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IMPROVING THE PRACTICE OF MANAGEMENT

Talent Management A critical part of every leader's job

BY HELEN HANDFIELD-JONES, ED MICHAELS AND BETH AXELROD

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TALENT MANAGEMENT

A critical part of every leader's job

BY HELEN HANDFIELD-JONES, ED MICHAELS AND BETH AXELROD

In the early 1990s, when The Limited, a large American retail organization, suffered a serious setback in its earnings and stock price, CEO Les Wexner decided to seek advice from several people he respected. He visited Steven Spielberg on the set of *Jurassic Park*, to see how the director got his creative people to work together so well. He also visited GE's Jack Welch, and Wayne Callaway, then the CEO of PepsiCo, to determine how they ran their businesses.

"I asked them how often they checked sales," Wexner recalls. "They said, 'Once or twice a month.' I checked ours twice a day. I asked them how much time they spent reviewing new ads. They said, 'Almost no time.' I asked them how much time they spent on new product concepts. They said, 'Occasionally—but only on a really big new product concept with a large capital expenditure.' I was spending half of my time on products and ads."

Wexner was amazed. Finally he said, "Well, what do you do?" Separately, each man explained that he spent about half of his time on people—recruiting new talent, picking the right people for particular positions, grooming young stars, developing global managers, dealing with underperformers and reviewing the entire talent pool. Welch said to Wexner, "Having the most talented people in each of our businesses is the most important thing. If we don't, we lose." Wexner realized that the common element in GE's and PepsiCo's success, as well as Spielberg's, was talent management: how well these successful leaders recruited, developed and retained talented people.

When he returned home from his walkabout, Wexner immediately set his new-talent mindset to work. Co-chairing all meetings, he led a process that reviewed each division's talent strategies and the performance of the top 50 people in each division. He also began to pump new talent into the organization, hiring seasoned managers from world-class companies inside and outside his industry. The newcomers brought deep experience as well as fresh perspec- ►

tives. Talented insiders got promoted and weak insiders were moved aside. Over three years, more than half of the people in the top 250 positions were changed.

In those three years the company's performance improved dramatically. Profits grew from \$285 million (U.S.) to \$445 million (U.S.), and the company's stock price almost doubled. To be sure, talent was not the only lever Wexner pulled. The company reshaped its portfolio. Several divisions were closed, others were purchased and still others were spun off. The merchandising process was fundamentally redesigned. But, Wexner says, "Talent was the most important thing. Without better talent, most of the other actions would not have been successful." Looking back on how his approach to managing the company had changed, Wexner declared, "I used to pick sweaters; now I pick people."

TALENT MANAGEMENT IS BECOMING MISSION CRITICAL

Like Wexner, more and more leaders are coming to realize that building a strong pool of talent is central to their company's success. And more and more, they are coming to realize that they have a critical role to play in making that happen. Nothing less than the company's fortunes are at stake: For the next two decades at least, a company's ability to attract, develop, excite and retain talent will be a major competitive advantage.

EXHIBIT 1: MOST COMPANIES ARE POOR AT TALENT MANAGEMENT

PERCENT OF SENIOR MANAGERS WHO STRONGLY AGREE



Source: McKinsey & Company's *War for Talent*, 1997 and 2000 surveys combined

For most companies, responding to this new imperative will require that they substantially improve the way they manage talent. Quite simply, most companies today do not manage their senior managerial talent particularly well. Exhibit 1, based on research we did for our recently published book *The War for Talent* (Harvard Business School Press, October 2001), shows how 13,000 senior managers perceive how their company manages talent. Imagine if these perceptions were in response to key questions about productivity, customer service or quality. No company would accept such low scores.

One of the reasons companies manage talent so poorly is that many leaders don't realize that they are the ones with their hands on the talent-building levers. After all, they make the hiring and firing decisions, create the working environment, decide appointments to vacant positions, evaluate performance, and provide feedback and coaching. But all too often, they think that building the talent pool is the job of HR. Many believe that dealing with people issues is a distraction from what's really important—managing the business. In fact, only 18 percent of the respondents in our research strongly agree that senior executives view talent management as an important part of their job.

Talent management is a learnable skill. It isn't just about having good instincts about people, nor is it about being an outgoing, friendly people person. Every leader can and should learn how to manage talent effectively, just as he or she learned how to manage strategic planning or new product development. In this article, we will describe what leaders at all levels should do to strengthen their organization's talent pool and, in the process, become more effective leaders themselves.

IT STARTS WITH A TALENT MINDSET

The first thing leaders need to understand is that better talent management does not come from having better HR processes or a better HR department. It comes mostly from having leaders and managers at all levels who embrace a talent mindset.

A talent mindset is a deep-seated belief that having better talent at all levels allows your company to outperform its competitors. It's the recognition that better talent pulls all the other performance levers. These beliefs give leaders the determination to strengthen their talent pool and the courage to take bold actions to do so.

Leaders with a talent mindset make talent management

**EXHIBIT 2
MAKING TALENT A TOP PRIORITY**

PERCENT OF CORPORATE OFFICERS WHO STRONGLY AGREE

“IMPROVING THE TALENT POOL IS ONE OF OUR TOP THREE PRIORITIES”

high performing companies



average performing companies



Source: McKinsey & Company's *War for Talent*, 2000 survey

a top priority for themselves and their leadership teams (see Exhibit 2). They understand that it can't be delegated, so they commit a major part of their time and energy to strengthening their talent pool and helping others in the company strengthen theirs. They see talent management as a central and critical part of their own job as a leader.

Greg Summe is one leader who has a strong talent mindset. Summe took over as the CEO of PerkinElmer, the Boston-based engineering firm, in 1998, and has achieved a remarkable transformation of that company in the three years since, including a dramatic strengthening of the talent among his top 100 managers. When reflecting on the tripling of the company's stock price that resulted from the turnaround effort, Summe says, "If it hadn't been for our focus on talent management, it wouldn't have worked. I would have gotten less than half of the results we saw in the first year and even less going forward." He adds, "People were my number-one issue three years ago. They are my number-one issue now. And people will be my number-one issue three years from now."

AN ACTION PLAN FOR LEADERS

Every leader—whether a division president, a business unit head, a functional leader or a branch manager—should strengthen the talent in the positions immediately below him or her. Leaders of large organizations—the CEO in particular—have an additional responsibility to ►

**TALENT MANAGEMENT
AND THE BOARD**

Most boards of directors help choose new CEOs, while the compensation committees of those boards determine compensation for the top five to 20 officers. But our survey of 400 corporate officers in 35 companies indicated that beyond those roles, the board of directors does not play a significant role in strengthening the talent pool of their companies. In fact, only 26 percent of corporate officers somewhat or strongly agreed that the board knew what the strengths and weaknesses of the top 20 to 100 executives were in the respective companies they served. What happens too frequently is that the CEO profiles the top 10 to 25 officers of the company for the board—an annual exercise that might take a few hours. There are some polite questions—perhaps even one or two probing ones about an officer who is struggling, or some quick suggestions regarding an open position—and then it's on to cocktails.

Imagine how much the board could do, since an average board represents between 200 and 400 years of experience, most of it in the industries the company is in. Many experienced directors know (or should know) what a gold standard for talent looks like and where to find it. But typically, they do not share that with the company.

Here is what boards could do to make talent management a bigger part of their role:

1. Form a talent committee of the board. Staff it with the three or four directors who have the best talent mindset.
2. Ensure that the CEO, COO and senior division leaders of the company have a talent mindset as outlined earlier. Also, assess whether the company has a rigorous, probing, consistent talent-review process.
3. Ensure that the corporation's talent review process is producing action-packed, measurable plans to develop the strength of the talent pool in each division and staff group throughout the company.
4. Hold an annual two-day retreat in which the CEO and EVP of HR report on the strength of the company's talent pool.
5. Provide ongoing and proactive advice on talent issues to the CEO and key leaders of the company.

| OLD MINDSET ABOUT PEOPLE | NEW TALENT MINDSET |
|--|--|
| A VAGUE NOTION THAT "PEOPLE ARE OUR MOST IMPORTANT ASSET" | A DEEP CONVICTION THAT BETTER TALENT LEADS TO BETTER CORPORATE PERFORMANCE |
| HR IS RESPONSIBLE FOR PEOPLE MANAGEMENT | ALL MANAGERS ARE ACCOUNTABLE FOR STRENGTHENING THEIR TALENT POOL |
| WE HAVE A TWO-DAY SUCCESSION PLANNING EXERCISE ONCE A YEAR | TALENT MANAGEMENT IS A CENTRAL PART OF HOW WE RUN THE COMPANY |
| I WORK WITH THE PEOPLE I INHERIT | I TAKE BOLD ACTIONS TO BUILD THE TALENT POOL I NEED |

make sure that the entire organization's talent pool is continually replenished and strengthened.

1. Strengthen your own direct reports

Becoming a great talent manager starts in your own backyard. Set high standards for the calibre of talent you will have on your team and take deliberate action to strengthen that group. Develop a discerning "nose" for talent, and make clear-eyed, insightful assessments of the performance and potential of each person. Are they capable of taking this particular job where it needs to go? What are their greatest strengths and what holds them back from being more effective?

- Tell your people in a straightforward way how they are performing and what you think their greatest strengths and weaknesses are. Only 35 percent of the managers in our survey feel that their company is open and candid and tells them where they stand. Telling people about their strengths builds their self-confidence. Telling them about their weaknesses helps them grow. Give people the performance feedback they so need, and then encourage and coach them to improve their performance.
- Give the strong performers new challenges, greater responsibilities and the tasks that they are most passionate about. Accelerate their development and do everything you can to keep them delighted and energized. Spend two-thirds of your coaching time on the A and B performers, rather than on the C performers, as can so easily happen.
- Face up to the difficult task of dealing with low performers. Tell them unambiguously that their performance is not good enough and tell them exactly what they need to do to improve. Encourage and help them to improve. If their performance does not improve sufficiently, remove them from the position, either by finding them a different role that will allow them to succeed or by asking them to leave the company. A recent study published in *Fortune* magazine noted that the single greatest reason why unsuccessful CEOs fail is their inability to deal with poorly performing subordinates.
- At the same time that you are developing the people you already have, hunt for new talent to bring into your group. Look for high-potential people deep within your organization whom you can promote. Look for high performers in other units, and constantly scout your networks on the outside for highly talented people to bring

into the company.

- Finally, do everything you can to make your unit a magnet for highly talented people. Give people exciting challenges and lots of room to spread their wings. Help them grow their skills and body of experience. Be a demanding boss who sets high aspirations, but also one who engenders trust and helps others shine.

2. Establish a talent standard

If you are a leader of a large organization, you also have to extend your influence to the broader talent pool. Start by setting the gold standard for talent for your organization. Identify and articulate the characteristics and calibre of leaders that the organization should have. You model this every day through the quality of the people you hire, the quality of people you choose to keep in the company, and the standards you judge people against. But you should also explicitly communicate the type and calibre of managers you want to have in your organization.

When we asked participants in our survey whether their senior managers share a common notion of what constitutes superior performance, only 10 percent agreed strongly that they did have such a notion. If senior leaders aren't clear about what constitutes superior performance, how can they expect managers below them to understand this?

Setting a gold standard for talent can be as simple as the description former AlliedSignal (now Honeywell) CEO Larry Bossidy used to define excellence in his manufacturing managers: someone who would empower, not micro-manage; lead, not administer; understand technology, but not act like a technician. Or it can be a comprehensive list of six to eight competencies (e.g., strategic thinking, communications skills, etc.), with a detailed description of the behaviours that characterize excellent, average and poor performance for each one. Either way, the talent standard should sharply define what great talent looks like for this company. It becomes the benchmark for evaluating managers and making hiring, promotion and firing decisions across the organization.

3. Influence people decisions far down in your organization

Defining the standard for leadership talent isn't enough, though. Leaders who manage talent well get directly involved in the hiring, promotion and firing decisions for as many people as they possibly can.

This doesn't mean that you necessarily make all the decisions on people two or three levels below you. But you should influence them by making sure that the talent standard is being used objectively and by contributing your judgment in a meaningful way. When a vacancy is being filled, add or remove candidates from the slate, interview the finalists, voice your opinion, and then in most cases, let the immediate boss make the decision. Make it your business to know the people two to three levels below you well enough to have an informed, first-hand opinion about their performance and potential.

The CEO, in particular, needs to be deeply involved in the recruitment, development, deployment and retention of the top 100 to 500 people in the company. At PepsiCo, several years ago, former CEO Wayne Callaway vetoed 30 percent of the final recommendations for the 50 openings that were filled that year in the top 500, pushing the organization to look harder for better candidates internally and externally. One time, Callaway interviewed the two finalists for the vice-president of New Products at Frito-Lay, a position three levels below him, not once, but twice.

4. Drive a simple, probing review of talent

Do you regularly discuss the talent in your company with the same rigour and intensity that you discuss the budget? You should. Every company, indeed every business unit or division, should have a rigorous talent-review process.

A talent review is a disciplined way for the leaders of an organization to discuss the performance and potential of their people and to decide on action plans for strengthening the talent pool. This is very different from the perfunctory succession-planning event that most companies hold—events that are marked by polite presentations, an absence of candour and little follow-up action (Exhibit 3). The best companies have rigorous talent reviews in each division, with the same intensity and importance as the budget process.

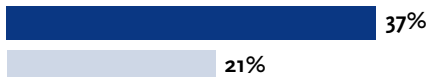
Once or twice a year, sit down with the senior leadership team of each of the units that report to you. Spend an entire day discussing the top 50 or so people in the unit. Debate the relative performance and potential of each person and gain insight into their strengths and weaknesses. Agree on who are the highest and lowest performers, then decide on an action plan for each individual. Actions could range from promotion, a new stretch job or compensation increases for the high performers, to corrective action, placement in a dif-

EXHIBIT 3: DISTINCTIVE ELEMENTS OF AN EFFECTIVE TALENT REVIEW

PERCENT OF CORPORATE OFFICERS WHO STRONGLY AGREE

Our talent-review process...

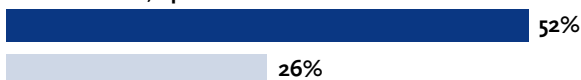
identifies high, average, low performers



has intensity and importance of the budget process



includes frank, open discussion



results in action plans for individuals



HIGH PERFORMING COMPANIES

AVERAGE PERFORMING COMPANIES

Source: McKinsey & Company's *War for Talent*, 2000 survey

ferent job or termination for the low performers. Follow up throughout the year to ensure that the actions are carried out and to help make mid-course corrections.

An effective talent-review process has many important benefits:

- It is a direct way for a leader to build the strength of the talent pool deep in the organization.
- It imposes the discipline of having regular conversations and making decisions about people, some things that are easy to let slide.
- It is a way for the leaders to engage in discussion about the standard of talent they are seeking to build and how they should go about doing that.
- It is the backbone of good talent management.

5. Hold managers accountable for the strength of their talent pools

Almost all of the corporate officers we surveyed told us that, "Managers should be held accountable for the strength of their talent pool" (see Exhibit 4). That makes a lot of sense. But only a few of them said their company actually does so. This is one of the most startling insights from our five years of research. ►

EXHIBIT 4: MANAGERS NOT AS ACCOUNTABLE FOR TALENT AS THEY SHOULD BE

PERCENT OF CORPORATE OFFICERS WHO STRONGLY AGREE

believe managers should be held accountable

93%

think their companies actually do this

3%

Source: McKinsey & Company's *War for Talent*, 2000 survey

Jim Robbins, CEO of Cox Communications, expressed it this way, “We spend four months per year on the budget process, but we hardly spend any time talking about our talent, our strengths and how to leverage them, our talent needs and how to build them. Everyone is held accountable for their budget. But no one is held accountable for the strength of their talent pool. Isn't it the talent we have in each unit that drives our results? Aren't we missing something?”

Meeting budget, doing what's right for the customer, and continuously improving productivity are responsibilities that we expect managers to take very seriously. We measure performance against those performance drivers and hold managers accountable for delivering. The same should be true for building a strong talent pool.

Each unit—be it a store, research lab, sales force, or division—should set three to six specific talent-strengthening objectives for the coming year. These objectives should come out of the talent review process and should be negotiated between the unit manager and the next-higher executive. Assessing how well a manager delivers against those objectives will require judgment and ongoing discussions about how effectively the talent pool is being built. Unfortunately, these conversations are not taking place in any systematic, comprehensive, probing way in most companies today.

6. Instill a talent mindset in managers throughout the organization

All of the above actions contribute to achieving a subtle objective: They instill a talent mindset in leaders throughout the organization. Companies that practise outstanding talent management have the talent mindset embedded in the institution.

Part of a leader's job is to teach others the mindset, skills and habits of good talent management. You do this in part by role modelling effective talent management. Do you give candid feedback to your direct reports on their performance and how they can improve? Do you actively help your people shape their roles so they are constantly growing and stretching? Do you have a number of people outside your reporting line that you actively mentor? If you are not doing these things, why would anyone else in your organization do them?

You also instill a talent mindset by sharing and teaching your philosophies about what it takes to build a strong talent pool and what it takes to be an effective leader. Kevin Sharer, the CEO of Amgen, is very deliberate about this: “I have tried to convince our top managers that if they believe people and people processes are HR's responsibility, they have totally missed the point. People are every manager's responsibility. That's the only way we will strengthen our talent pipeline.”

When we asked Sharer how confident he was that he could convince leaders, managers and scientists to embrace a talent mindset—and make talent their job—he responded, “We're making good progress. When you're working with me, strengthening your talent pool isn't some optional deal.”

Taking an active role in building the talent pool throughout your company will require anywhere from 30 to 50 percent of your time and attention. But how could you make better use of your time? Picking sweaters? Becoming a great talent leader may require a fundamental shift in how you conceive of your job.

Wexner, Summe and Sharer are CEOs that have made talent a top priority. Every leader should make talent management a central part of his or her job, too. Doing so will help them build a strong cadre of leaders and boost their company's performance. And they themselves will become more effective leaders in the process. ■

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