategies as we have but we do better in some businesses than our competition because our managers are very good at execution.”*

**Ken Glass, CEO, First Horizon National Corporation (United States)**

## ○ YOUR ROLE

The judgments of managers who are familiar with the performance and behaviors of leaders are your best source of this information. You need to endorse and support processes by which they rate and discuss those patterns with other senior leaders in the organization. Senior members of your HR team can help you communicate common criteria such as those listed in Figure 6, and facilitate divisional/functional discussions.

When identifying high-potential leaders, most organizations consider a broad population across various business units and aim to identify the top 10 percent of employees as high potentials. The more exposure you have to individuals beyond your immediate team, the better positioned you'll be to contribute meaningfully to the process. This lends a whole new importance to walkabouts, company- or division-wide meetings, leadership breakfasts, Q&A forums of various kinds, skip-level meetings and so on, all of which can help you spot potential in unexpected corners of the business.

Many organizations create a snapshot of organizational capability by plotting their top—say—100 on a performance/potential matrix, or this may happen at a divisional or functional level. These analyses are often the output of talent review discussions. You need to be an active contributor to these and promote rigor and challenge so that selections into the 'pool' truly represent your company's best bets.

## 4.3 CREATING AN 'ACCELERATION POOL.'

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

Larger companies operate such a pool at several levels. It is not, however, an elite club; sustained performance is the only continued pass in, and participants need to understand and reciprocate the commitment the organization is making. As such, it is a powerful retention tool.

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

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

## ○ YOUR ROLE:

The strongest contributions you can make here are:

- **Take personal ownership of the ‘C’ level acceleration pool** (those who have the potential to succeed to your senior team). Demand realistic assessment of readiness and focused development for pool members. Drive thoughtful communication about the purpose of this pool (what it is, as well as what it is not—that is, a guarantee of promotion).
- **Know who’s in other pools, and why.** Meet as many as you can personally. If members choose to opt out, don’t let them go lightly. If they breach the values of the company, remove them as swiftly as possible.



**Figure 6** DDI identifies hard-to-develop attributes, most predictive of leadership potential.

## STEP 5: ASSESSING READINESS FOR LEADERSHIP TRANSITIONS.

How do you minimize the risk of promotions when the pace of business means that you often need to test people in untried roles with new responsibilities? How do you determine whether a proven leader from another company is the best choice for your organization?

Accurate assessment information is indispensable in these critical selection decisions.

### 5.1 INDIVIDUAL READINESS.

The vast array of assessment tools available have different strengths and need to be applied discerningly to help you and other stakeholders make better talent decisions. Of course, past performance appraisals can be a good starting point but they provide insight in relation to current, rather than future, roles. Likewise, a 360° survey focusing on others’ perceptions of performance in a current role is a powerful diagnostic for development but isn’t predictive in selection decisions. Here, simulations work better because they allow more objective observation and evaluation of promotional candidates as they ‘test drive’ a stretch (future) role that they have not previously held. A ‘day-in-the-life’ behavioral assessment, giving candidates opportunities to interact in a variety of scenarios and make decisions under pressure, is one such example.

*“My role is to motivate people to take on [talent management] initiatives, make sure that we allocate sufficient time to think about the culture of the company, to create an AI culture, to spend time setting goals and targets and do a proper performance evaluation, to think and work and talk about management development.”*

**Maarten Hulshoff, CEO, Rodamco Europe N.V. (The Netherlands)**

For senior leadership assessment, personality inventories complement behavioral data because they help predict whether an individual has the orientation to make certain types of role shifts, for example, from an operational to a strategic role.

DDI's approach to assessment uses a range of heavily researched and validated tools that can be configured into a system that suits the purpose. The assessment center approach is the most predictive. Here, a leader 'tries on' a simulated leadership role and faces highly realistic and complex challenges designed to reflect the challenges the organization is facing—for example, building strategic alliances and determining market direction. This way, they can actually demonstrate their readiness for transition to another level. Personality inventories, interviews, and/or 360° data often supplement this, yielding rich insights about the individual and his or her greatest strengths and potential derailers—especially in relation to future leadership imperatives.

Interviews which explore candidates' motivations and strengths in-depth, and multi-perspective or 'reference' interviews also provide robust data around an individual's capabilities and motivations, particularly in the hands of trained assessors and psychologists.

## **○ YOUR ROLE**

Leverage the expertise of HR to create the right mix of tools for your purpose and budget. Where senior people are being assessed, whatever the tools used, external support is usually helpful as it removes the embarrassment and potential perceived subjectivity involved in HR's interactions with colleagues. Specialist firms like DDI help give the process face validity and their consultants are trained in giving feedback effectively to even the most recalcitrant senior leader. Beware the hard-to-avoid conflict of interest inherent in headhunters undertaking this work for you.

Critically, don't make placement or development-related decisions in the absence of robust and objective diagnostic data, gathered against the success profile. This ensures that the processes for selection and promotion are transparent, credible and reliable AND that you are seen to apply the same rigor to talent decisions as to financial matters.

Finally, if you're willing to invest your business's money in the process, then be willing to invest your time and that of other senior decision makers in understanding the results. DDI, for example, presents individual and group level findings in Strategic Talent Reviews as a basis for discussions about what next for whom, and how. With the involvement of the right line managers you can then triangulate the data obtained on an individual through formal assessment with anecdotal evidence so that the picture has real depth and substance for you and others involved in decisions about their future. The group data should also reveal to you organizational capability gaps and potential quick wins in terms of group development opportunities as well as any cultural barriers to effectiveness.

## **5.2 ORGANIZATIONAL READINESS, OR 'TALENT AUDIT.'**

Increasingly, decisions about strategic direction and organizational structure (or restructuring), mean decisions about talent. Which talent "you want on the bus" (ala Collins' *Good to Great*) impacts not only your ability to execute but also your stakeholders' confidence in that ability, which can amount to the same thing. A thorough analysis of what you've got and how far it's likely to be able to take you in your chosen direction—the talent audit brings some visible assurance to all stakeholders. It's particularly helpful in the context of major strategy shifts and/or M&A when there may be a number of unknowns in your management, relative to your organization's future direction.

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

## ○ YOUR ROLE

Make sure that your team and your HR partners fully understand the magnitude of the 'big questions' you are asking about talent and strategy alignment. Throughout the process, champion thoughtful focus on both business outcomes and cultural impact since they are ultimately interwoven.

Ensure that the way in which you use the data gathered in such a process does not undermine the trust and commitment of those involved. Your clear positioning of purpose, and management of expectations up front and throughout is critical. If this is seen more as due diligence for execution capability than an attempt to rate and rank, and leveraged as a basis for targeted deployment and development, it will energize your best people and keep the average on their toes.

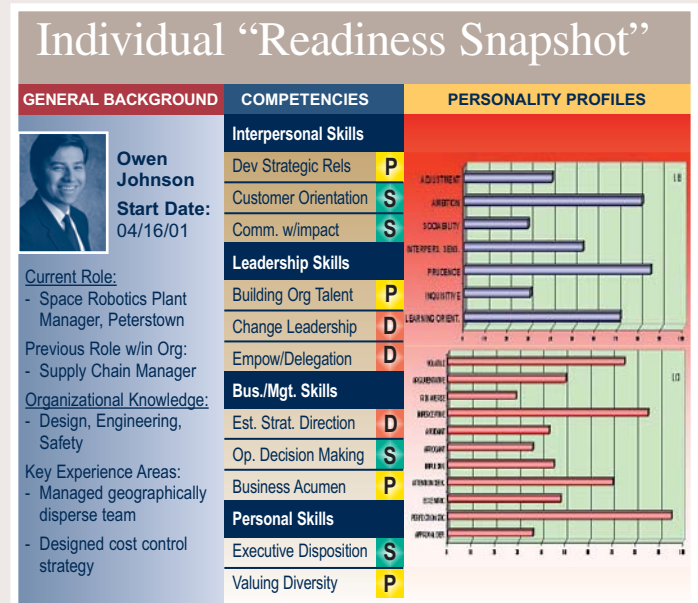


Figure 7 Outputs of in-depth assessment give you the critical data needed to make successful talent decisions.



Figure 8 Assessment data also helps to determine development priorities and support crucial placement decisions.

## STEP 6: ACCELERATING DEVELOPMENT.

After any kind of assessment, it's essential that the participant is given thoughtful feedback and has the opportunity to fully accept the implications of this for his or her current situation and future aspirations. It's much easier to buy into what can be tough messages if your incentive for hearing them is greater career success.

It's then important to agree on development priorities that focus the individual on growth areas or strengths that match what the business needs of its leaders, their own role requirements, and their personal goals and objectives. Ideally, feedback and development planning will offer insight and focused strategies that target all three facets.

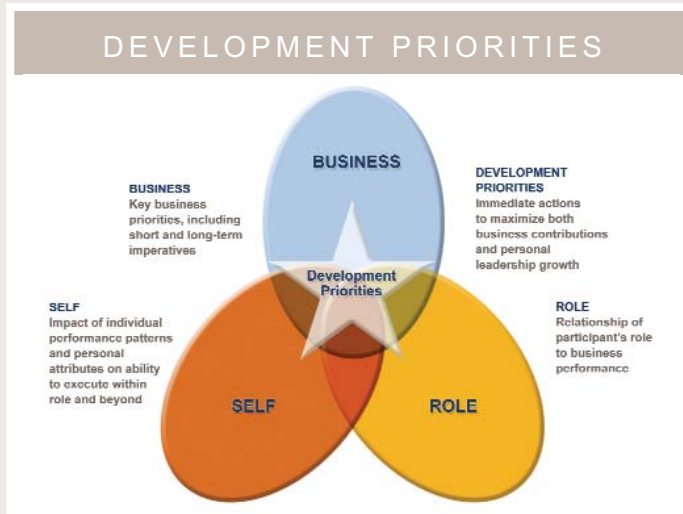


Figure 9 High ROI development activities sit at the intersection of business, role, and individual needs.

The intended outcome is measurable performance improvement in the individual, and the single greatest determinant of this is line manager involvement. Without his or her sustained

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

**Shiv Nadar, CEO, HCL Technologies Limited (India)**

support, the individual will always struggle to maintain any kind of developmental momentum. The manager:

- **Needs to meet with the individual** after he has received assessment feedback and identified development priorities, and agree and document development activities and timing. The support of development specialists from the HR team to maximize creativity in design and implementation of these plans is invaluable.
- **Is responsible for building accountability** into the plan, with milestone dates and clear measurement criteria for each. This process tension means that the individual is far more likely to take a reflective and self-aware approach to the development activities, knowing they will have to account for the experience.
- **Should ensure that the individual understands** that they're not expected to be in full possession of all they need to be successful going into the developmental assignment. Asking for support (difficult for high performers at the best of times) should be rewarded, whether in the form of practical skills coaching or guidance in how to navigate the organization.
- **Is accountable for reporting on the success** of the development process to superiors, and lobbying for support where they believe it's warranted. If leadership is to become a core competence of your organization, managers need to be measured on their effectiveness at developing organizational talent, and their results given senior level visibility.

Development may be in the context of a new job assignment (i.e., on-boarding after a selection has been made), in preparation for a possible promotion or new assignment (i.e., in the case of future succession or in-place development), or in structured training for fundamental leadership skills as leaders reach new career passages. Executive development will likely be more individualized than at lower levels, where group leadership programs—classroom-based or action learning—can meet common needs.

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

Experience and research into how best to create measurable results from development have led us to 8 principles for success;

- 1. Accurate diagnosis is the first step in effective development.** It builds commitment to change and enables you to target development activities to high priority individual or group needs.
- 2. Ensure development is tied to where your business is going—now and in the future.** The ‘sweet spot’ is where this aligns with an individual’s job role and career aspirations.
- 3. Developing talent needs to represent a balance between fixing weaknesses and leveraging strengths.** Changes in leadership style are hard to come by. Give leaders the opportunity to shine in what they do best while working on just a few development needs.
- 4. Prioritize potential.** While everyone in your organization should have opportunities to build their skills/knowledge, precious resources must be concentrated on those in value-creator positions with the highest potential.

- 5. Effective development requires a blend of activities including mentoring, classroom learning, coaching, job assignments, action learning, etc.** Combine these activities to best fit specific development goals and accommodate individual learning styles
- 6. Do not underestimate the role of management support.** It’s not just about leaders modeling the same behaviors they expect to see from their people. It also requires managers to spend time planning, reviewing and re-focusing the development of their people, and recognizing their achievements.
- 7. Creating learning tension will maximize your return.** Is there a tight link between learning a new skill (or new knowledge) and applying and measuring it on the job?
- 8. Developing others becomes a measurable management performance objective.** What’s key here is creating process tension. Mentors and leaders need to be held publicly accountable for development progress. This open comparison of results ensures that championing development becomes apart of the ‘day job’ at all levels of leadership.

## ○ YOUR ROLE

**You are ‘chief coach and teacher.’** You would expect to coach your direct reports, of course, but leading a talent management strategy means getting involved with leaders further down the organization as a scout, a mentor and a model for your vision of leadership. Create opportunities to listen to your managers, share your experiences and pass on what you know. Prioritize a two-hour slot at every leadership retreat to share your vision and strategy. Dine with the upcoming talent at the end of a session. These represent possibly the greatest challenge in terms of your time commitment because they mean being accessible to many, for little evident short-term return.



## STEP 7: FOCUSING AND DRIVING PERFORMANCE.

If managers are to value talent management-related activity and allocate it due time, clear linkages between accountability for it and compensation systems are a must-have. These are largely a factor of your performance management processes. There are other strong arguments for a high-quality process: When it's visibly aligned and relevant to business objectives it will more likely drive the desired leadership behaviors and performance. When the quality of performance management data is respected, it's a powerful basis for talent reviews and deployment decisions.

All constituents in the talent management effort, including the executive team, should have true accountability and financial incentives to support processes that deliver leaders ready when needed. Organizations that are effective at optimizing talent recognize and reward talent advocates and sanction those who are blockers.

### ○ YOUR ROLE

**Don't balk at the final fence by failing to hold leaders at all levels accountable for their on-going part in the talent management process.** If their people don't have development plans or achieve promotions at the same rate as others; if their performance evaluations don't reveal coaching as a core activity; if they nominate or sustain less than their share of people in the high potentials pool; if they can't talk intelligently about how they build development opportunities into their teams; if high potentials regard assignments in their team as 'wilderness years'—they should not reap the same rewards as others who build organizational value through the talent legacy they create.



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

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

## It's as Simple as This.

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

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

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

## Author Biographies

**Richard S. Wellins, Ph.D.**, is a Senior Vice President at DDI. He leads DDI's Center for Advanced Behavioral Research and consults with clients worldwide on talent management issues. He is the author of four books on leadership and teamwork.

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**Bob Rogers** is President of DDI. In addition to overseeing daily operations, Bob works with senior executives around the world in the areas of assessment, performance management, organizational change and leadership development. Bob is the author of *Realizing the Promise of Performance Management*.

## About DDI

Development Dimensions International (DDI) 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.

We work closely with top organizations who see talent management as their key competitive advantage.

These companies rely on us to help them identify and execute appropriate talent strategies, review their talent readiness, put high potentials on the road to success and optimize executive performance.

The approach to talent management represented in this book aligns with DDI's experience of best practice. The work we do with our clients is tied to the organization's strategies and becomes part of its business and culture, to deliver a solution with long-term sustainability. Equally essential, DDI has the global resources needed to implement our clients' talent initiatives effectively and consistently worldwide.

Take a closer look at [www.ddiworld.com/talentmanagement](http://www.ddiworld.com/talentmanagement).

## LEAD MEASURES

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

## LAG MEASURES

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

## Appendix A

## Footnotes

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