How to make an immediate impact on leadership supply

Kick-start your talent machine

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The "war for talent" is a perennial item on every chief executive's agenda. Many CEOs recognize the need to take personal responsibility for finding, developing and deploying the people they need in key jobs throughout their organizations.

The sharp downturn in the world economy puts that talent challenge in a new perspective. Fewer companies will be growing aggressively. Immediate shortages are likely to be less acute. But leadership becomes more urgent than ever in a downturn, and ensuring an adequate supply of leaders in the roles where they can make the most difference remains a vital priority. Downturns also put great leadership talent in play. That creates opportunities for companies to close their talent gaps and upgrade the quality of their leadership.

Building a talent-rich organization is by nature a multiyear challenge. But three specific steps will not only have an immediate impact on a company's talent supply, they will also lay the foundation for longer-term moves.

- The first is to *quantify the leadership* gap. Downturn or no, many companies don't have a detailed picture of the talent challenge they're facing. A rigorous analytic picture of the gap makes the challenge visible. Suddenly the talent issue can no longer be shuffled off to the human resources department; it is now on everyone's agenda, including that of the board.
- The second step is to *deploy existing talent* more effectively. Too many companies don't know who their top performers are. Nor have they placed those individuals in the jobs where they can have the most impact. Mismatches like these can cripple a company in a slowing economy.
- A third step—often overlooked—is to *reduce the demand for talent*. Organizations that simplify their processes and spell out accountabilities more clearly can simultaneously keep costs under control and make the most of the talent they have.

Taken together, these steps help leaders address their talent challenges quickly *and* build longer-term commitment throughout the organization, which is what's required to sustain the flow of investment in leadership supply. Let's take a closer look at each one.

Quantify the leadership gap

A leadership gap is by definition a disparity between the supply of talent and the demand for talent, both now and in the future. Understanding leadership supply and demand is best accomplished through meticulous analysis of the current situation and careful projections of the likely changes in months and years ahead. (See figure 1.)

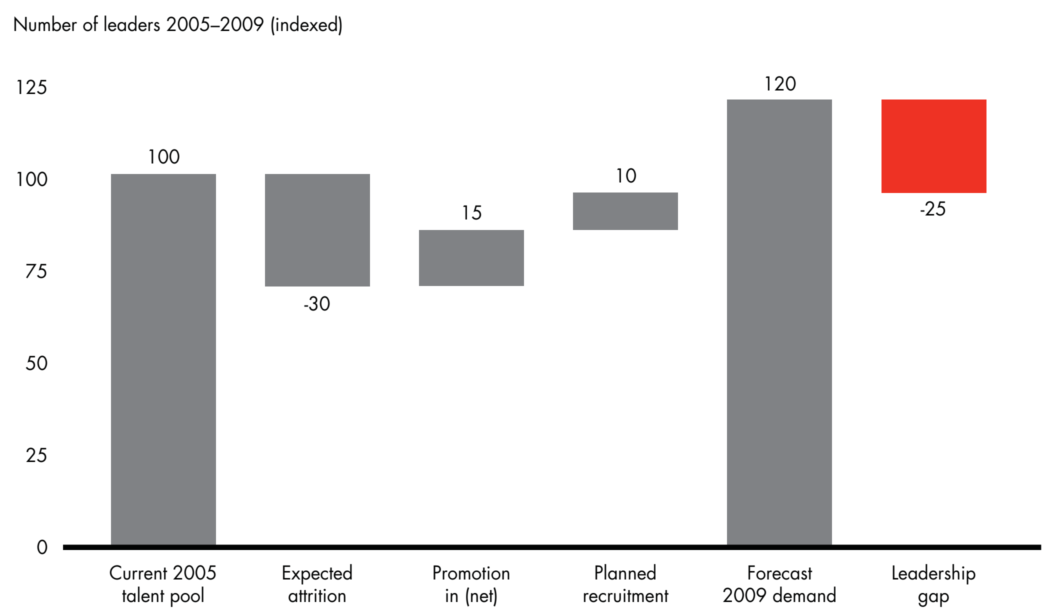
On the supply side, the place to begin is by looking at the basics. How many leaders do you have? What are your recruitment and promotion rates? What is the level of attrition—wanted and unwanted—and retirement? What factors will affect recruitment, promotion, and attrition rates in the foreseeable future? (For example, early retirement may seem less appealing if the downturn drags on.) You can do this analysis by region, by business and functional unit, and by key capability areas. The results provide a rich set of data allowing you to build or validate a talent-supply forecast. Just as important, analyzing the leadership gap this way helps to identify choke points that may require immediate attention.

The demand side begins with a similarly fundamental analysis. What will the business look like in a year, in three years, in five years? How many leaders will you need in each unit, geography, or functional area and what kinds of skills will those people need to have? Matching the supply forecast to the demand forecast shows in broad terms where the talent needs are likely to be most acute. It also helps pinpoint the effects of the downturn. Some business units and regions are likely to continue growing over the next couple of years. But others will be flat, and indeed may be net exporters of talent to talent-starved parts of the business. A detailed demand analysis will show both sides of this talent ledger, and will help avoid the trap of making across-the-board assumptions about impact of the slowing economy on a company's needs and sources for talent.

Any supply-versus-demand analysis of leadership talent needs to be grounded in a clear understanding of the company's strategy. Trying to assess your talent needs without a well-defined strategy—and an organization aligned with that strategy—is like putting a band together without first figuring out what music you want to play. Strategies, of course, don't stand still, and companies in rapidly evolving markets often find they need to hire individuals with skills the organization currently lacks. Wireless telecom companies, for example, are seeing their business shift rapidly from voice communications to video and data, and so are beginning to scoop up people with media experience. Telecom infrastructure companies are more dependent than ever on proprietary software, and so need more and more software engineers with experience in developing intellectual property. A downturn is an ideal time to hire skilled, experienced people to implement an evolving strategy.

A second important step is to analyze leadership requirements and pipelines according to the specifics of a company's situation. A South Africa–based mining company, for instance, was under pressure to improve both its operating performance and its safety record, and it badly needed mine managers, engineers, and technical experts to help with that turnaround. It was also committed to hiring at least

Figure 1: Quantifying the gap helps frame talent. It's a business-line, not just an HR, issue.
(MiningCo found they faced a 25% leadership gap in trying to deliver future growth plans)



40 percent of its managers in South Africa from the ranks of historically disadvantaged South Africans. To do all this effectively, the company first defined its leadership roles to understand the skills each role required. It then assessed the pool of potential leaders, and used a model showing the likely advancement of those leaders through the ranks of the company. The result was a clear picture of both leadership capabilities and bench depth for every critical role.

A third important area of focus is the quality of a company's talent-related processes. Any detailed analysis of the leadership gap requires a company to gather significant amounts of data. Managers need to assess the number of positions filled by external recruitment, the retention of external hires, promotion rates by position and level, performance ratings by department and position, defection rates by level and position, and so on. Analyzing this data reveals a great deal about the strengths and weaknesses of the company's leadership-supply processes. Managers frequently find themselves asking questions like: Are our recruiting efforts producing people with average or above-average promotion rates? Which areas have the highest number of underperformers? Why haven't we promoted more level sevens? The best analyses highlight a variety of specific gaps—by function, level, and year—including skills gaps; performance gaps (the number of A, B, and C players); open-position gaps (positions waiting to be filled), recruitment gaps (e.g., are we recruiting enough senior and mid-level managers?), among others.

In our experience, quantifying the gap with this degree of detail has the power of a management revelation for line managers. They now see the magnitude of the challenge. They begin to understand that they can't deliver on their own commitments unless they improve the business's supply of leaders—starting right away. Suddenly the processes to help them deliver on that objective—recruitment, performance management, and so on—take on new importance. For example, a gap in entry-level-manager recruitment typically leads to an immediate uptick in campus recruiting efforts and renewed focus and improvements in management training programs. Other gaps may underscore the importance of retaining the firm's existing top talent. At Motorola, detailed analysis revealed likely future shortfalls in some mid-level and senior positions. Not only did that kick-start recruiting efforts, it also led to increased focus on development and retention for executives already in the business.

Make the most of available talent

We often ask CEOs to tell us how many of their mission-critical positions are occupied by executives they regard as top talent. It's surprising how many have difficulty answering the question. Those who can answer it often reveal an alarming mismatch: most of their mission-critical roles are filled by average performers and some by poor performers, while many top performers are deployed in humdrum positions. (See figure 2.)

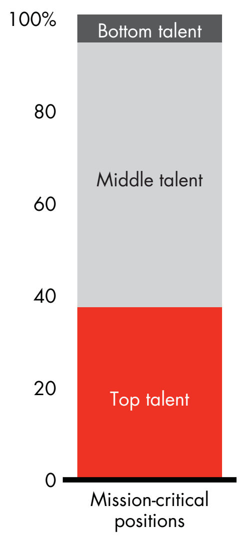
At one global tech company a few years ago, more than 40 percent of identified high performers were in positions deemed non-critical, and fewer than 40 percent of the company's mission-critical roles were occupied by top performers. That kind of disparity is not unusual. In our 2008 survey of 760 companies across six geographies, less than 25 percent of respondents strongly agreed that "our best people are in the jobs where they add most value."

Matching top performers with key roles typically involves three steps. The first step is to identify the positions themselves. What jobs make the biggest difference to business performance depending on the caliber of the person occupying them? In which roles will a top per-

Figure 2: Deployment matches top talent to mission-critical roles

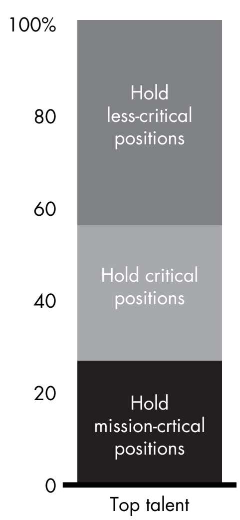
By reviewing the talent holding mission-critical roles...

Percent of roles



...companies can deploy existing talent more effectively.

Percent of leaders



former have more impact compared with an average performer? These roles are often on the front line, and they might be anywhere in the organization—finance, sales, operations, wherever—depending on a company's strategic priorities. When the shipping company Maersk was ramping up its business in China, a critical market, the firm used four broad criteria to identify mission-critical roles: the position's financial impact, its degree of complexity, its influence on key customer relationships, and its effect on the development of future talent. The company also looked at where it planned to expand in detail and the skills that would be required to execute that strategy. For example, several critical roles related to the emerging Chinese market in internal logistics—transporting goods from growing economic centers in central and western China to seaports in the south and east. Some of these roles involved running river terminals; others involved building partnerships with Chinese transport companies.

Of course, the nature of an organization's critical roles can shift when the economy changes or new competitive threats emerge. In 2007, most companies' key positions still revolved around implementing growth strategies. By late 2008, a strong focus on sustaining the core business became the priority, and the most important roles at many companies were those with responsibility for managing costs, reducing complexity, and adapting the business to a turbulent environment. In some cases, the same executives are responsible for both sets of activities; in others, the skills and capabilities required for growing the business and managing through a downturn may not be duplicated, requiring companies to recognize and move its talented leaders into the roles where they can make the biggest difference, and quickly.

The second step is a rigorous and realistic system for evaluating employees. How well has each individual performed? What is his or her potential? Companies need people with leadership skills, managerial skills (the ability to manage a P&L, for example), and technical skills. It is the rare individual who possesses outstanding abilities in all three areas. But the company needs to know who has what. Then, too, it needs to know whether individuals are performing in ways that are consistent with the company's values and culture. Jack Welch, in his later years at General Electric, famously declared that it wasn't enough for the company's managers to make their numbers; they had to live GE's values as well.

The key to answering all these questions about individuals, of course, is an effective performance-management process. Most companies have the elements of performance management in place, and some parts of the process may be top notch. But no performance-management system works well unless it carries real consequences. If differences in evaluation actually lead to differences in outcomes—career opportunities, mentoring and coaching, compensation, retention efforts, and the like—then line managers (and everyone else) will take the evaluations seriously. Managers will be far more likely to conduct performance reviews face to face, on time, and according to high standards. They will be more likely to comply with requirements for using the whole rating scale, giving average performers a three out of five, not a four or a five. It's a virtuous cycle: consequences lead to high-quality results, and high-quality results reinforce the perception that the consequences are fair. If there are no consequences attached to evaluations, by contrast, line managers will dismiss any performance-management process as mere paperwork.

The South Africa–based mining company had to revamp its performance-management practices along these lines. Initially, fully 80 percent of individuals were rated above average, even though the company had been underperforming. Senior managers didn't know who the strongest people were or what skills and capabilities they possessed. Even with that grade inflation, only 20 percent of mission-critical positions were filled with people considered to be top performers. So, managers began to make the consequences of strong and weak performance reviews more explicit. Without adopting a forced curve, senior executives made it clear that grade inflation would not be tolerated. High performers received not only big increases in pay but also better career development and training opportunities and better retention packages. Those with lower ratings received coaching and eventual outplacement if necessary. With a strong commitment from the CEO, the company's managers had the backing to implement the new system quickly. In just the kind of virtuous cycle described above, the system carried consequences, people complied with it, and it felt both fair and robust.

Step three, after identifying critical positions and realistically assessing employees, is deployment: placing the right people in the right jobs. The thorniest issues include how companies can release people from their current roles where they may be performing like stars, how to match opportunities with a talented manager's desired location, and how to harmonize compensation for home-based and expatriate leaders. Plenty of management practice and thought has focused on these issues, and we won't dwell on them here except to note that some companies that excel at leadership supply have come up with particularly imaginative ways of addressing the issues.

Consider, for instance, the issue of who "owns" the supply of talent and thus makes deployment decisions. Many companies say that their top talent must be a global resource: the corporate center has the responsibility and authority for managing these individuals' careers. SAB Miller, the brewer, takes a different approach. At SAB Miller, the business units own the company's talent. In keeping with the company's business model, these units are typically organized by country, and a country's managing director has the final say over whether an individual can be released to a new role. As a counterbalance, the corporate center evaluates these managing directors carefully on the basis of what it calls the People Balance Sheet. Do the country managing directors nurture talent and feed strong performers into roles that support corporate goals, or are they net consumers of talent? The method gives control of leadership supply to each country's operations, but leaves no doubt that the managing directors need to manage talent in ways consistent with the company's global business objectives.

A second issue is how talented leaders can balance their own interests with those of the organization. The oilfield services company Schlumberger has developed a unique approach to this potentially divisive question, in an industry where talent is scarce. Schlumberger maintains a custom-built database of detailed "career networking profiles" that allows it to match the interests and skills of rising leaders with the company's needs. It encourages engineers and strong performers from other disciplines to rotate through the human-resources department to get a feel for the importance of talent and how the company addresses it. (A stint in HR is "seen as a gold star on a Schlumberger résumé," according to one report.) Schlumberger engineers and managers know when they sign on that they will be spending time in remote and sometimes disagreeable locations. But the company allows its people to plan their careers in advance. One person might say, for instance, that she doesn't want a remote assignment for the three or four years while her children are young.

Do the country managing directors nurture talent and feed strong performers into roles that support corporate goals, or are they net consumers of talent?

When those three or four years are up, the company knows it can count on that individual to take a new and possibly distant job. Thanks to this policy, the company has substantially expanded its pool of engineers, notably women, and it has a ready pool of available people when an assignment does come up.

One interesting result of a focus on deployment is that it often encourages the CEO and the senior management team to take greater risks on rising stars through earlier promotion and stretch assignments. Focusing on deployment also tends to provide better mentoring and coaching by more-senior executives. Wherever analysis reveals a dearth of short-term successors, senior leaders can put together accelerated development plans and transfer proven "people developers" into key roles to ensure that the business doesn't stall for lack of leaders.

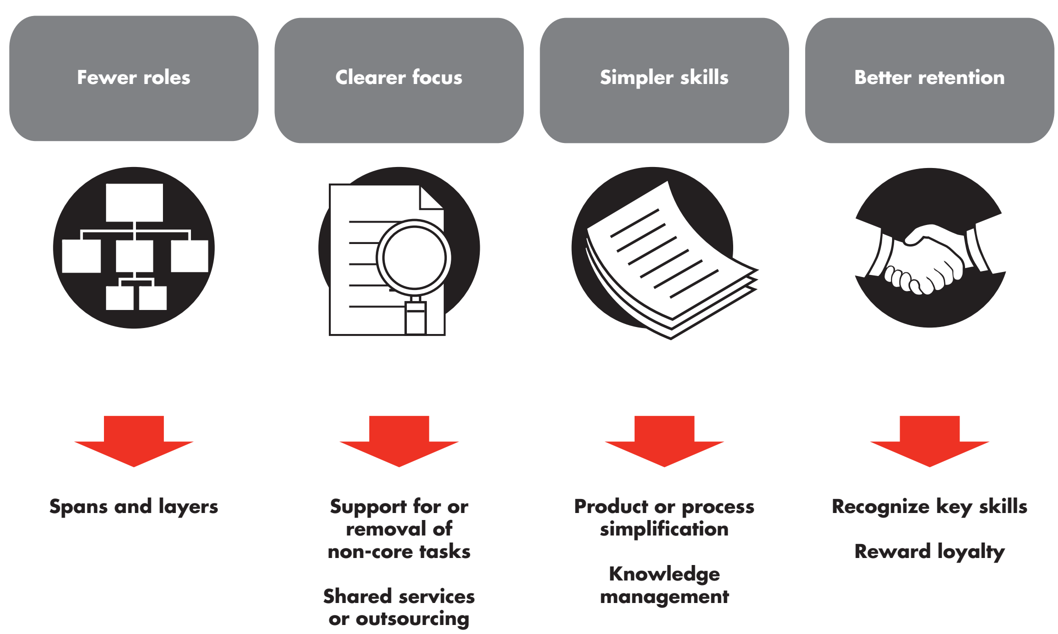
Reduce the demand for talent

The most common response to a leadership supply gap is to upgrade recruitment efforts, creating stronger ties with universities and other sources of talent. A company may also mount an immediate drive to fill gaps that cannot be addressed internally, such as a long-standing open position or an underperforming manager in a critical position with no clear successor. A few highly visible recruitment efforts signal a major commitment to improving talent supply.

All such measures are essential to closing the gap over the long haul. But expanding the supply pipeline may take two or three years to have a noticeable effect. In the meantime, companies do have another lever to pull, often overlooked: taking actions that lower its demand for talent. By redesigning their organization and operations in ways that reduce the need for highly skilled leaders and technical experts, managers can narrow the leadership supply gap, sometimes quickly. (See figure 3.)

The two most effective methods of reducing demand are to strip out organizational complexity and to redesign jobs so that they use the skills

Figure 3: Redesign work to reduce the demand for talent and increase fulfillment



of managers more effectively. Such measures not only reduce the demand for talent, they also help a company increase its productivity.

Complexity inevitably creeps into every nook and cranny of an organization over time. In many cases it's a natural consequence of success in the marketplace. Products and services multiply. Customers are offered a seemingly impossible array of choices. But complexity often has unintended consequences. The number of managers edges upward, spawning new layers between the CEO and the front line and reducing each manager's number of direct reports. Decision roles and accountabilities grow murky. Paperwork proliferates. The company's organizational metabolism slows down, and people get demoralized.

Companies can reduce complexity on all these fronts. Organizationally, they can conduct a spans-and-layers analysis, benchmarking against industry standards and reducing the number of managers accordingly. They can streamline decision making—for instance, by eliminating regional structures where possible. They can redesign and simplify back-office procedures (see "Make Your Back Office an Accelerator," by Paul Rogers and Hernan Saenz, *Harvard Business Review*, March 2007). If a company is willing to absorb a modest amount of additional risk, it can eliminate complexity and free up talent simply by raising the threshold for rigorous review of investment opportunities. Say a company requires detailed analysis and review of every project costing more than $20 million. Many expensive managers and analysts must spend a lot of time reviewing those proposals. If the threshold were raised to $50 million, the number of proposals would drop, and the company would need far fewer people doing the reviews. Reducing complexity reduces costs and improves productivity. It also increases retention, because people feel they can get more done.

Companies often redesign and expand job responsibilities in part because they believe the people holding those jobs will find them more challenging and thus more satisfying. But this view is oversimplified; what matters is whether people feel they are spending time on things that matter. A few years ago, we studied two consumer-electronics retail chains. In one chain, each store manager was king of his or her domain. Managers could determine or influence the choice of merchandise, the selection of infrastructure tools such as IT systems, the use of point-of-sale displays, and many other elements of the business. In the other chain, managers operated with far tighter guidelines. The company said, in effect, here is your business model, here is your store layout, here are your tools and products—now go out and deliver the best possible customer service and the highest possible profits.

Surprisingly, store managers in the latter chain were more satisfied and felt more empowered than in the chain where the manager was king. They were able to focus on what was most important—their customers and employees. Managers in the first chain were pulled in a dozen different directions and found themselves frustrated. From a company's point of view, of course, reducing the complexity of the job effectively reduced its demand for talent. For each store, it could hire someone skilled at operating within a tight framework rather than the rarer individual who was capable of managing an entire business. Those rarer individuals, in turn, were available for positions such as area manager.

Companies can strip the complexity out of jobs in a number of ways. Mine managers at the South African mining company, for instance, used to hold the title of "business-unit manager." The job included responsibilities that went far beyond their mining qualifications, such as working with communities and

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managing hospitals and worker accommodations. When the company began providing managers with support staff dedicated to the non-mining parts of the job, managers were freed up to spend more time on the tasks for which their skills were indispensable. A second improvement involved the company's operating standards. In the past, the company's mines and processing plants operated according to many different rulebooks. Each mine typically had its own style of working, its own technical systems and equipment, its own standards, and its own metrics. Mine managers transferred from one mine to another had to be exceptionally skilled and experienced simply to get up to speed.

The company believed it could increase productivity by making all these elements consistent from one mine to another. After studying the franchise model in retail and service industries, it designed what it called "franchise rules of the game," known internally as FROGs. It standardized methods, equipment, engineering, planning techniques, and so on, so that a manager entering a new mine would see and do much the same things as in any other mine. To avoid the bureaucracy that often accompanies detailed rules such as FROGs, managers themselves helped design the rules. That resulted in a focused set of rules that really made a difference.

This simplification of the company's operations had a double effect on the leadership gap. It reduced the demand for highly skilled talent, because less-skilled people could now take over as mine managers. More-skilled people, in turn, could take on jobs with larger spans of control. After the change, the performance of individual managers rose by up to 20 percent.

Turning the tap on leadership supply

Companies that take the steps described in this article usually see an impact on their leadership supply gap in the first six to eighteen months. A downturn provides a unique opportunity to fill that gap, as skilled, experienced leaders often change jobs when turbulence hits their company or industry. Filling the gap simultaneously upgrades the quality of a company's leadership.

These steps will not solve the problem of leadership supply by themselves. The senior team must also pursue longer-term measures such as cultivating new talent pools and making their company the kind of business that people want to join and give their best to. But the short-term steps have a powerful effect. The diagnosis itself uncovers issues that need to be addressed over the long term. And all the steps outlined above send a clear signal to people in the organization that things are changing. They help build commitment to solve the leadership supply problem over the longer term.

Indeed, while most companies understand the importance of leadership supply, they still find themselves struggling with practical ways to put the issue squarely on the table. Yet the very act of doing so is often liberating: suddenly a company finds itself focusing on one of the most essential tasks it faces in today's environment. With a talent plan that matches its business plan, a company has a far greater chance of success.

Do you face a leadership supply gap? Ten questions to ask yourself:

1. Can you quantify your supply of and demand for leaders, both now and in the future?
2. Do you know how many mission-critical roles are filled by top performers?
3. Do you know the bench depth for each mission-critical role?
4. What's your win-rate for "must have" recruits?
5. How do your retention rates for top and mainstream talent compare with those of your competitors?
6. How close are you to 100 percent compliance with agreed-upon standards and processes for setting goals, evaluating performance and developing talent?
7. Can you articulate clearly the consequences for individuals designated as high performing/high potential in terms of differential pay, rates of development, investments in training, deployment, access to senior executives, mentoring and so forth?
8. How high is employee loyalty as measured by responses to the question, "How likely would you be to recommend your organization as a place to work to a friend or relative?"
9. Are your top executives and business units nurturers or consumers of talent?
10. Are you achieving your strategic goals, or is leadership a critical constraint?

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