

Best Practices From Leading Organizations

T H E

T A L E N T
M A N A G E M E N T
H A N D B O O K

CREATING ORGANIZATIONAL
EXCELLENCE BY IDENTIFYING,
DEVELOPING, & PROMOTING
YOUR BEST PEOPLE

EDITED BY LANCE A. BERGER & DOROTHY R. BERGER

The Talent Management Handbook

**Creating Organizational Excellence by
Identifying, Developing, and
Promoting Your Best People**

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The Talent Management Handbook

**Creating Organizational Excellence by
Identifying, Developing, and
Promoting Your Best People**

**Lance A. Berger
Dorothy R. Berger**

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Preface

THIS BOOK IS DESIGNED TO ASSIST ORGANIZATIONS IN CREATING AND maintaining excellence through proactive talent management. Based on research, our firm's consulting assignments, and the input of the preeminent contributors to this book, we conclude that sustainable organization excellence is achieved through three strategies for managing human resources. These are:

1. Identifying, selecting, and cultivating Superkeepers.¹ Superkeepers are employees who have demonstrated superior performance, who have inspired others to achieve superior performance, and who embody the core competencies of the organization. They are role models for success and the organization can neither afford to lose them nor fail to take advantage of their ability to contribute to organization excellence. Typically, no more than 3% to 5% of an organization's workforce are classified as Superkeepers.
2. Finding, developing, and positioning highly qualified backups for key positions. Key positions are critical to organization continuity. They cannot be vacant for any length of time nor can they have less than a highly qualified, readily available backup. Typically, no more than 8% to 12% of an organization's positions are classified as key.
3. Allocating resources (compensation, training coaching, etc.) to employees based on their actual and/or potential contribution to organization excellence. An organization will not accomplish anything if it invests in everything. Therefore, an organization must invest in employees based on a clear hierarchy of contribution. After Superkeepers, the hierarchy of investment includes Keepers. These employees exceed performance expectations, help others to improve their performance, and exceed expectations in demonstrating organization core competencies. They

¹ Superkeeper is a trademark used exclusively by Lance A. Berger & Associates, Ltd. "Superkeeper" in any context cannot be used without the consent of Lance A. Berger & Associates, Ltd.

represent between 20% and 25% of an organization's workforce. Large investments should be made in this group. Solid Citizens represent about 70% of the workforce. They meet expectations for performance, enhance the work of others, and meet expectations in demonstrating organization competencies. Organizations invest in enhancing this group to ensure that Solid Citizens continue to contribute to organization success. They must not invest at the same level per employee as they do for Superkeepers and Keepers. Last, there are Misfits. This group contains employees who do not meet organization expectations for performance, working with others, and /or organization competencies. Some remedial investments might be made with this group, but unless a Misfit rapidly becomes a Solid Citizen, the "plug" should be pulled on all investments and the employee should be terminated. Typically, no more than 5% of an organization's employees are designated as Misfits.

The book is organized into seven parts. The arrangement of the chapters is designed to provide the reader with a series of logical steps to realizing the benefits of the three strategies stated above.

Part I presents a comprehensive approach to talent management. It shows how the various assessment, planning, and implementation elements can be integrated into a single talent management approach that addresses the three human resources strategies. Each talent management component described in this part is explored more deeply in other parts of the book. This part also frames the external talent management forces that impact on talent management activity.

Part II focuses on examining each of the talent management building blocks. The blocks are assessment tools that are used to build the talent management plan and create the basis for associated development actions. The blocks are organization competencies, performance appraisal, and forecast of potential. They are essential for the accurate placement of employees into the various investment categories and, in particular, the identification of Superkeepers.

Part III shows how the building blocks identified in the preceding section are assembled into a talent management plan. The talent management plan identifies the actions necessary for an organization to align its current human resources capabilities with its current and future organization requirements. This chapter also illustrates different perspectives on the talent management planning process.

Part IV focuses on helping organizations ensure that employees from diverse groups are represented in their reservoir of Superkeepers, Keepers, and Solid Citizens.

Part V describes the actions an organization can take to improve its employees' capabilities for meeting the requirements of the talent management plan. The emphasis in this part is on coaching and mentoring, since the editors believe that the overwhelming investment in employee improvement is made on an ongoing basis through constructive dialogue and feedback from many organization levels (boss, peers, functional experts, etc.). We do not emphasize technical aspects of training and development, since this topic is well covered in other books and widely available through the resources of the American Society for Training and Development.

Part VI presents a set of reward approaches designed to properly allocate compensation dollars to employees based on their current and/or projected value contribution to the organization. The effectively distributed combination of career development, coaching, and rewards is a powerful way to reinforce the three key talent management strategies.

Part VII provides a straightforward overview of the various types of computer approaches that support talent management. It is intended to be a starting point for a much deeper exploration of the technology necessary to support an organization's human capital needs.

Acknowledgments

The editors wish to thank our blue-ribbon group of contributors who have honed their skills as practitioners and theoreticians over many years of experience on the battlefield and in the think tanks of talent management. They have generously provided their time and expertise to provide guidance to those involved in talent management.

The Talent Management Handbook is dedicated to our colleague, Edward Straub of Aon Consulting, who did not survive September 11, 2001, to our cousin, Jack Berger, who did survive, and to all impacted by this terrible event. Every human being is ultimately a Superkeeper—an irreplaceable member of his or her business community, family, and society.

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Part I

Introducing a Talent Management System

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Chapter 1

Creating a Talent Management System for Organization Excellence: Connecting the Dots

Lance A. Berger, Chief Executive Officer
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IN THE 1990S, LBA CONSULTING GROUP UNDERTOOK A MAJOR STUDY THAT focused on identifying the factors that most contributed to the creation and sustenance of organization excellence. The study examined organizations that had survived and prospered, and those that had failed, over a 25-year period. The results of the study suggested that six human resources conditions had to be met. These conditions were: a performance-oriented culture, low turnover (particularly in premium employee groups), high levels of employee satisfaction, a cadre of qualified replacements, effective investment in employee compensation and development, and the use of institutional competencies (success factors) in employee selection and performance evaluation processes. The successful organizations focused on proactively and systematically managing their human resources along these lines. The organizations that failed took a more casual, traditional approach.

Our conclusions based on this research were simple: to optimize an organization's ability to achieve sustained excellence, it must recognize the need for proactive talent management and have a systematic way of accomplishing the activity. Before launching into a systematic approach to managing

talent, however, it's important to understand the goals of proactive talent management. Based on our research, we discovered that successful companies either articulate or intuitively focus on three outcomes.

1. The identification, selection, development, and retention of Superkeepers. Superkeepers are a very small group of individuals who have demonstrated superior accomplishments, have inspired others to attain superior accomplishments, and who embody the core competencies and values of the organization. Their loss or absence severely retards organization growth because of their disproportionately powerful impact on current and future organization performance. Bill Gates once said, "Take our twenty best people away from us and I can tell you that Microsoft would be an unimportant company."
2. The identification and development of high-quality replacements for a small number of positions designated as key to current and future organization success. Gaps in replacement activity for key positions are highly disruptive, costly, and distracting to the organization.
3. The classification of and investment in each employee based on his/her actual and/or potential for adding value to the organization. The employee groups are Superkeepers, those employees who greatly exceed expectations; Keepers, those employees who exceed organization expectations; Solid Citizens, those employees who meet organization expectations; and Misfits, those employees who are below organization expectations. Poor allocation of compensation and training and development resources can lead to unwanted turnover and morale and performance problems, particularly in Superkeeper and Keeper groups. (See Figure 1-1)

Once an organization commits to excellence through the three outcomes stated above, it will need a carefully constructed human resources process that links together the core elements of human resources planning (the dots) and then joins them to strategies, policies, and action plans. Additionally, the process must be easily understood, credible, cost-effective, and time-efficient.

Obstacles and Solutions

The research conducted on excellent organizations revealed that the infrastructure of human resources systems and processes for the failed organizations was typically an incoherent mosaic of unconnected, incomplete, missing, and inconsistent assessment, planning and development tools, and methods. This meant that performance appraisal, assessment of potential, competency evaluation, career planning, replacement planning, development and training, compensation, and selection (the core elements of human resources



Figure 1-1. The components of excellence

management) were unlinked and largely irreconcilable. Additionally, the return on the cost of implementing these separate and distinct programs was low, time expenditure was high, credibility was low, and employee dissatisfaction was pervasive.

Additional research indicated that, after 70 years of growing sophistication in human resources management, there was no commonly acknowledged, espoused, and/or utilized approach for identifying, assessing, and developing a cadre of high-talent people for meeting an organization’s current and future needs. Had the failed companies recognized the importance of the three success drivers, there still would be the issue of the availability of valid human resources processes to power them to excellence.

The purpose of this chapter is to present a valid talent management model that connects the metaphoric dots (human resources processes), to address the concerns outlined above, and to provide a structure for implementing specific actions leading to the development of a high-caliber talent cadre capable of contributing to sustained excellent competitive performance. Beyond this chapter, the book builds upon, and enhances, the model described here.

Approach

The model presented here is called TalentReservoir®. It is labeled this because its goal is to build a pool of high-talent people capable of supporting an organization’s current and future business requirements consistent with the three objectives outlined earlier.

TalentReservoir® has three major components. These are:

1. Designing and building a TalentReservoir® solution.
2. Capturing the TalentReservoir® solution in a software package.
3. Implementing an integrative TalentReservoir® process.



Figure 1-2. TalentReservoir®

Designing and Building a TalentReservoir® Solution

The most successful TalentReservoir® solutions are initiated and designed by a senior executive team with strong CEO input, accountability, and approval. The process is typically facilitated by the most senior human resources executive and is supported by his/her staff and IT professionals. Consultants frequently help drive the process in larger organizations, but smaller organizations often rely principally on internal staffs to coordinate efforts.

In order to design the infrastructure of human resources processes, TalentReservoir® teams collect information on organization structure, job hierarchy, employee demographics, projected organization and business plans (potential new jobs), company values, culture descriptions, employee surveys, current human resources policies and practices, annual reports, current training and development, industry studies, and other relevant data. Much of this data is already codified in company documents, but their meaning and value is enhanced through interviews with the CEO and members of the executive staff. Their observations, recommendations, and ownership of the core elements of the TalentReservoir® solution are necessary to develop and implement the assessment tools and talent management processes that will be used by the entire organization.

The information developed through data collection and interviews is used to develop the assessment tools described below. The composite definitions of the assessment tools were developed from research studies and consulting company assignments.

Talent Management Assessment Tools

Performance Appraisal: A measurement of actual results achieved within those areas for which the employee is held accountable and/or the competencies deemed critical to job and organization success.

Potential Forecast: A prediction of how many levels (organization/job) an employee can progress within an organization based on his/her past/current

performance appraisals, training and development needs, career preferences, and actual and projected competency levels.

Measurement Scales for Performance and Potential: Our study of 350 organizations involved in some type of successful talent management process showed that the vast majority used a five-point scale to measure performance and potential. The most common scale for performance measurement is: greatly exceeds expectations (5), exceeds expectations (4), meets expectations (3), below expectations (2), greatly below expectations (1). The most common scale for potential assessment is: high potential (5), promotable (4), lateral (3), marginal (2), none (1). Our conclusion is that most organizations believe that simpler is better. These scales are simple, but they apparently achieve accurate results.

Core/Institutional Competencies: Behavioral/skill expectations that are crucial to the success of each employee and to the success of the entire organization. Our research has determined that there are no more than 30 core institutional competencies and most organizations use between nine and 11 competencies in their TalentReservoir® process. Table 1-1 illustrates a list of 10 representative core competencies and their definitions.

Core Competency	Attributes
Action Orientation	Targets and achieves results, overcomes obstacles, accepts responsibility, establishes standards and responsibilities, creates a results-oriented environment, and follows through on actions.
Communications	Communicates well, both verbally and in writing. Effectively conveys and shares information and ideas with others. Listens carefully and understands various viewpoints. Presents ideas clearly and concisely and understands relevant detail in presented information.
Creativity/Innovation	Generates novel ideas and develops or improves existing and new systems that challenge the status quo, takes risks, and encourages innovation.
Critical Judgment	Possesses the ability to define issues and focus on achieving workable solutions. Consistently does the right thing by performing with reliability.
Customer Orientation	Listens to customers, builds customer confidence, increases customer satisfaction, ensures commitments are met, sets appropriate customer expectations, and responds to customer needs.
Interpersonal Skill	Effectively and productively engages with others and establishes trust, credibility, and confidence with others.

Table 1-1. Representative core competencies (continued on next page)

Core Competency	Attributes
Leadership	Motivates, empowers, inspires, collaborates with, and encourages others. Develops a culture where employees feel ownership in what they do and continually improve the business. Builds consensus when appropriate. Focuses team members on common goals.
Teamwork	Knows when and how to attract, develop, reward, and utilize teams to optimize results. Acts to build trust, inspire enthusiasm, encourage others, and help resolve conflicts and develop consensus in creating high-performance teams.
Technical/Functional Expertise	Demonstrates strong technical/functional proficiencies and knowledge in areas of expertise. Shows knowledge of company business and proficiency in the strategic and financial processes, including P&L planning processes and their implications for the company.

Table 1-1. Representative core competencies (continued)

Mapping and Weighting Competencies: Mapping of competencies is the process used to further differentiate competency definitions into glossaries of behaviors associated with each level of an organization (Box). They provide amplification, clarity, and greater specificity to competency definitions. A greater level of specificity can be achieved by assigning numerical weights to each job’s competency level in the glossary of behaviors. The latter approach can be tied to, replace, or start a job evaluation system. The competencies and weights operate much like a point-factor job evaluation system. Compensation groups can evaluate all jobs in terms of competencies and weights and develop a complete score for each job.

Communications Illustrative (actual is more comprehensive)

Definition: Communicates well, both verbally and in writing. Effectively conveys ideas and shares information and ideas with others. Listens carefully and understands difficult points of view. Presents ideas clearly and concisely and understands relevant detail in presented information.

All Employees: Clearly and appropriately expresses his/her desires and needs.

Professionals: Understands the importance of and demonstrates good oral, listening, and writing skills.

Supervisors: Adapts communications to audience requirements to optimize understanding.

Managers: Actively presents information and ideas to all appropriate levels and leads others to do the same.

Top Management: Promotes open expression of ideas and encourages communication without retribution.

Executive: Is recognized as one who effectively clarifies and communicates key/strategic information.

Organizations, depending on their level of talent management sophistication, cultural tolerance, and resource support, generally take one of three options to the mapping and weighting process:

Option 1: No maps, glossaries, or weights are used. The rating scale for performance previously cited is applied to competency definitions.

Option 2: A glossary of behaviors is used as a supplement to competency definition (Table 1-2 without numbers).

Option 3: Maps and weights are used to refine comparisons of employee behaviors with specific expectations for current and future jobs (Table 1-2 with numbers).

The maps and weights discussed above must again be reviewed and adjusted by the senior staff with final modification and approval by the CEO before being incorporated into the full TalentReservoir® process. CEOs are aware of the old axiom that “people behave as they are measured.” They are intent, therefore, on ensuring that the members of their organization are aware of what they are being measured against and that they behave in the right way. Competencies, definitions, maps, and weights are dynamic and must be periodically reviewed for accuracy and relevance to current and future business needs.

Talent Development Approaches

Once all the definitions are finalized they serve as the “DNA” that links the following additional components of the TalentReservoir® solution to each institutional competency: coaching, training, development, and books and related materials.

The linkage of implementation actions to assessment data provides managers with the best advice, consistent across the organization, for performance improvement, competency enhancement, and career growth. Correctly researched, this information provides the best human resources management thinking to managers at the time of assessment. Table 1-2 illustrates an employee competency assessment and Table 1-3 illustrates a coaching guide for an employee in need of improvement. Coaching guides must be updated at least once a year to ensure that managers have the most current advice to share with employees.

Table 1-4 illustrates the type of guidance many organizations in our study provide to assist managers in selecting developmental approaches.

Competency definitions, developed for internal talent assessment, can also be utilized in the external selection process. The internal performance

Assessor: Jane Doe		
Incumbent: Smith, Michael	Potential: 1	Overall Performance: 2
Core Competency	Personal Score	Current Position Statistics (VP R&D)
Action Orientation	2	Below Expectations
Communications	1	Greatly Below Expectations
Creativity/Innovation	2	Below Expectations
Critical Judgment	2	Below Expectations
Customer Orientation	3	Meets Expectations
Interpersonal Skill	3	Meets Expectations
Leadership	3	Meets Expectations
Teamwork	3	Meets Expectations
Technical Function Expertise	1	Greatly Below Expectations
Total	20	

Table 1-2. Talent Reservoir® talent competency assessment

Communications

Communications – Michael Smith

To communicate well both verbally and in writing; to effectively convey ideas and share information and ideas with others; to listen carefully and to understand difficult points of view; to present ideas clearly and concisely; to understand relevant detail in presented information.

Coaching Guide

- Clarify your expectations of individual achievement and your measurement criteria.
- Document in writing employee achievements, shortcomings, or suggested areas for improvement and share with the employee.
- Provide vehicles for others to voice their opinions.
- Keep all communications clear and concise.
- Adjust words/terminology to ensure audience understanding.
- Ask clear questions using oral and/or other methods of communication.
- Attend to communications received from others.

Table 1-3. TalentReservoir® talent competency development guide (continued on next two pages)

- Follow up on ideas and continuously encourage idea generation without retribution.
- Help others to sense urgency through daily updates via memos, e-mail, or other sources of communication.
- Provide clear instructions or information to others orally or through other methods of communication.
- Use appropriate nonverbal communication (eye contact, gestures, posture).
- Seek opportunities to give speeches through community or service organizations.

Training

Assertive Communication Skills for Professionals (CareerTrack) audiocassettes and workbook

Better Business Writing by Carol Gelderman (Prentice Hall, 1990) audiocassette and workbook

Communicating Non-Defensively (CRM Learning)-video with leader's guide and participant's workbook

Giving and Receiving Feedback (Crisp) self-study audio and book

Interpersonal Communication Skills (CareerTrack) CD-ROM

The 9 Deadliest Sins of Communication (CareerTrack) four audiocassettes

Power Talking Skills (CareerTrack, #50218 \$79.95) six audiocassettes, workbook, reference card

You're Not Communicating (Video Publishing House) video

Books

Cormier, Robin A. *Error-Free Writing: A Lifetime Guide to Flawless Business Writing*. Prentice Hall, 1995.

Daniels-Booher, Dianna. *Communicate with Confidence: How to Say It Right the First Time and Every Time*. McGraw-Hill, 1994.

Decker, Bert. *The Art of Communicating: Achieving Interpersonal Impact in Business*. Crisp #COA409-X (revised edition).

Dilenschneider, Robert L. *A Briefing for Leaders: Communication as the Ultimate Exercise of Power*. HarperBusiness, 1992.

Kennedy, Grace, and Ida Ramirez. *Business and Management Communication: A Guide Book*. Prentice Hall, 1996.

Linver, Sandy. *The Leader's Edge: How to Use Communication to Grow Your Business and Yourself*. Simon & Schuster, 1994.

Table 1-3. TalentReservoir® talent competency development guide (continued on next page)

Olderman, Raymond M. *10 Minute Guide to Business Communication*. New York: Macmillan, 1997.
 Tannen, Deborah. *Talking from 9 to 5*. William Morrow & Co., 1994.
 Wilder, Claudyne. *The Presentations Kit*. John Wiley & Sons, Inc., 1994.

Table 1-3. TalentReservoir® talent competency development guide (concluded)

Approach	Goals	Coverage	Timing
1. On-the-job coaching/ mentoring	To develop competencies in some phase of the current job	Immediate manager and/or staff specialist Covers all employees	When the particular competency is needed for the job as recognized by manager
2. Staff meeting on current problems	To obtain solution to problem To develop problem-solving techniques To determine the abilities of each person in this area To develop a sense of participation and sharing of problems	Conducted by staff or line manager at any level Covers all employees	When problems arise
3. Job rotation	To broaden knowledge of unit operations To discover the extent of breadth and versatility To develop latent abilities To provide "office" point of view As a selection device for promotions	Plan prepared by managers Focus on Superkeepers and Keepers	Careful scheduling to permit sufficient time on each assignment to acquire competencies
4. Emergency fill-in assignments	Same as #3 To determine adaptability and performance under pressure	Assignment by immediate supervisor Focus on Superkeepers and Keepers	Created by emergencies
5. Special one-person projects	To develop competencies in a specific area To broaden and increase strengths as an individual contributor To become aware of specific needs	Approved by immediate supervisor Focus on Superkeepers and Keepers	As needed

Table 1-4. Illustrative development methods (continued on next page)

Approach	Goals	Coverage	Timing
6. Task force assignment	Same as #5 To develop ability to lead and participate in group activities To develop pre-managerial skills	Approved by immediate supervisor Covers all employees	As needed
7. Company educational courses (includes e-learning)	To develop knowledge and skill in fundamentals applying to specific areas and needs	Recommendation by superior Covers all employees	Continuously (supplemental to other methods)
8. Courses outside the company (includes e-learning)	Same as #7	Recommendation by superior Focus on Superkeepers and Keepers	Continuously (supplemental to other methods)
9. Guided reading	Same as #7	Recommendation by superior or book club Covers all employees	Continuously (supplemental to other methods)
10. Teaching educational courses	To develop knowledge of fundamentals To develop skill in instructional techniques and communication To reexamine ideas and values	Assignment by superior on request of training specialist Focus on Superkeepers, Keepers, and high-competency people	Subjects that are important to personal development needs During or after work hours
11. Assistance from counselor or psychologist	To discover handicaps to personal development	Upon recommendation of superior Covers all employees	When managerial counseling fails to achieve the desired results
12. Extracurricular activity	To discover and apply principles of leadership and followership in a variety of areas other than industry-related committee work	Upon recommendation of superior Applied selectively to all groups; emphasis on Superkeepers and Keepers	Activities that have specific objectives for self-development through community, professional groups, field study

Table 1-4. Illustrative development methods (continued)

measurement scale, when used to assess external candidates, is modified in the following way: greatly exceeds other candidates (5), exceeds other candidates (4), equal to other candidates (3), below other candidates (2), greatly

below other candidates (1). The scale used for potential assessment can also be applied to external candidates, since high potential (5), promotable (4), and lateral (3) forecasting designations can be assessed during the interview process. It is possible, therefore, to get a clearer picture of a candidate when viewed against organization competencies.

Human Resources Planning

While coaching guides are essential to improving individual performance and competencies, motivation, and career development, managers also need a set of guidelines to interpret and act on the meaning of the composite results of individual assessments for the purpose of human capital planning, organization-wide training and development, and career planning.

Human Resources Planning: Our experience and research indicate that there are five major situational classes that must be addressed in human capital planning:

1. Surpluses—more than one replacement for an incumbent
2. Voids—no replacement for an incumbent (voids for key positions are a critical concern)
3. Blockages—non-promotable incumbents in the path of one or more high-potential or promotable employees
4. Problem employees—those not meeting expectations
5. Superkeepers—employees whose performance greatly exceeds expectations, who inspire others to greatly exceed expectations, and who embody institutional competencies

Most human resources plans are complex, since they involve combinations of these situations. To simplify this complexity, the TalentReservoir® team must develop guidelines for assisting managers in interpreting and managing these human capital situations. Each organization will have a separate approach, but Table 1-5 (Bench Strength Summary) represents a composite of guidelines for handling basic talent management situations.

Position	Potential	Performance	Next Position	Status	Replacement(s)	Status
Bednarik, Charles Executive VP	P	EE	President and CEO	Now	LeClerc, John	12-24 mos.
Mantle, Mickey Executive VP	U	GEE	President and CEO VP & CFO	12-24 mos. Now	LeClerc, John	12-24 mos.
Maris, Roger VP & CFO	LR	ME			Blocking Mantle, M. Bednarik, C. Surplus	Now Now

Table 1-5. TalentReservoir® bench strength summary (continued on next page)

Position	Potential	Performance	Next Position	Status	Replacement(s)	Status
Williams, Venus (Female/ Minority) VP, HR	LR	EE			Blocking Martinez, P. Gonzalez, P. Surplus	0-12 mos. Now
Hingis, Martina (Female) VP, R&D	NP	G BE (performance problem)			Void	
Blocking Summary Maris, Roger, VP & CFO Williams, Venus, VP, HR			Surplus Summary VP & CFO VP, HR	Super-keeper Mantle, Mickey, Executive VP		
Performance Problem Summary Hingis, Martina, VP, R&D			Void Summary VP, R&D (key job)			
<p>Definitions Potential: P (Potential); U (Unlimited Potential); LR (Lateral Rotation); NP (No Potential) Performance: GEE (Greatly Exceeds Expectations); EE (Exceeds Expectations); ME (Meets Expectations); BE (Below Expectations); GBE (Greatly Below Expectations) <i>The Bench Strength Summary captures the key elements for aligning people with organization needs. Five action items with recommendations are identified:</i> Void: Positions with no replacements. 1. Select from talent pool. 2. Add to talent pool and accelerate development. 3. Identify backups. 4. Begin external recruitment. 5. For key positions accelerate the process. Surpluses: Positions with more than one replacement. 1. Redirect career paths. 2. Move high potentials quickly. 3. Job rotation inside unit. 4. Task force assignments. Blocking: Non-promotable managers with promotable subordinates. 1. Move incumbent or backup within one year. 2. Job rotation outside unit. 3. Special projects. Performance Problems: Employees not meeting expectations. 1. One more accomplishment review. 2. Focus on results and competency improvement. 3. Terminate (consult HR department). Superkeeper: Very accelerated career paths and compensation growth, high development investment. Formal mentor and sponsor arrangement.</p>						

Table 1-5. TalentReservoir® bench strength summary (continued)

Table 1-6 illustrates approaches to handling more complex situations based on a composite of organizations with extensive resources planning models.

Situation	Actions/Comments
<p>Surplus (no blockage) More than one candidate for job where incumbent is promotable</p>	<ul style="list-style-type: none"> • Ensure rank ordering of candidates is accurate so that best-qualified candidate gets position when available. • If promotion time is too long, move a Superkeeper to another job or a special assignment or take some other interim action quickly. • Secondary candidates should be considered for filling voids or being added to other replacement lists.
<p>Surplus/Blockage More than one candidate for a job where the incumbent is not promotable or can be moved laterally or rotated to a comparable job (this situation is likely to create morale problems and potential turnover issues)</p>	<ul style="list-style-type: none"> • If incumbent greatly exceeds job expectations or exceeds job expectations, one or more of the replacements will have to be moved and/or developed for other positions (particularly Superkeepers). Interim solutions such as job rotation, special assignments, and task forces are in order. • If the incumbent's job performance meets expectations, the organization is not likely to move him/her. Difficulty arises when a replacement's level of performance is perceived to exceed the incumbent's. • The actions for surplus situations above apply. However, when the perceived level of performance of replacements exceeds that of the incumbent, then the incumbent should be moved to another position or the existing role should be redefined. • The same actions apply to a blocked single replacement as in a surplus/blockage. • Terminate if the incumbent's performance is below job expectations.
<p>Voids Positions with no replacements</p>	<ul style="list-style-type: none"> • Voids are excellent opportunities to recruit Superkeepers from outside the organization. This may require flexibility in compensation practice as well as mandating a sound entry and orientation process. Accelerate replacement process for key positions.

Table 1-6. TalentReservoir® critical human resources situations

Segmenting the TalentReservoir®: The talent management grid (Figure 1-3) is used to segment the talent pool into each of the employee classifications. The classifications are based on a merging of evaluations on a single incumbent's performance, potential, and core competencies. Superkeepers generally have very high ratings on all competencies but show great capacity for those associated with leadership and change management.

Employee and Job Demographics: Every talent management system links employee and job demographics to assessment data. The demographic data sets the context for decision making in the human resources plan. Most systems capture too much demographic data and do not establish its relevance to the situations inherent in the human resources plan. This tends to confuse assessors and builds up resistance to participation in the process. Our

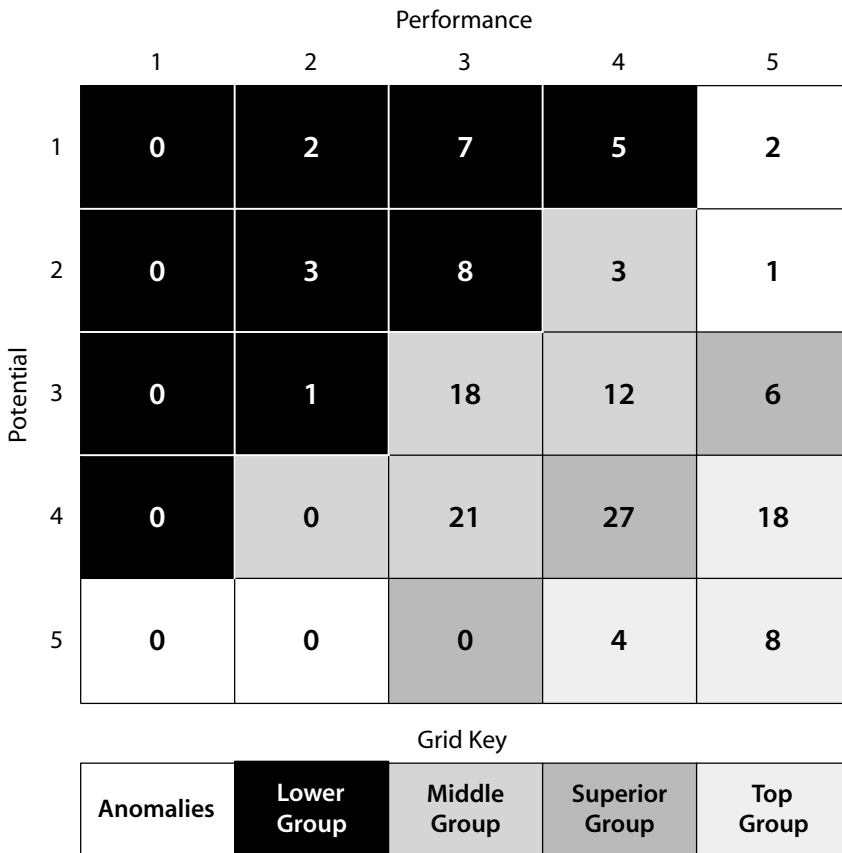


Figure 1-3. TalentReservoir® employee ranking grid (reporting group, all groups combined)

research and experience indicates that the following data, accurate in all respects, is most useful to human resources planning: employee name, title, date of hire, date in current position, retirement date, and position designation (key/not key), and EEO class. In addition to employees' data, an organization must collect the titles of all current and projected positions and list them in a directory. They represent the sum total of career opportunities available and potentially available to the employees. The directory is made available to all assessors and employees. Organizations utilizing competency mapping and weighting processes associated with the position directory make them available to all employees as well. This enables TalentReservoir® participants to map their current competency assessments with the competency requirements of other positions and design programs to bridge any gaps.

Capturing the TalentReservoir® Solution in Software

Once all data is gathered, it is codified in writing and contained in a manual. The next step is inputting the information into a computer system. This will facilitate data collection, analysis, iteration, and interpretation. We have found that Microsoft Access® is simple, inexpensive software that fits our goal. Many of the illustrations presented in this chapter were derived from reports developed in Access®. We have also explored a number of other approaches to processing TalentReservoir® data and they are described in detail in the computer application section of this book. We suggest providing human resources with a one-page computer input sheet that combines all relevant information (Figure 1-4).

Name _____	ID # _____	Position _____
Location _____	EEO Class _____	Key Position _____
Assessor _____	Assessment Date _____	
Performance _____	Potential _____	
Core Competencies		
Action Orientation _____	Interpersonal Skill _____	
Communication _____	Leadership _____	
Creativity/Innovation _____	Teamwork _____	
Critical Judgment _____	Technical/Functional Expertise _____	
Customer Orientation _____		
Next Position 1. _____	Next Position 2. _____	
Next Position 3. _____	Next Position 4. _____	
Action Plans (training, education, development, coaching, etc.)		

Figure 1-4. Illustrative computer input sheet

Implementing the Integrated Talent Management Process

Most organizations utilize an iterative approach to developing a comprehensive talent management plan. In the first stage, manager and employee perform simultaneous assessments and reconcile gaps in evaluation.

Sometimes the manager gathers additional assessment data on organization core competencies from several raters (360 reviews). This expansion of the assessment process is designed to enhance the manager’s perspective on employee strengths and developmental needs. After meeting with the employee, the supervisor takes the assessment of each incumbent (direct report) and begins to prepare the first draft of a talent management plan.

Creating the TalentReservoir® Plan

TalentReservoir® holds the supervisor accountable for final assessments and recommendations. The talent management plan formally begins when the supervisor/assessor adds replacement and career planning data to the employee assessments previously developed. Our experience indicates that it is best to place all HR planning data on one form. Once all data is entered, a series of specialty human resources reports are developed. The principal reports are Bench Strength Summary (Table 1-6), Replacement Summary (Table 1-7), and Core Competency Summary (Table 1-8). Each summary provides insight and guidance to assessors on issues and courses of action associated with different human resources situations. In addition, there may be special guidelines in dealing with the four classes of talent. Table 1-9 provides a composite of how excellent organizations provide guidance to their managers in approaching each employee group in terms of rewards, training and development, career paths, and recognition.

Once the first draft of the plan is developed, an assessor is generally faced with two options: the assessor meets with peers to share information, to adjust the plan, and to present the adjusted plan to the supervisor or to present the plan directly to the supervisor. Subsequently, the process is iterated at each level of the organization until a comprehensive plan is developed for the entire organization. Once the complete plan is developed, the communication process reverses and adjustments move down the organization until all managers are aware of the various changes and develop a suitable action plan to address them.

Position	Incumbents	Replacement Pool
Executive VP	2	1
VP & CFO	1	1
VP, HR	1	2
VP, R&D	1	0
Total	5	4

Table 1-7. TalentReservoir® replacement summary

Core Competency	Rating	Rating	Gap
Action Orientation	25.33	23.56	1.78
Communications	24.89	23.78	1.11
Creativity/Innovation	25.00	23.78	1.22
Customer Orientation	25.22	23.56	1.67
Interpersonal Skill	25.22	23.56	1.67
Leadership	24.89	23.56	1.33
Teamwork	24.78	23.78	1.00
Technical/Functional Expertise	25.11	23.56	1.56
	25.00	23.63	1.37

The Core Competency Summary is designed to provide an indication of overall learning strength in each core competency. Organizations should monitor the changes in competency strength, year to year, based on this chart to determine the general effectiveness of training, education, and development. There should be improvements in competency areas based on prior year intervention.

Table 1-8. TalentReservoir® core competency summary

	Compensation	Training/ Development	Career Paths	Visibility
Superkeeper	Accelerate much faster than pay markets	Major investments	Very rapid	Very high recognition
Keeper	Accelerate faster than pay markets	Substantial investments	Rapid	High recognition
Solid Citizen	Accelerate moderately until competitive level is reached	Investments only to enhance competencies for current/future business situations	Moderate to none	Recognition

Table 1-9. Strategic approaches by employee type (continued on next page)

	Compensation	Training/ Development	Career Paths	Visibility
Misfit	No increase	Only to improve fit now or for next job if it has a reasonable probability of success	None	

Table 1-9. Strategic approaches by employee type (continued)

Summary

The talent management process described above will fuel organization excellence by:

1. Identifying and creating a set of career paths, development, and reward plans for Superkeepers. This will ensure that high-quality role models will enable the organization to achieve and maintain superiority.
2. Identifying key positions and ensuring that associated voids are immediately addressed and that the quality of replacements is affirmed. This will ensure that organization continuity is not disrupted because of the loss of any individual.
3. Segmenting the talent pool into each investment category (Superkeeper, Keeper, Solid Citizen, and Misfit) and managing the investment in each category appropriately.

Chapter 2

Four Steps to Creating a Talent Management System

Lance A. Berger

IN CHAPTER 1, WE DESCRIBED A HIGHLY DEVELOPED APPROACH TO TALENT management based on extensive research and practitioner experience. In this chapter you will find tools that you can use to implement that approach in your organization.

These tools fall into a four-step process:

Step 1—Develop assessment tools and scales.

- a. Develop competency definitions and measurement scales.
- b. Establish a performance appraisal definition and measurement scale.
- c. Establish a “talent potential forecast” definition and measurement scale.
- d. Apply the measurement scales to each job.

Step 2—Develop training and development application tools.

- a. Create a coaching guide.
- b. Assemble a directory of the best training and development programs organized by competency.
- c. Create a directory of top books associated with each competency.

Step 3—Evaluate each employee using assessment tools.

Step 4—Prepare action reports.

- a. Create a “bench strength” summary.
- b. Create individual talent competency development forms.

Step 1—Develop a List of Your Organization’s Core Competencies and Assessment Tools for Measuring Them

The development of an organizational talent management plan requires the assessment of each employee based on a framework of accepted definitions and measures of competency performance and potential. These *core/institutional competencies* are expectations of behaviors/skills/values that are crucial to the success of each employee and, therefore, to the success of the entire organization. Our research has determined that there are no more than 30 core institutional competencies and most organizations use between nine and 11 competencies in their talent assessment process. A set of representative core competencies and worksheets follows:

Competency	Competency Definition
Action Orientation	Targets and achieves results, overcomes obstacles, accepts responsibility, establishes standards and responsibilities, creates a results-oriented environment, and follows through on actions.
Communication	Communicates well both verbally and in writing. Effectively conveys and shares information and ideas with others. Listens carefully and understands various viewpoints. Presents ideas clearly and concisely and understands relevant detail in presented information.
Creativity/ Innovation	Generates novel ideas and develops or improves existing and new systems that challenge the status quo, takes risks, and encourages innovation.
Critical Judgment	Possesses the ability to define issues and focus on achieving workable solutions. Consistently does the right thing by performing with reliability.
Customer Orientation	Listens to customers, builds customer confidence, increases customer satisfaction, ensures commitments are met, sets appropriate customer expectations, and responds to customer needs.
Interpersonal Skill	Effectively and productively engages with others and establishes trust, credibility, and confidence with others.

Worksheet 2-1. Sample core competencies (continued on next page)

Competency	Competency Definition
Leadership	Motivates, empowers, inspires, collaborates with, and encourages others. Develops a culture where employees feel ownership in what they do and continually improve the business. Builds consensus when appropriate. Focuses team members on common goals.
Teamwork	Knows when and how to attract, develop, reward, and utilize teams to optimize results. Acts to build trust, inspire enthusiasm, encourage others, and help resolve conflicts and develop consensus in creating high-performance teams.
Technical/ Functional Expertise	Demonstrates strong technical/functional proficiencies and knowledge in areas of expertise. Shows knowledge of company business and proficiency in the strategic and financial processes, including P&L planning processes and their implications for the company.

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Worksheet 2-1. Sample core competencies (continued)

Each competency can be described and scored based on its relative contribution to an organization. A representative scale follows:

Definition of "Communication": Communicates well both verbally and in writing. Effectively conveys ideas and shares information and ideas with others. Listens carefully and understands the details of difficult points of view. Presents ideas clearly and concisely.					
1	2	3	4	5	5
Clearly and appropriately expresses his/her desires and needs.	Understands the importance of and demonstrates good oral, listening, and writing skills.	Adapts communications to audience requirements to optimize understanding.	Actively presents information and ideas to all appropriate levels and leads others to do the same.	Promotes open expression of ideas and encourages communication without retribution.	Is recognized as one who effectively clarifies and communicates key/strategic information.

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Worksheet 2-2. Sample measurement scale for the *communication* competency

In the example above, six levels of communication are described and assigned a number from 1 to 6, indicating the contribution to the organization. For every competency measurement scale developed, every organization position must be assessed for the minimal competency level for doing the job. The table below illustrates the application of the type of scale described above to several positions.

Competency	Position						
	EVP	VP & CFO	VP HR	Dir R&D	Oper Mgt	Sales	Clerk
Action Orientation	6	5	5	5	4	3	1
Communications	6	6	6	5	4	3	1
Creativity/Innovation	6	6	5	6	4	2	1
Critical Judgment	6	6	6	5	4	2	1
Customer Orientation	6	5	5	5	4	3	1
Interpersonal Skill	6	5	6	5	4	3	1
Leadership	6	6	5	5	4	2	1
Teamwork	6	6	6	5	4	2	1
Technical/Functional Expertise	6	6	6	5	4	3	1

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Worksheet 2-3. Sample competency grid

In this sample Competency Grid, each position in the organization is rated using the measurement scale as to the necessary contribution to the organization that position requires. For example, the EVP contributes the most to the organization, as that position has the highest ratings in each competency.

Now that the core competencies have been determined and defined, a performance appraisal and “potential forecast” worksheet should be developed.

A *performance appraisal* is a measurement of actual results achieved within those areas where the employee is held accountable and/or the com-

petencies deemed critical to job and organization success. The scale most commonly used by organizations for *performance measurement* is greatly exceeds expectations (5), exceeds expectations (4), meets expectations (3), below expectations (2), greatly below expectations (1).

A *potential forecast* is a prediction of how many levels (organization/job) an employee can reach within the organization based on his/her past/current performance appraisals, training and development needs, career preferences, and actual and projected competency levels. The most common scale used by organizations for *potential assessment* is high potential (5), promotable (4), lateral (3), marginal (2), none (1).

Employee _____	Assessor _____	Date _____
Competencies		
Assess the employee in each competency area defined below on the following basis: greatly exceeds expectations (5), exceeds expectations (4), meets expectations (3), below expectations (2), greatly below expectations (1). On the companion sheet, describe behaviors and skills that are strengths and/or developmental needs associated with the competencies listed below when assessments exceed and greatly exceed or are below and greatly below expectations.		
Action Orientation		
Targets and achieves results, overcomes obstacles, accepts responsibility, establishes standards and responsibilities, creates a results-oriented environment, and follows through on actions.		
Assessment: _____ Potential: _____		
Communications		
Communicates well both verbally and in writing. Effectively conveys and shares information and ideas with others. Listens carefully and understands various viewpoints. Presents ideas clearly and concisely and understands relevant detail in presented information.		
Assessment: _____ Potential: _____		
Creativity/Innovation		
Generates novel ideas and develops or improves existing and new systems that challenge the status quo, takes risks, and encourages innovation.		
Assessment: _____ Potential: _____		
Critical Judgment		
Possesses the ability to define issues and focus on achieving workable solutions. Consistently does the right thing by performing with reliability.		
Assessment: _____ Potential: _____		
Customer Orientation		
Listens to customers, builds customer confidence, increases customer satisfaction, ensures commitments are met, sets appropriate customer expectations, and responds to customer needs.		
Assessment: _____ Potential: _____		
Interpersonal Skill		
Effectively and productively engages with others and establishes trust, credibility, and confidence with others.		
Assessment: _____ Potential: _____		

Worksheet 2-4. Performance appraisal and “potential forecast” worksheet (continued on next page)

Leadership
 Motivates, empowers, inspires, collaborates with, and encourages others. Develops a culture where employees feel ownership in what they do and continually improve the business. Builds consensus when appropriate. Focuses team members on common goals.
 Assessment: _____ Potential: _____

Teamwork
 Knows when and how to attract, develop, reward, and utilize teams to optimize results. Acts to build trust, inspire enthusiasm, encourage others, and help resolve conflicts and develop consensus in creating high-performance teams.
 Assessment: _____ Potential: _____

Technical/Functional Expertise
 Demonstrates strong technical/functional proficiencies and knowledge in areas of expertise. Shows knowledge of company business and proficiency in the strategic and financial processes, including P&L planning processes and their implications for the company.
 Assessment: _____ Potential: _____

Summary
 Overall Performance (Competencies and Accomplishments) _____
 (greatly exceeds expectations, exceeds expectations, meets expectations, below expectations, greatly below expectations)

Overall Potential _____ (unlimited, promotable, lateral, marginal, none)

Next Position(s)	Status Next Position (immediate, 0-12 months, beyond 12 months)
1. _____	_____
2. _____	_____

Replacement(s) for Incumbent	Status Next Position (immediate, 0-12 months, beyond 12 months)
1. _____	_____
2. _____	_____

Additional Comments:

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Worksheet 2-4. Performance appraisal and “potential forecast” worksheet (continued)

Step 2—Develop Training and Development Solutions That Support Your Organization’s Core Competencies

In order to create an improvement program for individual employees, the organization must map a set of appropriate training and development options for each selected competency. When a gap exists between an employee’s demonstrated proficiency in a competency and an organization requirement,

a supervisor can use training and development to help eliminate the gap. Below is a representative training and development tool for a single competency (communication). You can download this worksheet to map your organization's competencies to developmental options.

Competency Definition

To communicate well both verbally and in writing; to effectively convey ideas and share information and ideas with others; to listen carefully and to understand difficult points of view; to present ideas clearly and concisely; to understand relevant detail in presented information.

Coaching Guide

- Clarify your expectations of individual achievement and your measurement criteria.
- Document in writing employee achievements, shortcomings, or suggested areas for improvement and share with the employee.
- Provide vehicles for others to voice their opinions.
- Keep all communications clear and concise.
- Adjust words/terminology to ensure audience understanding.
- Ask clear questions using oral and/or other methods of communication.
- Attend to communications received from others.
- Follow up on ideas and continuously encourage idea generation without retribution.
- Help others to sense urgency through daily updates via memos, e-mail, or other sources of communication.
- Provide clear instructions or information to others orally or through other methods of communication.
- Use appropriate nonverbal communication (eye contact, gestures, posture).
- Seek opportunities to give speeches through community or service organizations.

Training

Assertive Communication Skills for Professionals (CareerTrack) audiocassettes and workbook

Better Business Writing by Carol Gelderman (Prentice Hall, 1990) audiocassette and workbook

Communicating Non-Defensively (CRM Learning) video with leader's guide and participant's workbook

Giving and Receiving Feedback (Crisp) self-study audio and book

Worksheet 2-5. Sample training and development guide for the "communication" competency (continued on next page)

Interpersonal Communication Skills (CareerTrack) CD-ROM
The 9 Deadliest Sins of Communication (CareerTrack) four audiocassettes
Power Talking Skills (CareerTrack, #50218 \$79.95) six audiocassettes, workbook, reference card
You're Not Communicating (Video Publishing House) video

Books

Cormier, Robin A. *Error-Free Writing: A Lifetime Guide to Flawless Business Writing*. Prentice Hall, 1995.

Daniels-Booher, Dianna. *Communicate with Confidence: How to Say It Right the First Time and Every Time*. McGraw-Hill, 1994.

Decker, Bert. *The Art of Communicating: Achieving Interpersonal Impact in Business*. Crisp #COA409-X (revised edition).

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Worksheet 2-5. Sample training and development guide for the “communication” competency (continued)

Step 3—Assess Each Employee’s Core Competencies and “Potential Forecast”

The assessment tools, based on your company’s core competencies created in the first step, provide the framework for employee assessment, which is now the task at hand. The sample worksheet provided in Step 1 can be customized to assess each employee. Substitute your organization’s competencies and definitions for the sample competencies.

Step 4—Prepare Action Plans

After each employee is assessed using the assessment tools in Step 3, organization and individual action plans can be prepared. There are an unlimited number of approaches to action plans. We have selected two representative approaches that can be readily adapted to your organization—the Bench Strength Summary[©] and Individual Competency Assessment.

The Bench Strength Summary[©] describes the key elements organizations must consider to initiate action plans to identify and address key strategic issues involving:

- The cultivation of Superkeepers (a very small group of individuals who have demonstrated superior accomplishments, have inspired others to attain superior accomplishments, and who embody the core competencies and values of the organization)
- Backups for key positions (jobs critical to organizational current and future success)
- Allocation of resources based on employee contribution (performance and potential)

Assessor: Jane Doe						
Position	Potential	Performance	Next Position(s)	Status	Replacement(s)	Status
Bednarik, Charles Executive VP	P	EE	President and CEO	Now	LeClerc, John	12-24 mos.
Mantle, Mickey Executive VP	U	GEE	President and CEO VP & CFO	12-24 mos. Now	LeClerc, John	12-24 mos.
Maris, Roger VP & CFO	LR	ME			Blocking Mantle, M. Bednarik, P. Surplus	Now Now
Williams, Venus (Female/ Minority) VP, HR	LR	EE			Blocking Martinez, P. Gonzalez, P. Surplus	0-12 mos. Now
Hingis, Martina (Female) VP, R&D	NP	G BE (performance problem)			Void	

Worksheet 2-6. Sample Bench Strength Summary[©] (continued on next page)

Assessor: Jane Doe						
Position	Potential	Performance	Next Position(s)	Status	Replacement(s)	Status
Blocking Summary Maris, Roger, VP & CFO Williams, Venus, VP, HR			Surplus Summary VP & CFO VP, HR	Super-keeper Mantle, Mickey, Executive VP		
Performance Problem Summary Hingis, Martina, VP, R&D			Void Summary VP, R&D (key job)			

Definitions
Potential: P (Potential); U (Unlimited Potential); LR (Lateral Rotation); NP (No Potential)
Performance: GEE (Greatly Exceeds Expectations); EE (Exceeds Expectations); ME (Meets Expectations); BE (Below Expectations); GBE (Greatly Below Expectations)
The Bench Strength Summary captures the key elements for aligning people with organization needs. Five action items with recommendations are identified:
Void: Positions with no replacements. 1. Select from talent pool. 2. Add to talent pool and accelerate development. 3. Identify backups. 4. Begin external recruitment. 5. For key positions accelerate the process.
Surpluses: Positions with more than one replacement. 1. Redirect career paths. 2. Move high potentials quickly. 3. Job rotation inside unit. 4. Task force assignments.
Blocking: Non-promotable managers with promotable subordinates. 1. Move incumbent or backup within one year. 2. Job rotation outside unit. 3. Special projects.
Performance Problems: Employees not meeting expectations. 1. One more accomplishment review. 2. Focus on results and competency improvement. 3. Terminate (consult HR department).
Superkeeper: Very accelerated career paths and compensation growth, high development investment. Formal mentor and sponsor arrangement.

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Worksheet 2-6. Sample Bench Strength Summary© (continued)

The next form (Worksheet 2-7) provides greater detail about each individual than is possible in the summary above and allows supervisors to target “best practices” coaching, training, and development to specific competency deficiencies.

For all competencies that are below expectations or greatly below expectations, the supervisor should apply the corresponding competency develop-

Part I. Introducing a Talent Management System

Assessor: Jane Doe		
Incumbent: Smith, Michael Position: VP R&D Potential: 1 Overall Performance: 2		
Core Competency	Personal Score	Current Position Evaluation
Action Orientation	2	Below Expectations
Communications	1	Greatly Below Expectations
Creativity/Innovation	2	Below Expectations
Critical Judgment	2	Below Expectations
Customer Orientation	3	Meets Expectations
Interpersonal Skill	3	Meets Expectations
Leadership	3	Meets Expectations
Teamwork	3	Meets Expectations
Technical/Functional Expertise	1	Greatly Below Expectations
Total	20	

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Worksheet 2-7. Representative competency assessment

ment guide created in Step 2 to generate an individual development plan (Worksheet 2-8).

Assessor _____
Incumbent _____ Position _____ Potential ____ Overall Performance _____
Core Competency _____ Personal Score ____ Current Position Evaluation _____
Strengths and Developmental Needs
Describe specific behaviors and skills that are strengths and/or developmental needs associated with the competencies listed above, particularly when an employee assessment exceeds or is below expectations. List specific actions that will be taken to enhance performance and/or prepare the employee for advancement when the employee does not meet expectations. Please make your comments as specific as possible.

Worksheet 2-8. Sample competency assessment worksheet (continued on next page)

Areas of strength

Areas to be developed

Actions (training, development, coaching, special projects, promotion, transfer, etc.)

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Worksheet 2-8. Sample competency assessment worksheet (continued)

By customizing and using the tools provided in this chapter, an organization can take a disciplined and proactive approach to talent management. In our experience, this can significantly impact employee performance throughout the organization.

Chapter 3

The Journey to Organization Excellence: Navigating the Forces Impacting Talent Management

Dorothy R. Berger, Managing Director
Lance A. Berger & Associates, Ltd.

IN ORDER TO CREATE CONTINUOUS VALUE FOR STAKEHOLDERS AND TO MAINTAIN competitive advantage, organizations must proactively manage their human capital. This includes the identification, selection, development, and retention of Superkeepers—a small cadre of workers who demonstrate superior accomplishments, inspire others to high achievement, and embody institutional core competencies and values. It also mandates the identification of key organization positions and the positioning and development of quality backups for these positions. Furthermore, organizations must carefully invest in employees based on their current and projected contribution to the company. This not only means investing in Superkeepers, but also in Keepers—those who exceed expectations for value creation—and Solid Citizens—those who meet expectations for creating value. With greater numbers of companies competing for a dwindling workforce, organizations can ill afford to lose their talent.

Regardless of economic conditions or the makeup of the workforce, there will always be a demand for Superkeepers as well as Keepers and Solid Citizens to staff key positions. In the coming years, the confluence of a sub-

stantial number of retirements, demographic shifts, high liquidity in job markets, and workforce churn created by mergers and acquisitions will exacerbate shortages in certain employee segments.

This book provides a roadmap to take readers on the journey to organization excellence through its human capital. The road could be difficult and treacherous to maneuver. Steep mountains, deep valleys, false road signs, and other obstacles will challenge an organization's capabilities to stay on course, maintain adequate speed, and even continue the journey. Organizations, driving their talent management vehicles, can benefit from a discussion of the topography and forces they will encounter. We describe the topography in terms of broad trends or forces that can influence organizational excellence.

Workforce Value Proposition

An Opportunity-Seeking Workforce

More than half of U.S. workers at medium and large companies are in the job market in some capacity, according to *The Towers Perrin Talent Report: New Realities in Today's Workforce*. In addition, workers in general are highly informed about their options and the Internet gives them the ability and access to find job opportunities without risk to their current position. This places more responsibility on a company to be proactive in engaging and keeping its key personnel.

As indicated by Conley, Lassonde, and Larson in Chapter 34, "This 'mobility mindset' influences the way human resource professionals think about recruiting and retaining talented employees. The combination of mobile employees and a turbulent economy makes an even more challenging situation for human resource professionals today." The authors further point out: "Companies need to focus on attracting and retaining top performers.... Why? Regardless of the financial strength or weakness of the economy, the best people are always needed and always have choices. Towers Perrin recently conducted a 2002 'TP Track' survey, in which nearly 75% of respondents cited their number-one people-related issue as retaining high performers.¹ Other Towers Perrin data show that 92% of respondents believe it is as difficult or more difficult to motivate and engage employees."

Competing for, as well as motivating, engaging, and retaining opportunity-seeking top performers will be a high priority for human resource professionals. Employers will continuously assess the right combination of reward elements to ensure that premium employees remain committed to the organization. Implementing a well-balanced mix of traditional, quantifiable elements, such as competitive salary and benefits, as well as more intangible rewards like providing learning and development opportunities is essential to motivate, engage, and retain top talent.²

The Internet also will play an increasingly vital role for employers as well as their potentially mobile employees. Companies still need to manage a recruiting pipeline and find ways to identify and hire the best talent and keep up with the massive flow of information required in this critical area. Companies can reach an ever-growing pool of possible talent via the Internet. Opportunity seekers in other organizations use the Internet. The Internet will not only enable streamlining of the overall process, with its attendant cost savings, but will also allow companies to focus their energies on the evaluation and decision-making processes in their quest for Superkeepers.³

The employment market also is shifting for employers that are more actively involved in performance-based downsizing while also identifying and recruiting workers with key skills and talents. According to a Towers Perrin report, 73% of companies continue to hire talented people in the midst of downsizing while 42% have created targeted programs to retain top performers. This underscores the importance of making talent management a priority, even when companies are downsizing. Once the organization attracts the right cadre of skilled workers, it will be increasingly reluctant to jeopardize losing these Superkeepers. Managing the “can’t lose” talent will be a main strategy for corporate survival.

Balancing Work Life

Balance may well become the most sought after benefit for the new millennium. According to a Coopers & Lybrand survey, Generation Xers aren’t as impressed with money as with a balanced lifestyle. Similarly, according to a poll conducted by Robert Half International, two-thirds of Americans would reduce their hours and compensation an average of 21% for more family or personal time.

Flex schedules, part-time options, job sharing, telecommuting, and phased and rehearsal retirement all offer choices that will be increasingly popular. Organizations will be increasingly dependent on contingency workers to fill gaps caused by employers pursuing family or volunteer duties. The growing pool of contract workers will fill many corporate needs as well as outsourcing functions. Recruiting a contingent workforce from retirees who are interested in continuing their employment in nontraditional terms can result in a highly qualified part-time workforce that can readily fill staffing needs.

Organizations will increasingly examine their value systems and determine if it is truly acceptable to use work-life benefits in their culture. Are these companies still measuring employee value by the number of meetings attended? Do they view part-time employees as less committed than full-timers? Do they see time spent at work viewed as a key indicator of loyalty? Organizations must determine whether they are paying lip service to

employee demands or are really absorbing work life into the culture.

Molly Shepard and Nila Betof, in their chapter on retaining Superkeeper women, discuss the disillusionment of many women at the executive level with current work-life practices. They point out the inflexibility of many environments where women are not given the ability to work off-site or adapt hours to family obligations. They further indicate, "To some women it seemed the message was that it was unacceptable to have a life apart from work and that time needed for family reasons was not seen as valid or important." More flexibility with options such as telecommuting, job sharing, and more flexible hours is mandated if women and others needing these arrangements are to stay in corporate positions.

Employees Want a Voice

In a survey conducted by the Families and Work Institute titled *The 1997 National Study of the Changing Workplace*, a nationally representative group of 3,400 employees were asked what they considered to be "very important" in deciding to take their current job. The three top reasons were open communications (65% respondents indicating "very important"), opportunities to balance life (60%), and meaningful work (59%). Being listened to and heard by others is a sign of being respected and valued. While on-site childcare and other similar programs are important to many employees, most employees want to be respected and listened to. Employees also want to feel that they have input into and control of their own destinies.

Demographics

Worldwide Demographics

Worldwide demographic trends will have an impact on the talent pool and the way in which organizations adapt to a diverse workforce. Workforce growth in industrialized nations is very low, while workforce growth in developing nations is quite high. This means that some of the excess workers in developing nations will migrate to industrialized nations such as the U.S. and that markets for goods and services will continue to burgeon throughout the developing regions. In the United States, the demand for well-educated "knowledge workers" continues to escalate. Furthermore, the proportion of U.S. high school and college graduates is dropping as compared with a rapid rise in comparable students in developing nations. In the year 2000, three-fifths of the world's college students are from developing nations, with the proportion continuing to escalate.

U.S. trends show that native whites have a low birthrate while minorities and immigrants have a high birthrate. Consequently, by 2005 native white males (both well and poorly educated) will make up only 38% of the

American workforce, a continuous decrease.

The global picture indicates that workers, many of them well educated, will be migrating from developing nations to the U.S. This trend and the birthrate differences within the U.S. and the academic shortcomings of many American youths mandate that the pool of well-educated workers who are vital to business success will be composed increasingly of people who are not native white males. Competitive advantage will come to those companies that best adapt to diversity. Diversity means encouraging and enabling all employees to draw fully on their talents and skills for the benefit of the business.

Currently, the retention rate of multicultural people in U.S. companies is alarmingly low. It is common that the attrition rate for these people can be three times greater than for Caucasian males and twice that of Caucasian females. Results from a 1997 study by the Center for Women Policy Studies of 1,500 multicultural women from 16 *Fortune* 1000 companies indicated that 33% had actively looked for another job with other companies. More alarming is that 42% of these women, who were directors and managers, were considering leaving their companies. Increasingly, organizations will need to address this attrition factor with specialized programs aimed at mentoring, training, and coaching these vital employees.

Molly Shepard and Nila Betof in their chapter and Leon Lanier in his chapter indicate the importance of maintaining a diverse workforce. They point out that the unique perspectives generated by women and minority thinkers can lead to better business decisions based on wide points of view which in turn can translate into greater bottom-line results. Shepard and Betof further indicate, "If a company exhibits a pattern of exclusionary behavior, it risks the threat of costly litigation that can affect shareholder value and generate negative publicity." Companies without a demonstrated commitment to diversity will suffer the long-term effects of being unable to recruit women and minorities.

Executive Replacement

In the coming years, companies will increasingly have to go to the market to replenish their executive ranks. However, fewer American prospects will be available. The number of 35- to 45-year-olds in the United States who are currently in the early stage of their careers is projected to decline by 15% between 2000 and 2015, reducing the talent pool from which new leaders will emerge. *Business Week* reports that of the 500 companies in the Standard and Poor's Index, 17% have CEOs who are 63 and older. While people at all levels have the option of working beyond usual retirement ages, the current trend is to retire earlier. One trend for leadership-hungry companies may be to encourage their executives to work well into their "golden" years. A

counter trend could be that companies recognize the Superkeepers in their talent pool early in their careers and develop these people quickly for movement into the executive ranks early in their careers. The opportunities for escalated career movement for young Superkeepers will be enormous.

Rise of Small Businesses

Job markets will become more complex because of the acceleration in the growth rate of small businesses. Over 40% of employees work in corporations having fewer than 500 employees. These organizations typically have rudimentary or no talent management processes yet have the same human resources issues as large companies. These small businesses will become increasingly sophisticated and better skilled at managing human capital processes. They will then be able to compete for key talent resources with large organizations.

The Changing Role of the Human Resources Professional

Human resources departments will become increasingly more concerned with “the whole employee.” Their mandate will be extended to providing all kinds of employee services from training, coaching, and counseling to implementing innovative work-life programs in order to attract and retain key employees.

The primary responsibility for future human resources professionals will become talent management. This area, in addition to the traditional staffing concerns, may also incorporate specific functions such as compensation, benefits, work-life programs, addressing performance issues, and providing continuous training. This holistic approach may create a competitive advantage through the establishment of “employee-friendly” corporate cultures.

To become better positioned to manage talent and maximize performance, human resource professionals will shed transactional work activities. Much of the present human resource function will be outsourced, made directly available to employees through the use of technology, or delegated to line managers. The focus for human resource practitioners will be on creating a work culture that nurtures talent by offering customized employment packages, providing the empowerment and freedom needed by skilled workers, and instilling a cohesive, supportive culture into diverse workforces. Human resource professionals will become human capital advocates. They will need to become proficient at budgetary and financial goals and become knowledgeable about products, markets, and strategies so that they are better able to bring aboard and manage the required talent to compete in global markets.

They will increasingly become valued strategic business partners with top management. Human resource professionals will ensure that human resource activities are aligned with the business goals of the company.

The Bureau of Labor Statistics estimates that 19.1 million of the 19.5 million jobs created in the first 10 years of this millennium will be in the service sector. Though the service sector encompasses an array of industries and job functions, the common denominator is a dependence on the knowledge and behavior of people rather than the capabilities of machines. To ensure maximum productivity from these service workers, it may become imperative for human resource professionals to focus solely on talent management and value creation.

Institutional Strategies for Dealing with Talent Management Issues

Coaching for Retention

Coaching key employees is becoming an increasingly popular trend. As pointed out by Larson and Richburg in their chapter on leadership coaching, "While coaching focuses on the individual, its successful implementation brings significant benefits to both the individual and the organization. These benefits include retention of valued talent, increases in productivity, development of high-potential performers, greater job satisfaction for the participant, and achievement of organization objectives." Many organizations are assessing these potential benefits and extending coaching deeper and deeper into their organizations. Karol Wasylyshyn, in her chapter, discusses the trend of Superkeeper coaching that targets "must keep" individuals. She defines Superkeeper coaching as "a company-sponsored 'perk' for top high-potential employees, a customized development process intended to accelerate effectiveness at work. This coaching is based on a collaborative relationship among the employee, his/her boss, his/her human resources manager, and an executive coach." The key to coaching success is that "coaching for Superkeepers must be positioned in the company as an essential 'perk.'"

Outsourcing and Outsourcers

Organizations are increasing outsourcing business functions and eliminating or downsizing the departments that historically ran those functions. In response to this trend and their disenchantment with corporate existence, more and more workers are becoming independent contractors, operating as contingent workers in response to ever-changing business requisites. These free agents will decide when and where they will work. Workers may become independent contractors for brief periods of their work life, e.g., while on sab-

batical from a job they intend to return to or after retiring from a corporate position, or may opt for this form of employment on a career basis. This cadre of workers will further decrease the talent pool that is loyal to one organization. Organizations will be challenged to attract needed contractors as an environment where these individualists choose to offer their services. Organizations will need to incorporate these “contract” workers into their cultures.

Succession Planning

Tragedies like the World Trade Center are a wake-up call to the necessity for succession planning. However, demographics indicate that succession planning is crucial to organization viability even without the deaths of key leaders. In a survey of 150 *Fortune* 500 companies, a majority of the companies expect at least 33% turnover at the executive level in the next five years and one-third of the companies felt that they would not be able to find suitable replacements. Three-quarters of corporate officers surveyed for a study by McKinsey said their companies had insufficient talent to fill crucial positions.

Old solutions to succession planning—computer programs that slot people on organizational charts without regard to organization competency considerations or specialized training—won’t work in an increasingly complex business environment. Succession planning processes that include individualized prescriptions for mentoring, training, and coaching are mandatory preventatives for key position gaps and ensuring that Superkeepers realize career mobility. Stan Silverman, CEO of PQ Corporation, points out, “The content of succession planning components is more important than the system itself.”

Developing Leadership Through Competencies

Succession planners must find ways to prepare the next wave of leaders to operate effectively in various cultures. More and more focus will be on the competencies needed to lead—teamwork, collaboration, and coaching. Leaders will be chosen for their interpersonal skills that impact the psychological needs of workers. Organizations are seeking to develop leaders who can inspire others and lead teams.

Dennis D. Dammerman, General Electric’s chief financial officer, in a speech about developing leaders for the 21st century, stated, “These individuals, in addition to possessing the obvious non-optional qualifications of absolute integrity, high intelligence, global and diverse business experience, and the like, will have what we call the three ‘Es’—high energy, the ability to energize others, and something called ‘edge’—the courage to remove from the organization those who can’t or won’t buy in.”

Karol Wasylyshyn, in her chapter, outlines the rationale many organiza-

tions use to prepare their next generation leaders for the challenges ahead. She cites Rohm and Haas' Leadership 2000 (now Leadership 3000) and a comment made in 1985 by Mark X. Feck, head of corporate human resources for Rohm and Haas: "We need to go inside out. We need to assess the *whole* person, not just their profile of leadership competencies. We need to have real relationships with these people. They need to *know themselves* and understand what influences their behavior in good times and bad. Their accurate self-awareness is essential for continued learning and personal growth. Continued learning and personal growth are essential for the evolution of world-class leaders."

Employment Branding Strategies

Creating a "most desirable work environment" corporate image through branding is viewed by more and more companies as the "ideal" means for attracting and retaining Superkeepers. Companies are realizing that, to stay competitive, comparable marketing and branding practices used to market products and/or services must be applied to recruitment and retention programs. The labor market's perception of the employment value proposition of the company—the impression made on employees and the labor market—is as vital as its view of service or product integrity. Human resource departments will increasingly treat employees like consumers who can spread the word about a company's positive attributes throughout the marketplace. Companies are not only assessing their strategic plan, organizational goals, and objectives but also analyzing the labor market and the sought after workforce segments for recruitment and retention. Successful employee branding includes a consistent and common theme that employees relate about their work experience. It also includes a public image of the organization's culture that induces the best potential candidates to apply for positions while allowing the company to retain its Superkeepers.

Lori Grubs in Chapter 17 points out the advantages of leadership branding, "By developing and then rewarding high-potential individuals, organizations can build a reputation as the kind of place leaders want to work. At the same time, these efforts ultimately make them stronger competitors for leadership talent because few firms can match the strength of their Leadership Brand, which not only aids them in successfully identifying those who will fill the key positions of tomorrow, but also in upgrading the caliber of talent across the organization."

Increased Board Emphasis on Succession Planning

Dennis Carey and Dayton Ogden in their chapter point out, "With a growing sea change in the prevailing perception of appropriate corporate board involvement, it is perhaps not surprising that CEO succession is an area more

in the spotlight than ever before. As guardians of the interests of shareholders, directors are naturally concerned with the ongoing health and success of the corporate enterprise. An uninterrupted flow of capable leadership is vital to the goal. Succession, then, must be considered primarily and fundamentally a responsibility of the board." Furthermore, when considering CEO and other executive level replacements, the boards must reflect on the excesses that led to the Enron, WorldCom, and other corporate debacles. Boards must assume some accountability for corporate governance processes and practices. Rosemarie Greco points out in her chapter, "The success or failure of a corporation or any institution resides in the quality of its values, the strength of its competencies, and the capacity of its leadership to be role models for appropriate employee behavior." Boards must monitor all three parameters to keep their organizations on an ethical growth path.

Conclusion

All the discussed trends have a common denominator. Organizations that want to stay competitive must address talent management issues. Ultimately, organizations must confront diversity issues, work-life considerations, demographic statistics, and other issues that impact on the composition and needs of the workforce. No matter what the industry, companies must put into place programs and procedures that attract, develop, and retain Superkeepers—those people who are the foundation on which long-term viability rests.

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Notes

1. Towers Perrin, *TP Track Survey: Cost and Value: A Delicate Balancing Act for HR*. This survey focuses on critical people and HR issues and examines their effect on business and financial performance. Roughly 100 senior HR executives from North America responded to the survey.
2. *The Towers Perrin Talent Report 2001: New Realities in Today's Workforce*.
3. *Perspectives on Total Rewards—January 2000*, co-authored by Brian Reidy and Jane Bhar.

Chapter 4

A Talent Management Case Study: Major League Baseball's Quest for Superkeepers

William Y. Giles

Chairman and Honorary President
Major League Baseball National League

BRANCH RICKEY, THE REVERED BASEBALL EXECUTIVE WHO BROUGHT JACKIE Robinson to the big leagues, said, "luck is the residue of design." Rickey's statement described his perspective on developing a winning organization. He was convinced that a major league organization could not depend on good fortune, chance, providence, or fate to deliver the results sought by fans, owners, and the multitude of businesses nourished by a professional baseball team.

Thoughtful baseball executives understand Rickey's point well. They recognize that to sustain excellence a major league team must continually reconcile an assortment of frequently competing forces. At the very least, they must provide a winning and crowd-pleasing team, at an affordable level, in an attractive venue. This is no small task and most teams struggle to find the formula to achieve this objective. The successful teams know, however, that "the residue of design" will be the catalyst for success. That catalyst is talent management.

To understand the context of talent management in baseball, it is important to recognize the following trends:

- Team composition is constantly being reshuffled because of the need to balance affordable payroll costs, team effectiveness, and revenue.
- Talent assessment techniques are becoming more sophisticated in order to more accurately establish player worth value. Knowing a player's value drives a team's talent management decisions regarding player compensation investment, retention, trade, and acceleration through the various levels of the organization.
- Compensation is being more carefully refined by player type such that performance and potential performance can be rationalized against players in the same position on other teams, individual contribution, and fit within the team.

The minor league network (a system of talent- and revenue-generating teams aligned with a major league club), more than ever, is a highly valuable asset in building a high-quality cadre of talent that can be used to staff one's organization at a lower cost (player salaries are lower at the outset because the mandatory requirements for player pay increase with time), a trade chip used to obtain high-quality talent from other teams to fill one's own voids, and a way to ensure that core competencies are mastered before entrance into the big leagues.

Teams that can manage this equation are able to generate a continuous flow of relatively affordable competitive players, but it is extremely difficult to do so.

To address the trends cited above, major league baseball utilizes a talent management scheme to ensure a flow of high-quality talent, from all sources, that is not dissimilar to that of a more conventional organization. Baseball, like most businesses, must find, classify, assign, and optimize throughout the organization the contributions and market value of Superkeepers (those who greatly exceed expectations), Keepers (those who exceed expectations), and Solid Citizens (those who meet the requirements) and it must eliminate the Misfits (those who fail to meet the team's requirements, typically because of lack of talent, physical conditioning, or character). The classification and treatment of players must be balanced for every team from the lowest-level farm (minor league) team to the major league parent team itself.

The talent assessment scheme used by the major leagues can create "bench strength summaries" that can identify not only the classification of players at each level but surpluses (more than one player who can move to the same position at the next level), voids (positions with no backups within the organization requiring trades or the signing of free agents), performance problems (player improvement areas), and trade opportunities (opportunities to deal a surplus of backups to fill a position void) and blockages (a condition

where a current player has less ability than his backup). Research has shown that teams that sustain excellence over extended periods of time are proactive in the identification and management of talent.

The conceptual components of the major league baseball talent management approach include the following.

Assessors

These are the managers, coaches, scouts, and front office staffs, at every organization level, who evaluate the players using the categories defined below. The quality of the assessors is a critical component of the talent management scheme. Executives in the parent organization need to assess the assessor's skills in forecasting the talent level of players. For example, Tom Greenwade, the legendary scout who identified players like Hall of Famer Mickey Mantle for the Yankee organization in the 1940s and 1950s, was highly praised as an important contributor to the team's success in succeeding years.

The eyes of the organization, beyond its full-time employees, are free agents, part-time, and associate scouts. The scouts are assigned to evaluate players in locations around the world, various leagues, and specific teams. These scouts are typically organized and coordinated by a director of scouting, who assembles all information necessary for a comprehensive player talent management plan. The scouts are the "headhunters" of baseball. They guard the entrances to the major league reservoir of talent.

Performance Appraisal

The measurement of actual results in areas deemed important to the player's position is the player's performance appraisal. Baseball was a pioneer in the measurements of accomplishment. There is, perhaps, no other institution with so many or so precise sets of measures. On October 22, 1845, the first set of statistics was published in the *New York Morning News* about one month after Alexander Cartwright (baseball's founder) and his Knickerbocker teammates first codified the rules of baseball. Since 1871, over 170,000 games, covering 15,000 players, 2,300 team seasons, and a myriad of highly specific, measured results have been recorded (*Total Baseball*, 6th edition). Every conceivable outcome of batting, fielding, base running, winning, and losing has been reported from individual, team, league, and baseball-wide perspectives. It is possible to make very specific longitudinal and cross-sectional comparisons of players and teams for over 150 years. These comparisons contribute to the accurate assessment of players for placement, development, trade, and compensation. No modern institution can boast of the historical quality of performance measures as baseball can.

Potential Forecast

The prediction of a player's success probability at each level of an organization is called a forecast of potential. The assessment is based on prior performance and a projection of how far a player can go in one year and what his ultimate level of assignment could be.

The forecast for position players (not pitchers) is typically based on a set of factors such as arm strength, arm accuracy, fielding ability, fielding range, hitting ability, raw power, power production, running speed, usable speed, body control, and directional hitting (pull, straight away, opposite field, and all of the above). Pitcher potential is typically predicted based on fastball velocity, fastball life, curveball, curveball control, slider, slider control, change of pace, change control, other pitches, control of other pitches, delivery, and arm angle.

Self-confidence, mental toughness, aggressiveness, work habits, personal habits, aptitude, poise, and instincts are as critical as technical skills in making decisions on player assignment.

Collectively, these measurement factors are the analog of organization core competencies in conventional organizations.

A sound assessment program will recognize and coordinate the professional life cycles of players at different levels of the organization and compare them with those of players at higher levels of the organization to better correlate the timing of replacement activity.

Coaching, Training, and Development

The review of performance and potential for future growth enables the major league talent assessors to develop a gap analysis. The gap analysis reflects the difference between a player's current capabilities and the requirements of his current and future positions. To address gaps, teams have developed sophisticated player development programs encompassing all levels of competition within their organization. To ensure consistency and the accurate communication of its "baseball wisdom" throughout its entire organization, a baseball club articulates, in writing, its suggestions for technical performance and team etiquette. Much like behavioral statements associated with a traditional organization's core competencies, a team's customized advisory manual defines the key requirements for each position and its associated best success practices.

For example, the advisory for catchers includes suggestions on throwing, blocking the plate, and calling plays. First base advisories include holding players on, playing the bag, and fielding the position.

The advisory manual also contains specific guidance on hitting, base running, and sliding.

From an “etiquette” perspective, the manual expresses the core values of a team (perseverance, desire, hard work, being a student of the game, health and fitness and fan loyalty). It sets standards of acceptable behavior for the players to follow.

All developmental programs are codified into an annual calendar to ensure that all of the assessment components formally come together at least once a year. A manager will communicate, at the end of the baseball year, the specific areas of development a player must work on during the off-season. A team will conduct special clinics and training programs to implement individual development plans. This development calendar, player feedback, and customized training are the counterpart of a conventional organization’s succession and career plan.

The Talent Management Strategy

To be competitive at a world championship level, each ball club seeks to develop a long-term strategy for staffing its starting major league baseball team with the greatest number of Superkeepers and Keepers that it can afford. Teams without the financial resources to staff themselves with high-priced Superkeepers and Keepers from other teams are more reliant on the development of high-quality surplus talent from within their own organization that is typically powered by a minor league system. Such talent will serve both their own needs and as “currency” for Superkeeper/Keeper trades in lieu of financial resources. Additionally, every organization needs to enrich its bench strength with the best Solid Citizens available and waste no time eliminating the Misfits. To the extent that baseball clubs have the ability to recognize and manage their reservoir of talent on a continual basis, they will have sustained success. Those that have a record of sustained success should recall the wisdom of Yogi Berra, Yankee catcher and glib talker, who spoke the following humbling words, “Ninety percent of the game is half mental.”

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Part II

Developing the Building Blocks of Talent Management: Competencies, Performance Management, Career Track Planning

Building Block 1: Competencies
Chapters 5-6

Building Block 2: Performance Management
Chapters 7-9

Building Block 3: Evaluating Employee Potential
Chapters 10-14

Building Block 4: Recruiting Superkeepers
Chapters 15-16

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Chapter 5

Competencies: The First Building Block of Talent Management

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Hay Group

AN AMERICAN-BASED, FAST-MOVING CONSUMER GOODS COMPANY DECIDES TO expand aggressively in Europe and Asia. It hires a team of international search consultants who attract some of the best marketing talent from some of the most prominent firms in the consumer goods sector. 24 months later, 70% of the new hires are gone.

A large financial services company embarks on an ambitious acquisition binge. It acquires in short order five medium-sized competitors. After 24 months, its share price collapses as the costs rise and IT integration fails.

A successful technology firm hires a new chief financial officer. With an accounting degree, an MBA from one of the best business schools, and experience in progressively different roles in finance in a number of *Fortune* 100 companies, he was the ideal candidate. However, 18 months later he is gone. "He never fit in here," claims the company's CEO.

How to Derail Your Company by Ignoring Competencies

The fast-moving consumer goods company, obtaining hiring recommendations from an executive search firm, assumed that people who came from some of the best “brands” companies in the world, with pedigree marketing experience, would be able to lead it to new levels of market penetration. But many of these hires were not assessed on, nor did they have, the competencies needed to succeed, especially in new markets where they were expected to take independent responsibility for generating new campaigns. Often the circumstances they faced were quite different from what they had experienced elsewhere in their career. Many of the hires came from companies with tight procedures about brand development and rollout. They had taken on increasingly important parts of that process in their previous companies. In this company, though, they were expected to take more responsibility and to dramatically increase levels of creativity and originality. However, this was now an environment that was rather free-flowing and certainly not procedural. The result was that many could not adapt. Either they were fired for their failure or they left of their own accord because they did not like the new culture.

The financial services company had assumed that combining IT platforms was a relatively straightforward technical task. Senior management failed to check whether in their company (or in any of their acquisitions) they had the project management skills to execute the plan. Worse, each of the IT departments had different skill requirements and no attempt was made to bring these together into a coherent whole. Consequently, as one of the executives put it, “We had all the skills you could possibly need, but they were thinly spread through so many people that it was unlikely that in our lifetime we could have completed a project.”

The technology company had merely looked for someone with the right credentials. It did not make transparent that many of the skills needed as a chief financial officer are not only technical but also leadership skills. “His approach to relationships was definitely a scorched earth strategy,” remarked the CEO.

These three failure cases show why, from a business perspective, “competency models” are imperative. Today most large companies have at least one competency model, if not several. But in many companies they are seen as the rather esoteric tool of the human resources department. This is a great pity, because competency models can be what holds together the social architecture that all successful businesses need.

Competency Models: A Little History

Competency models concern making transparent the skills an organization needs to be successful. There are a variety of ways of developing and using these models in organizations— but first it's useful to understand some of the history of how competency models became popular in many HR departments.

Until the early 1970s, most organizations viewed the characteristics required for success as either very solidly based on the technical skills needed for roles or a belief that intelligence mattered most. Some organizations, particularly the military, that depended so much on deep leadership skills, had tried to classify some of the personality traits that their leaders needed. They tested for these but rarely made them transparent and certainly could not translate what they meant in terms of the roles that people had to perform. Furthermore, they certainly could not train for these traits.

David McClelland, an eminent Harvard Psychology professor, had already widely published on the personality characteristics that described entrepreneurs. McClelland was not only interested in describing and measuring these characteristics, he was also deeply convinced that anything that could be measured could also be trained. He was also suspicious of IQ as a measure of success. For one thing, IQ was a rather gross measure that combined a number of mental aptitudes. It was also remarkably unsuccessful at predicting who would be most successful in roles. While baseline mental aptitudes are required for entrance into key roles, once within a role differences in IQ do not predict success. Take, for example, the fact that all surgeons need enough mental skills to get into and complete medical school. Beyond that, most measures of intelligence or scholastic success do not predict success. In other roles, IQ plays less of a role. Research has shown that successful entrepreneurs have a wide variance in IQ scores. McClelland had already showed that a measure of motivation he termed “need for achievement” predicted success among entrepreneurs. He measured this through a modification of an established test that tapped into how people tend to describe or imagine their world when they feel reasonably unconstrained. He had also showed that this characteristic, that many thought was deep seated, could be dissected and presented to people in ways that could be trained. McClelland's 1965 article, “Toward a Theory of Motive Acquisition” describes this process. Then, in his groundbreaking article in 1973, “Testing for Competence Rather Than for Intelligence,” he expanded his argument further and proposed that, for any role, there are characteristics that distinguish superior from average performers. These characteristics are describable and measurable in relatively concrete terms and therefore could be trained.

Almost immediately following this groundbreaking article, a number of large organizations were intrigued with this idea. The U.S. State

Department, faced with a somewhat hostile environment in many parts of the world (remember, this was during the Vietnam War and the OPEC oil embargo), sponsored a study. This was intriguing and has since been commented on widely. Rather than a degree from the best school or scores on SATs, McClelland and his fellow researchers at a consulting firm, McBer and Company, which he had founded to apply his research, discovered that skills such as the ability to network widely or to sense others' feelings were more important for determining an individual's success. Unfortunately the State Department never really applied the findings. Sometimes competency models can challenge people's fundamental views. The fact that competencies are more important than the school from which someone graduated was especially challenging to the people who controlled selection—particularly because those individuals actually came from the top schools and were rather personally committed to the status quo.

McClelland and his colleagues were more successful with the U.S. Navy. In the early '80s, in the wake of the Vietnam War and some major incidents related to poor leadership, the U.S. Navy tried a variety of training approaches, particularly around "human relation skills." With the Navy officers that McClelland and his colleagues studied, it was relatively easy to classify the best performers. Most naval officers run units that are measured on an ongoing basis. In addition, there are other readily available measures that seem to predict whether a military unit is successful or not (for example, retention rates or "absence without leave" measures). McClelland and his colleagues studied those top performers and also officers who were more typical (average performers) and found the distinguishing leadership characteristics that separated the superior from the average officers. These leadership characteristics became the basis for a fundamental training program that became the baseline of training for many years in the military.

At the same time, organizations such as General Electric had taken notice of McClelland's article and started to do similar research across a whole range of roles. Some of this research became the basis for redesigning well-known management training programs such as the Edison Engineering Program and the Manufacturing Management Program.

These types of studies provided a momentum and many HR people in large organizations and consultants and psychologists started reviewing their work in the light of McClelland's research.

Using Competency Models

There are many ways to develop and use competency models. Why an organization needs to use a model is important.

If we go back to the failure cases presented earlier, we might ask how the

organizations could have used competency models and how that would have helped them avoid business problems or even enhance their businesses.

Commonly Available Models

There is now a whole industry in describing the characteristics of great leaders. One of the best of these is Daniel Goleman’s emotional intelligence. In his book, *Working with Emotional Intelligence*, Goleman primarily uses the research of David McClelland and his colleagues at McBer and Company, pioneered in the '80s and continued to this date. He ties that with modern theories of brain functioning that show how these characteristics work and why they are important. More importantly, he shows that because these characteristics are tied to the brain and are far from being hard-wired from birth, people are capable of learning and developing these characteristics. The brain is one of the more pliable organs we possess.

Goleman proposes that emotional intelligence is shown in four areas: self-awareness, social awareness, self-management, and relationship management (see Figure 5-1).

Within each of these is a set of competencies or characteristics that can be behaviorally observed. The technology firm hiring a new CFO would have been well served by choosing some of these as a base for its selection decision.

<p style="text-align: center;">Self-Awareness</p> <ul style="list-style-type: none"> • Emotional Self-Awareness • Accurate Self-Assessment • Self-Confidence 	<p style="text-align: center;">Social Awareness</p> <ul style="list-style-type: none"> • Empathy • Organizational Awareness • Service Orientation
<p style="text-align: center;">Self-Management</p> <ul style="list-style-type: none"> • Emotional Self-Control • Transparency • Adaptability • Achievement • Initiative • Optimism 	<p style="text-align: center;">Relationship Management</p> <ul style="list-style-type: none"> • Developing Others • Inspirational Leadership • Influence • Change Catalyst • Conflict Management • Teamwork and Collaboration

Figure 5-1. Aspects of emotional intelligence

Each of these competencies has a set of behavioral descriptions. Figure 5-2 shows the descriptors for Transparency (Self-Management quadrant). Notice how these are arranged in a hierarchical fashion. People can display competencies at different levels. The CFO could easily have shown in his career or at the interview that he could “keep his promises” but perhaps “bringing up ethical concerns” was more important. Figure 5-3 shows the descriptors for Teamwork and Collaboration (Relationship Management quadrant). The CFO might have been able to “solicit input from others” when what was really required was to “encourage others” or “build bonds.”

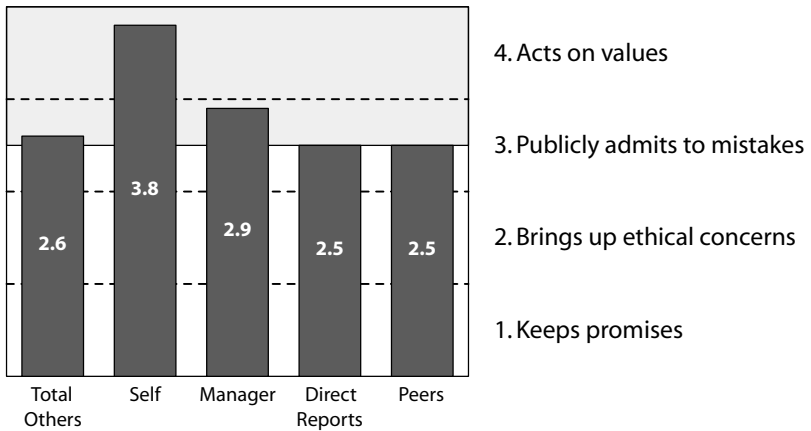


Figure 5-2. Transparency: maintaining integrity; acting congruently with one’s values

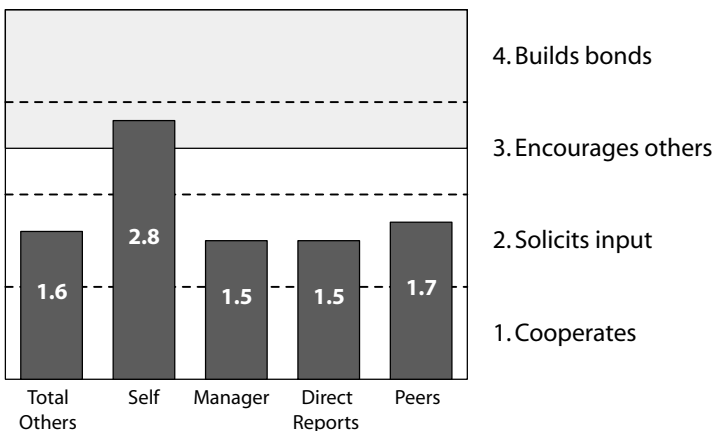


Figure 5-3. Teamwork and collaboration: working with others toward a shared goal; creating group synergy in pursuing collective goals

These types of characteristics are so important to success and, as Goleman shows, clearly observable that in the absence of any other strong, driving business reason a business would do well to consider them in selection. Many organizations also use these characteristics to give feedback to their employees about what is working and what is not working. Feedback given, using a 360 process in which data is gathered from the boss, peers, and direct reports (some organizations even go further and add customers), directed by a qualified advisor, can be immensely helpful in redirecting people to behaviors that will improve their performance. Even if the technology firm had not used these criteria for selection, it may well have prevented a failure by addressing its issues with him as he worked on the job.

Building a Model for a Critical Role

The financial services company that was not able to integrate its IT platform needed to use competency models in a different way from the technology firm hiring the chief financial officer. With the level of integration the financial services company required, it probably needed to better define a key role or set of skills associated with the “project manager” job. It can do that in two ways—by looking at project managers it already has and identifying the critical things that differentiate people who are really good in this role from those who are typical or, alternatively, by identifying the defining characteristics of project managers through panels of managers who manage these people or else by sponsoring a more formal study, such as McClelland and his associates conducted with the U.S. Department of State.

When looking at what made the difference in roles, McClelland was fond of saying that it could be anything that contributed to differentiating superior from average performance. He once said that, when you look at the top performers, it is not hard to tell what they are good at. With a little bit of effort, you can tell how they do it differently. The key issue is to work out why they do it differently.

What is really important is to look at all aspects of a person. Think of all the attributes a person can possess as contained in an iceberg. On the surface (above the water line), what is needed to be a financial services IT project manager? What do the outstanding project managers show or know that average performers do not show with the same degree of consistency? Next, look below the surface from how we observe a person. First, at their self-image. How do outstanding project managers look at themselves in comparison with average performers? Maybe we have a clear view because of the way he or she talks about problems or situations. The next level digs further below the surface and looks for the traits that the person brings to the role that will make a difference. The next level should look at the fundamental motivational issues that make a difference.

Building Models for Job Families

Finding the right project management competencies would be a major step forward for the financial services company. But it would not have solved the whole issue from a skill point of view. There is another approach to competencies that is especially useful when looking at specific functions. This approach involves finding the right set of technical attributes that people need to know in order to perform in this function. In this case, the leadership group needs to come together and agree on the fundamental understanding of where the business is going and what the individuals in this functional area must contribute. At the end of the day, this must *not* be a set of wooly statements; rather, the management group must have a clear view of what they must do. They should be able to complete the statement, "This is what we must get right"

Then look at the skills and competencies in this light. Start from the entry level and answer the question, "What do people need in order to perform well at this level?" Then imagine a second level (do not spend a lot of time defining this) and answer the question, "What would a person have to demonstrate in order to move to this level?" Repeat this question for the next level. If the team sees more than four levels in its function, then level five should be the leadership grouping.

This method should produce a chart with the skills that a function needs in order to complete its mission. The chart should be useable. Managers should be able to compare their people and decide which skills they possess and whether they possess enough know-how at each level of the function. In the case of the merger of the financial services organization, managers should be able to sort through their staff and decide who has the right skills to complete the integration. If they do not have the right number of people with the right skills at each level, then they need to fill these gaps through targeted recruitment efforts.

Building Models of Leadership: Using the Management Team

These methods will not necessarily work for the fast-moving consumer goods company that hired great marketing people who did not work out in their culture or market situation. Times of great change, such as a merger or, as in this case, a change in business plan, are great opportunities to review the characteristics the company wants to see in key leaders who will drive the strategy or change. As this company found out, functional skills or even success in other companies are not necessarily the best predictors in new situations.

Management discussions about the characteristics of potential leaders need real discipline. Too often these sessions generate lists that are too long. Therefore, any potential candidate is unlikely to meet the criteria. Other groups produce lists that are totally unrealistic. The lack of realism works in two different directions: the criteria are either so high even the best *Fortune* 50 CEO would not live up to them or too low so that the list would not differentiate superior from average performers.

There are three connected methods management groups can use to build a model of competencies that they agree should drive leadership or key roles in their company.

First, managers can use a list such as Figure 1 and agree which of these characteristics are most important in their company. If they had to choose only five, which of these would really differentiate the best performers from average performers? Which two or three would have the most devastating impact if they were missing? This requires a hard discussion about what really matters for this company. If there is an agreement on eight to 12 that make the most difference, that would be necessary for top-notch, superior performance or a killer if missing, the management team should have a discussion about how these are displayed in their company. For example, what would “visionary leadership” look like in roles in this company? How would you know someone was showing this to a very high standard?

Second, the management team can decide on the key requirements for the role. For the fast-moving consumer goods company, how are these leaders for expanding business in new territories supposed to add value? The managers might have a debate that ends up with a list of the seven (plus or minus two) accountabilities that define what that role is about. This might include “modify brand strategies to meet key customer needs in their markets” and “build an organization capable of delivering the right product at the right time to trade distributors.” Then the managers make a matrix and map out the critical competencies they have decided on at stage two and show how these enable people in the role to fulfill their accountabilities in really superb ways. Alternatively, a management group could start at this step and, having agreed on the key accountabilities for the role, answer the question, “What attributes, characteristics, skills, or competencies will enable the person in the role to perform this accountability in an outstanding manner?” This list of attributes will describe someone who is displaying that competence in an outstanding way.

Third, the group of managers should think concretely about whom they see as the top performers in these key roles and then keep a picture of them in mind. They then take some people who are typical but not below-average performers and form a picture of them in their minds. What do the managers see the top performers doing that are really different from the average per-

formers? What makes them outstanding? What motivates them? How do they think? The managers should focus not only on results but also on what the top performers are actually doing. Again, a management group can start here and go back through the first two steps in any order. The best approach is to take the one that will most energize the management team.

There are a number of issues to keep in mind when going through this type of exercise. For some management groups, this may be the first time they have engaged in a discussion about what capabilities they need. Some may find these exercises “academic” and not “action-oriented.” Facilitators may need to help them “stay the course.” This is probably one of the most important discussions that the top management team could have, discussing the types of capabilities people need, and it is a prerequisite to good talent management overall.

Facilitators also need to ensure that the discussion is grounded on what the business needs to be successful. Some management groups, when they embark on these discussions, take off into realms that far exceed what the business needs. We once saw a supply chain group develop profiles for “schedulers” that demanded conceptual skills far exceeding what the most creative marketing leader would need. Likewise, managers have their favorite traits (“passion” and “flexibility” are two of the most common). These need to be tested against the reality of what the business really needs.

The range of issues dealt with by Figure 5-1 is worth returning to. Some management groups produce descriptions of competencies that are too one-sided. Reading their output, you would have the impression that their leaders have to be great thinkers or else great influencers or energizers but nothing more. Clearly, different business situations will pull for different attributes and how these attributes are displayed. But avoid making them unbalanced. Unbalanced models (which, for example, have a lot of competencies about thinking and achieving but not so many on influencing or energizing) often will lead organizations to select singular leaders who do not really adapt.

Behavioral Benchmarking

When organizations are faced with change or new situations (such as faced by the consumer goods company that was depicted at the beginning of this chapter), they often will sponsor more rigorous studies of their best people’s actions, how these best people compare with others in the organization or with stars in benchmark companies. Behavioral benchmarking is probably the most recent evolution from the competency approaches that spurred on all the attention to this area. For example, when a telecommunications company spun off its wireless division, it benchmarked the top team against others in the industry. When a new CEO joined a fast-growth soft-

ware company, he commissioned a study of how his stars compared with outstanding performers in other fast-growth companies. In order to obtain more focus on top-line growth, the CEO of a large consumer goods company commissioned a study of his leaders against leaders who were known to produce high growth. He used the findings on the gaps to refocus leadership teams at the top of his organization.

Competency Models Underpin HR Systems and Processes

Competency models used in any of these approaches are fundamental underpinnings of human resource systems. Many organizations have had different language to describe their recruitment standards, training requirements, or promotion criteria. Using a common competency model, they can create a common language through which all of these important organizational initiatives can converge.

Large organizations, often operating across many countries, also need a common language to talk about people. Failure to do this can often lead to spotty performance from one unit to the next that is not explained merely by market forces alone or to the inability to plan for global succession because of the inability to compare talent across borders. Competency models provide a common model for talking about people. As the CEO of a large electronics company told us, "When someone describes someone as having a 'bias for action,' I expect it to be my version of 'bias for action'!"

However, whatever the needs of the human resource systems, the fundamental premise on how to build a competency model and where to put the attention should be the driving business issues that the company faces. If our fast-moving consumer goods company had done that, it would have been able to go to market faster and have a greater impact when launching in new markets. If the financial services company had done that, its acquisitions and customer retention rates would have been much higher. If the technology firm had hired its CFO on the basis of a competency model, its share price would have been protected.

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Chapter 6

How Competencies Create Economic Value

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SUCCESSFUL COMPANIES SEEK TO DETERMINE THE ACTUAL OR POTENTIAL OF each employee's capability for adding value to the organization. This enables them to maximize their contribution through appropriate investment in training and development. Poor allocation of compensation and training resources can result in unwanted turnover, morale, and performance problems, especially among those employees it can ill afford to lose. Superkeepers—employees whose competency levels and performance greatly exceed expectations—and Keepers—employees whose competency levels and performance exceed expectations—are most prone to disenchantment when not properly developed and incented.

The key to accurate capability evaluation and, therefore, appropriate investment allocation lies in the determination and assessment of identified competencies. Every organization has its unique set of competencies—behaviors/skill expectations that are crucial to the success of each employee and to the success of the entire organization. This chapter describes empirical methods for developing competency models that meet professional and legal reliability and validity criteria. Specific steps and templates are provided for quantitative calculations. A case study of competency model development, business case, application, and evaluation is provided.

Competency

A competency is a *reliably measurable, relatively enduring* (stable) characteristic (or combination of characteristics) of a person, team or organization that causes and statistically predicts a *criterion* (measurable) *level of performance*. Italicized words and phrases in the definition have technical meanings that have important implications for building competency models.

Reliably Measurable

Building competency models depend on reliable measurements. *Reliably measurable* means two or more independent observers or methods (tests, surveys) agree statistically (have a high correlation) that a person demonstrates a competency. Inter-rater reliability is critical to ensure the competency characteristic is a consensual construct (notion), measures accurately, and avoids bias. Professional standards, scientific practitioner ethics, and the law require reliable and valid measures.

Professional Standards

The Standards for Educational and Psychological Testing, prepared by a committee of the American Educational Research Association, the American Psychological Association, and the National Council on Measurement in Education (1999), require measures (and, by inference, human resource programs based on these measures) to be reliable and valid (that is, to statistically predict) outcomes of (economic) value to individuals or organizations.

Legal Requirements

U.S. and Canadian courts, under civil rights and (in Canada) pay equity laws, have ruled that “any [HR] decision-making processes, from background checks to supervisory performance ratings, that affect an employee’s status in an organization, are tests, and thus subject to scrutiny for adverse impact” (Latham and Wexley, 1981). These rulings effectively extend requirements for statistical reliability and validity to any assessment for selection or promotion, any development opportunity, and any performance appraisal affecting pay or career opportunities.

Valid development opportunities, for example, can clearly make a difference in an employee’s status; for this reason they have been the subject of many legal battles (such as the 1976 *Bakke v. Regents of the University of California*). Access to (quality) competency education and training opportunities almost certainly falls under these laws. An employee can complain, “You sent me to the ‘feel-good’ course when my colleagues got to go to *validated* training that helped them show improved business results and get promoted. Discrimination!” And lawsuit?

Economic Value Added

Evaluation methods that look at the economics of human resource programs are premised on the same survival-of-the-fittest concept that governs all businesses: that is, the goal is to help investments flow from less valuable uses to uses where they generate the highest returns. Dollars for highest economic value must be proportionally highly invested in Superkeepers. Economic value-added, cost-benefit, and return on investment (ROI) analyses lead human resources staffs to improve practices by helping them to:

- Focus on the *right* problems or opportunities—those with the greatest cost or value, respectively, to the firm.
- Focus on *interventions* that will have the maximum impact on costly problems and valuable opportunities.

Credibility of Human Resources Functions

Demonstrating the economic value of outcomes also enhances the credibility, acceptance, and leverage of human resources practitioners in several ways. The HR function competes with every other organizational function for capital investment funds. HR professionals are more likely to be able to convince their customers to adopt programs when they can describe program benefits in economic terms. Investment proposals accompanied by business cases with compelling ROI projections are more likely to be funded. “Soft” programs and staff (those lacking economic justification) are more likely to be cut.

HR programs are increasingly emphasizing ISO 9000, JACHO, Deming, Baldrige, and other quality-oriented audits and awards. Most of these assessments are qualitative. Economic value-added data can provide powerful measures of HR programs’ quality. Hard data showing that HR interventions made a meaningful business contribution to an organization are more likely than oilier evaluations to find their way into management reports and personnel folders and to enhance HR staff careers.

All advanced resources methods—value chain analyses, development of business cases based on the probable shift in competency-based performance, enterprise resource programs (SAP, PeopleSoft HR technologies, human resource asset accounting)—depend on validating the statistical relationship between competency predictor variables and economic outcome variables accounting.

Relatively Enduring

Stable measurements are *relatively enduring*. *Relatively enduring* means a competency measured at one point in time is statistically likely to be demonstrated at a later point in time. For example, a candidate selected for the competencies “achievement motivation” or “initiative” today will demonstrate these behaviors three (or 30) years from now. Stability of competency traits is

critical for predictive validity—predicting how an employee will behave in future jobs.

Competency Characteristics

Competency *characteristics* are content knowledge, behavior skills, cognitive processing (IQ), personality traits, values, motives, and occasionally other perceptual or sensorimotor capabilities (reaction time for combat pilots, taste and smell for sommeliers) that validly (accurately) predict some level of performance. Several hundred competencies have been identified, but only 20-25 validly relate to job performance.

Types of Competencies

Knowledge, skill, and personality characteristics required for minimally acceptable performance are called “*threshold*” competencies—those that distinguish people who can do the job from those who cannot. Characteristics that predict superior performance are “*differentiating*” competencies because they statistically differentiate superior from average performers.

The Concept of *Validity*

A difference which *makes* no difference *is* no difference.

—William James, Harvard professor,

“Father of American Psychology,” 1842-1912

Validity means that a reliably measured competency predictor (independent variable statistically predicts a measurable level of performance (dependent) variable. It cannot be too strongly emphasized that “competence” or “talent” as a concept has meaning *only* to the extent it predicts a level of performance. Very few competency models meet this standard. Competency lists or models lacking empirical validation are meaningless and useless. To paraphrase William James, “A ‘competency’ which doesn’t predict measurable performance *is no* competency.”

Criterion (Measurable) Level of Performance

Criterion level of performance is a point on a normal distribution (see Figure 6-1) of the performance results for all employees in a job. This point can be anywhere on the curve, but the three most commonly used reference classifications are:

- *Minimally acceptable*: the lower cut-off point, below which employees will be replaced because their performance is below what the organization can tolerate. These are the Misfits.
- *Average* performance: the mean of the bell curve. These are the Solid Citizens.

- *Superior* performance, one standard deviation above the mean, top 15% or roughly top one of 10 employees in a job. These are the Keepers and those falling in the top 2% are the Superkeepers.

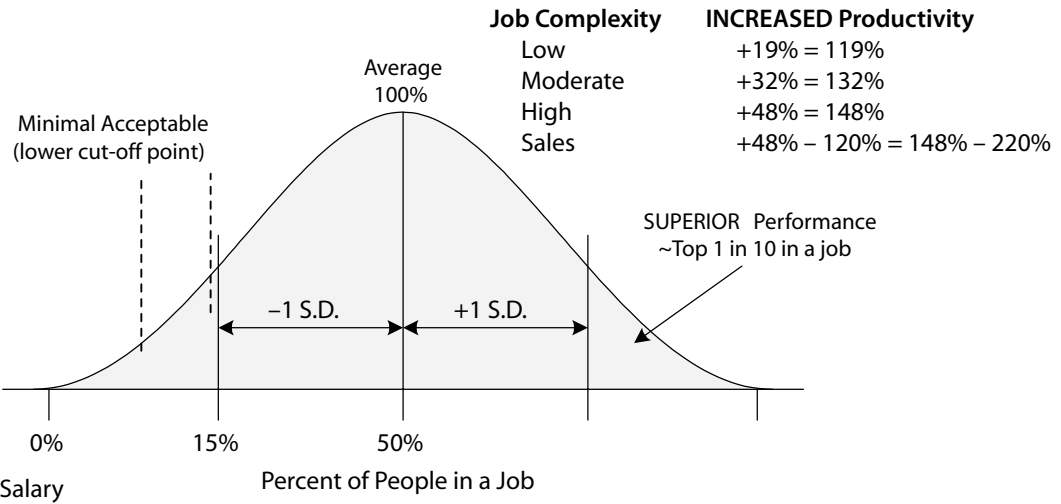


Figure 6-1. Economic value added by superior (+1 SD) performance

The superior performance point on the curve is the most useful reference point driving for performance improvement because:

1. It has *known economic value added* that increases with the complexity of the job. Studies have shown that in basic jobs (low complexity, semi-skilled labor, and clerical), superior performers (plus one standard deviation above the mean) are 19% more productive than the average employee. In moderately complex jobs (technical and first-level supervisory), superior performers produce 32% more than average performers. In complex jobs (professional, managerial, and executive), superior performers are 48% more productive than average employees, i.e. produce as much as 1.5 average employees. In sales positions, superior performers sell from 48% to 120% more than average performers.
2. It defines the *most widely used metric, "effect size," for measuring the impact of HR interventions.* Human resource programs focusing on selection, training, performance management, goal setting, feedback, and coaching add value by raising employee performance from current levels on the bell curve toward superior performance. Fractions and multiples of the one standard deviation difference between average and superior performers is a common yardstick for how much difference a human resource program can make, such as "training T increased per-

formance .40 effect size.”

3. It is a *benchmark* that drives employees and HR practitioners to improve performance above average levels. Individuals or HR departments not using a performance benchmark that exceeds their current (average) level of achievement run the risk of employment mediocrity.

Competency Modeling

Competency modeling research is akin to benchmarking best practices. Benchmarking has two stages. The first is benchmark *what*: measures of superior performance, such as lowest cost per unit, fastest cycle time, highest quality, and largest profit margin of best-performing firms. Benchmark *how* follows: the study of the processes, materials, equipment, and human resources the best-performing organizations use to get a superior results.

The power of benchmarking depends on its “benchmark what” criterion (measurement) sample: the economic value added by best results from best practices. Benchmarks are not based on mediocre employee performance, except to illustrate what best practices actually make a difference. Benchmarking *how* in competency research is the study of superior performers to identify characteristics and behaviors they use to achieve the *what* criterion.

Steps in Developing a Valid Competency Model

The steps to develop a competency model are:

1. Define performance criteria.
2. Analyze criterion sample.
3. Collect data.
4. Develop competency model.
5. Validate competency model.
6. Application.
7. Evaluation.

A seven-step protocol for developing competency models is shown below. It is based on a book done for a company called Incon. Incon is a U.S. \$5.5 billion industrial controls firm with 400 branch managers (BMs) in North America. In 1997 Incon developed a BM competency model for a pilot group of 98 U.S. BMs, applied the model to develop a BM training program, and validated the model against branch profits 1998-2000.

Step 1. Define Performance Criteria

The initial step of defining the performance criterion appears obvious. In many organizations, however, managers lack consensus around true meas-

ures of performance. These explicit measures need to be probed to determine what management really values.

Case Study

Incon’s performance measures (balanced scorecard) for sales managers included growth in revenues, return on sales, cost reduction, customer satisfaction, improvement in productivity and operational efficiency, sales of new products and services, organizational climate, and qualified turnover of subordinate managers and salespeople. Balanced scorecard metrics can be aggregated by multiplying the weight for each measure by an individual or group’s score on it. In Table 6-1, weights have to equal 100 and scores are -2 to +2 standard deviations in performance on the variable rated. In the example, weights and scores for all measures produce a weighted total score of 60, out of a possible score of 200 (100 weights X +2 maximum score). A superior criterion sample could be identified by taking the top 10% or 15% of managers on the total measurement score.

In reality, when pressed, the finance unit told HR that the only performance measure that mattered was increased profits: growth in revenues X return on sales. This measure was used as the dependent variable in developing the business case and evaluating the competency model *program*.

Measure	Weight	Score -2 to +2	Criterion Score
Organizational climate	5	0	0
Qualified turnover of managers and salespeople	10	-1	-10
Productivity improvement	5	2	10
Sales of new products and services	10	1	10
Customer satisfaction	10	1	10
Growth in revenues	20	0	0
Profit margin	20	1	20
Growth in profits	20 100	1	20 100
TOTAL	100		60 100

Bold = valuation by top management

All other = Balanced Scorecard ratings by HR focus groups

Table 6-1. Criterion from multiple weighted measures

Step 2. Analyze Criterion Sample

The first question in developing a business case should always be: Is there enough variance in the value of the dependent variable to make investment in an intervention worthwhile? This question can be answered by calculating the economic value of the problem or opportunity the HR program will address by:

- Valuing the problem, the cost per problem incident X # incidents and/or
- Valuing the opportunity, finding the economic value added (EVA) per employee (team or firm) per year at the benchmark or desired level of performance—for example, a criterion sample of employees (teams, firms) + 1 SD above the mean (EVA/employee/year X # employees).

Case Example

Data for the business case were easily developed from Incon financial records with basic descriptive statistics. Sales for branch managers ranged from \$4 million to \$90 million, with a mean of \$17.0 million. As shown in Figure 6-2, BMs one standard deviation above the mean had 5.66% higher return on \$12.8 million more sales, worth \$2.94 million in yearly profits, 134% more than average performers. Variance in BM performance is very large; hence it offers a large opportunity for HR intervention that improves average BM performance.

The second business case question is: How much impact is the HR intervention likely to have on business results dependent variable(s)? (i.e., What

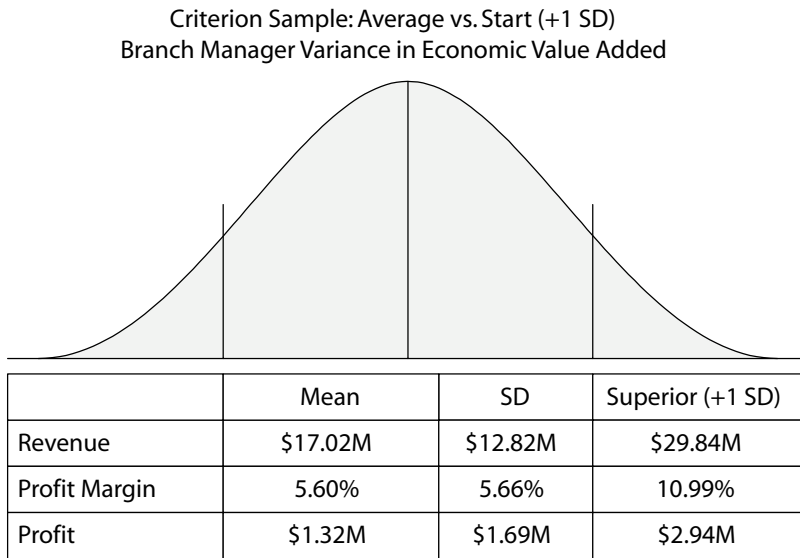


Figure 6-2. Branch manager variance in economic value added
Criterion Sample: Average vs. Star (+1 SD)

is its probable EVA in problem cost savings or opportunity increased profits?) This question is answered by finding (a) the validity of the competency model (i.e., How much of the \$1.69M difference in BM competencies that HR might improve could be accounted for?) and (b) the power or effect size the HR intervention under consideration has to improve competence.

Step 3. Collect Data

Numerous methods can be used to collect data to build competency models. The challenge is getting reliable and valid data within a reasonable time and at a reasonable cost. As with most investments, more valid methods tend to cost more and take more time, but returns in increased validity of HR programs justify these investments.

- A. Behavioral Event Interview (BEI).** The BEI asks interviewees about the most critical situations they have faced on their job: peak high points and peak low points. Probes are very specific but nondirective:
- a) What was the situation? This can be scored by analysts for what situations interviewees considered critical (often very different for superior and average performers).
 - b) What led up to the situation? This is coded for whether the interviewee initiated or reacted to the situation, the extent to which he or she sought information to anticipate or prepare for events.
 - c) Who was involved in the situation? This is coded for the breadth of people the interviewee typically interacts with—no one, peers, top management, external experts, customers—in what priority order.
 - d) What did the interviewee observe, see, hear, read, pay attention to in the situation? This is coded for information-seeking and pattern recognition.
 - e) What did the interviewee feel and want to have happen in responding to the situation? This is coded for emotional self-control, self-confidence, and motivation.
 - f) What did the interviewee think about in analyzing or understanding the situation and deciding whether and how to respond to it? This is coded for conceptual and analytical thinking and strategic planning.
 - g) What did the interviewee actually do? This is coded for behavioral skills, initiative.
 - h) What was the outcome of the situation? This is coded for what the interviewee thinks is an important outcome (achievement, conciliation, achievement, influence).

The BEI provides a wealth of narrative data that can be used to develop case studies and training exercises showing what the best performers actually do in the most critical situations they face. The BEI is open-ended, so ana-

lysts can discover and code new competencies as well as those in existing dictionaries. The BEI consistently shows the highest reliability and validity in predicting the future employee performance. The BEI's drawback is that it requires skilled interviewing and reliable coding.

B. Survey. Two survey methods are commonly used.

- Rating of competencies required by a job by managers and sometimes superior incumbents, on the importance and frequency of superior and adequate performance; trouble is likely if employees lack the competency, etc.
- 360° ratings of superior, average, and minimally acceptable (or a full normal distribution of) employees in a job by managers, peers, subordinates, customers, and others who have an opportunity to observe employee job performance.

Survey data are relatively quick and inexpensive to collect, especially with Internet technologies. Surveys, however, measure only those competencies that the survey makers already know about; they cannot discover new competencies. The validity of managerial and subordinate ratings of subject competencies indicates that validated 360° surveys are a valuable measurement tool.

C. Expert Panel/Focus Group. This approach usually involves 10 to 20 managers, human resource specialists, academics, and sometimes incumbents and others who brainstorm or "guesstimate" what they *think* are the competency characteristics required for superior or minimally acceptable performance. Twenty years of research have shown that, at best, focus groups are 50% accurate and the identified competencies are often not defined specifically enough to be reliably coded. As shown in Table 6-2, 25% of what panels identify are "folklore" virtues and values that are not confirmed by validation studies. Another 25% of competencies that validate are missed by focus groups because panel members lack the psychological vocabulary for identifying valid competencies.

Focus groups are useful for involving organization members and marketing competency research efforts, but are rarely useful (unless accompanied with critical incident data) for identifying valid competencies (see Table 6-2).

D. Job Competency Data Bases. Advanced human resource information systems and enterprise resource programs (ERP) have databases that include expert system engines that, given the requirements of a job, can look through all similar requirements indicated in studies to identify competencies that predict high performance. For example, an American telecommunications company wanted to expand sales to Eastern Europe. Large telecommunications systems sales in European countries

Panel	Validation Study
25% folklore virtues	not valid
50% accurate, but too vague to code reliably • Comp 1 • Comp 2 • Comp 3	50% precise, code reliably for frequency, level • Comp 1 • Comp 2 • Comp 3
25% panel misses	• Comp 4 • Comp 5 • Comp 6

Table 6-2. Panel vs. validation study accuracy in identifying competencies

are highly centralized under governmental ministers of telecommunications. The firm never employed high-level people in Europe. No criterion sample of salespeople existed from which to identify competencies for this job. A successful salesperson in European telecommunications markets requires a combination of diplomatic and senior high-tech sales/account manager competencies. An HRIS consultant’s database data included several competency models for diplomats and high-tech senior level account managers. The database engine was able to infer from a job requirement the competencies likely to predict success in the job (Table 6-3).

Job	Task Requirement	Competencies Needed
Diplomat	Contact, lobby, persuade high-level foreign government officials	+ Cross-cultural empathy—Level 4 + Speed of learning political networks (organizational awareness)—Level 6 + Relationship building—Level 7
High-Tech, High-Level Account Manager	Strategic advice to top management Lead complex systems integration projects	+ “Comfortable in boardroom” influence skills—Level 4 + Strategic thinking: IT and communications systems for IT sustainable competitive advantage—Level 4 + Customer service orientation—Level 7 + Team leadership in complex systems integration—Level 7

Table 6-3. Competencies identified by an expert system for high-level, high-tech sales in Eastern Europe

- E. **Observation of on-the-Job Behaviors.** Trained observers watch superior and average employees, listen in on phone calls, etc. and code observed behaviors for competencies. Observation is a valid research method but is rarely used due to the expense and the fact that equally valid data can be obtained from BEI transcripts.
- F. **Other Evaluation Methods.** Means such as assessment centers, psychometric tests, and work samples can be used for identifying competencies and by comparing the results of superior performers and average performers or employees with minimally acceptable performance and those incapable of doing a job. These methods again find only what test items or simulations measure. Assessment centers are comparable in validity to the BEI's high validity, but are more expensive.

Step 4. Develop Competency Model

The process of developing competency models is essentially identifying competencies that statistically distinguish superior from average performers (with greater economic value) and then arranging valid competencies in a model that is most easily understood by manager, human resource professional, and employee users.

Start by identifying competencies that predict significantly greater economic value added. Data from surveys are easily scanned in and summed for use in basic statistical tests. Interview data must first be coded by competency level for superior and average performers. Coders use a competency dictionary (see Spencer and Spencer, 1993). Competency researchers realized that some "core" competencies (e.g., achievement motivation) appeared again and again in models for many job families. But because no standard "language" or dictionary for competence existed, this competency was called many different names by researchers in different organizations and countries. For example, achievement motivation was known by many different labels: "concern for results," "performance orientation," etc. To create competency dictionaries from meta-analyses of many competency models, a "lowest common denominator" language was needed that could capture in similar terms data in all competency models and translate any competency definition into any other. This realization led to the development of an "atomic" approach to competency classification.

a) *Competency "atoms"*: In philosophy, atoms are the smallest, indivisible units of matter or ideas. In psychology, an atom is perhaps best defined as "the smallest useful unit of observation." This unit differs by the type of psychological analysis. For example, for competency research, an atom is a *behavioral indicator*, e.g. "wants to *do better*," an atom in the "element" achievement motivation.

b) “*Quanta*”: This is the strength or “energy” of competency variables. “*Quanta*” in physics are discrete, whole number units of energy (orbital levels of electrons; higher orbits equal higher energy). Many behavioral science methods have been developed to measure variable strength. Examples are the sum of item scores (e.g., Likert 1 = low to 5 = high), items correctly answered (e.g., vocabulary words or analogies on an intelligence test), frequency (the number of times a competency is coded in an interview transcript), and “Just-Noticeable-Difference” scales.

An important finding of the research used to develop competency dictionaries was significant variation in the weight or strength of examples of the same competency drawn from different models. Some “Achievement” stories seemed stronger than others, some examples of “Analytical Thinking” were much more complex than others.

When verbatim examples were collected from a variety of jobs and sorted by a number of judges according to the extent to which they indicated more or less of the competency in question, competency examples were found to have scaling properties. A clear progression from lower to higher levels could be established on four dimensions:

- *Intensity* of the intention (or personal characteristic) involved or *completeness of actions* taken to carry out an intention.
- *Complexity*: taking more things, people, data, concepts, or causes into account.
- *Time horizon*: seeing further into the future and planning or taking action based on anticipation of future situations (e.g., acting now to head off problems or create future opportunities).
- *Breadth of impact*: number and position of people impacted.

For example, Table 6-4 illustrates a six-level scoring for Achievement Orientation. Levels are descriptions of behavior “just noticeably different” in increasing intensity or completeness of action, complexity, breadth of impact, and time horizon.

Case Example

Incon completed a competency study of branch managers and used a sophisticated regression method called structural equation modeling to identify competencies and competency interactions that predicted economic performance. The model accounted for a major difference between superior and average BMs. As shown in Figure 6-3, competencies that differentiated superior performers included Achievement (ACH), Initiative (INT), Teamwork (TW), and Team Leadership (TL).

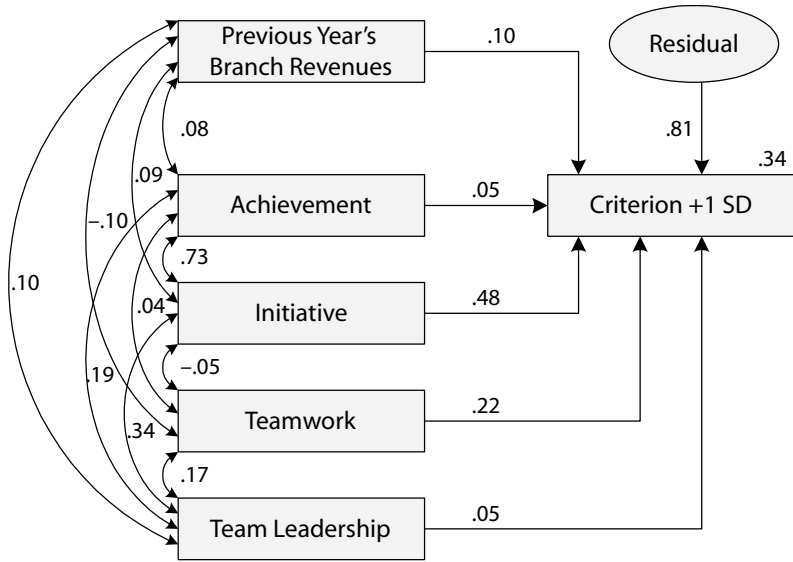
As can be seen from Figure 6-3, four competencies account for 80% of variance in BM economic performance. Previous years’ branch revenues

<p>Achievement Orientation: A concern for working well or for surpassing a standard of excellence. The standard may be one's own past performance (striving for improvement), an objective measure (results orientation), outperforming others (competitiveness), challenging goals one has set, or even what anyone has ever done (innovation). Unique accomplishment also indicates ACH.</p>
<p>1. Wants to Do Job Well: Tries to do the job well or right, or meet objectives set by others, e.g., make a sales quota or budget. May express frustration at waste or inefficiency (e.g., gripes about wasted time and wants to do better) but does not initiate specific improvements.</p>
<p>2. Creates Own Measures of Excellence: Develops specific methods of measuring outcomes against a standard of excellence not imposed by others. May focus on new or more precise ways of meeting goals set by management.</p>
<p>3. Improves Performance: Makes specific changes in the system or in own work methods to improve performance (e.g., does something better, faster, at lower cost, more efficiently; improves quality, customer satisfaction, morale, revenues), without setting any specific goal.</p>
<p>4. Sets and Works to Meet Challenging Goals: "Challenging" means there is about a 50-50 chance of actually achieving the goal—it is a definite stretch, but not unrealistic or impossible—OR refers to specific measures of baseline performance compared with better performance at a later point in time, e.g., "When I took over, efficiency was 85%; now it is up to 96%."</p>
<p>5. Makes Cost-Benefit Analyses: Makes decisions, sets priorities, or chooses goals on the basis of calculated inputs and outputs: makes explicit considerations of potential profit, return-on-investment or cost-benefit analysis. Analyzes for business outcomes. (To code, the person must show: 1) specific mention of costs, 2) specific benefits, and 3) a decision based on the balance between them.)</p>
<p>6. Takes Calculated Entrepreneurial Risks: Commits significant resources and/or time (in the face of uncertainty) to increase benefits, (i.e., improve performance, reach a challenging goal, etc.)</p>

Table 6-4. Achievement Orientation (ACH) Just-Noticeable-Difference (JND) Scale

were included in the regression equation to test the usual objection that "getting a good district" (fast-growing local economy, weak competition, etc.) really accounted for performance. (Having a "good branch" the prior year made some difference, 10%, but far less than the 80% due to competence.) The competency model predicts $.80 \times .34 \times \$1.69 \text{ million} = \$459,680$ in economic value added.

Figure 6-3 also suggests some of the ways that competencies may combine. Initiative by itself accounts for 48% of performance, but initiative to do what? Initiative correlates .73 with Achievement and .34 with Team



N = 98 branch managers, in two samples.
 Economic value added by BM competencies =
 $.80 \times .34 \times \$1.69 \text{ million} = \$459,680$

Figure 6-3. Competencies predicting +1 SD superior economic performance among U.S. industrial control firm branch managers

Leadership, so superior BMs probably spend most of their time improving performance and communicating their vision and goals to subordinates.

c) Competency “molecules”: These are combinations of competency elements that act together to produce effective performance in a task situation. Competency model lists of behavioral indicators or competency elements do not provide any information about how these elements combine or act together to produce effective behavior. Molecules have different properties than their constituent elements; for example, water, H₂O, differs completely from its constituent elements, hydrogen and oxygen. “Laundry list” competency models are similar to biological analyses that define a human being as being composed of hydrogen, oxygen, carbon, and nitrogen. This “model” *might* distinguish a human from a rock but would not distinguish a human from a tree.

Motive profile “molecules” have been known to predict behavior in different job families for many years. For example, the “leadership motive profile” (McClelland and Boyatzis, 1982): moderate-high achievement motivation (Ach), low-moderate affiliation motivation (Aff), high power motivation (Pow), and high self-control (SCT) are a four-element competency.

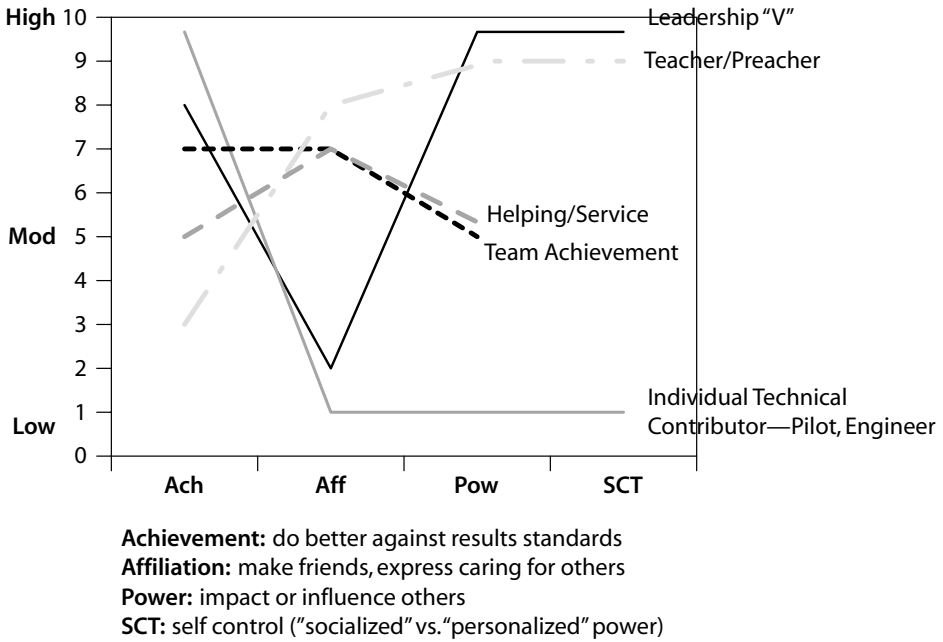


Figure 6-4. Motive profile "molecules"

Competency studies of high-performing members in effective self-managing workgroups have identified a new "molecule" called the "team achievement" motive profile, composed of moderate-high achievement, moderate-high affiliation, and moderate power motives.

A worker in a toy manufacturer captured the essence of this finding: "We are all good friends, having lots of fun together making more and more widgets, better and better, faster and faster ... we can influence each other when needed, but don't have to play a lot of politics." "Fast, focused, flat, friendly, self-confident, fun" teams are increasingly common in entrepreneurial high-tech organizations where fast product development cycle times are essential to meet competitive pressures.

d) Molecules X Receptor Sites (specific jobs, tasks): All competency models imply a job ("receptor site") and person (competencies) match assumption: *the better the fit between the requirements of a job and competencies of a person, the higher will be the person's job performance and job satisfaction* (Caldwell and O'Reilly, 1990). This assumption is infrequently tested empirically because valid competency models for jobs and accurate competency assessments of people are rare. Competency models based on identifying the specific competency "molecules" to specific jobs have shown very high criterion validity.

e) *Dynamic Competency Models*: Recent competency (and neuroscience) research indicates that competence is always a “molecule” or combination of competencies, usually with the following components:

- *Motivation*: one or more *operant* motives and one or more *respondent* values, preferences, or attributions.
- *Observation*: information seeking, interpersonal understanding, or organizational awareness.
- *Understanding*: cognition: declarative knowledge content “data” bases, conceptual “rule” bases, and analytic or conceptual processing (IQ).
- *Decision*: whether to act, a product of emotional intelligence “gut feel” and rational business case expected value analysis; and how to act, rational planning, logistics, etc.
- *Action*: behavioral skills.

For example, effective influence in sales is a “motivation-observation-understanding-decision-action” (MOUDA) molecule. Driven by motives to influence and add value (Customer Service Orientation), superior salespeople seek information using Interpersonal Understanding and Organization Awareness competencies, identifying client needs using Conceptual Thinking, and initiating to persuade prospects using Influence Skills. Interpersonal Understanding is a prerequisite for effective influence and persuasion. An understanding of the unspoken feelings, concerns, and agendas of those individuals and the informal “political” alliances, rivalries, key decision-makers, etc., of organizations is needed before one can effectively influence individuals or organizations.

Step 5. Validate Competency Model

Competency models are validated in three ways:

- *Concurrent validation*: meaning competencies measured currently correlate with current results.
- *Cross validation* (scientific replicability): meaning competencies that predict success and differentiate in one sample also predict success and differentiate in another sample of superior vs. average performers.
- *Predictive validity*: meaning competencies measured at the time one actually predicts economic performance at a future time (a much sterner and more valuable standard).

Predictive validity is the obvious objective and challenge for talent management. Organizations need to ensure if candidates hired or fast-tracked now in fact produce superior results in the future.

Step 6. Application

Detailed discussion of applications of competency models are beyond the scope of this chapter, but validated models have great power to help human resources professionals build business cases by estimating the potential economic value added from selection, feedback, training, and performance management.

Once the following variables are known:

- The economic value of superior performance (1 effect size = +1 standard deviation above the mean) from a criterion sample of job incumbents.
- The percentage effect size differences HR applications can make (from published meta-analytic studies; see Spencer, 2000).
- The number of employees affected by the HR intervention.

The equation for potential economic value added is \$EVA of 1 effect size X average % improvement in effect size HR application can make X the number of employees impacted by the HR application, as shown in Table 6-5.

HR Intervention	\$EVA of 1 effect size (millions)	Average % effect size HR application can make	# employees affected by HR application	Total HR economic value added (EVA)
Selection	\$1,000	19%	20	\$3,800
Feedback	\$1,000	11%	20	\$2,200
Training	\$1,000	40%	20	\$8,000
Performance Management	\$1,000	60%	20	\$1,200

Table 6-5. Calculation of expected economic value added by HR applications

Step 7. Evaluation

The truest test of a competency model is whether its application actually adds economic value to the organization that invested in it. If competencies identified, assessed, trained, given feedback on, and used as the basis of goal setting were valid, the application program should produce a significant return on investment.

Case Example

Incon evaluated the change in trainees' competence and calculated the economic value added in comparison with the competence and EVA of the control group. As shown in Table 6-6, the competency research, training, feedback, and goal-setting intervention appears to have significantly

increased the participant branch managers' sales and profits, producing a 613% ROI. Trainees' return on sales decreased (insignificantly) compared with that of the control group—perhaps because trained managers were investing in revenue-increasing marketing and area expansion efforts. However, trainees' increased revenues more than made up for this decline. The 0.04 effect size shift achieved by training was only 10% of the expected change. This shows that even a very small shift in performance can result in significant statistical and economic results when the economic value of the problem or opportunity in the business case is large.

	Revenue	Operating Income	Profit
Trained group (N=23)	\$3.117M	0.3%	\$249,000
Control group (N = 7)	\$1.660M	0.7%	\$192,000
Difference	\$1.457M	- 0.4%	\$57,000
<i>p</i> (<i>t</i> - test)	< .04	<i>n.s.</i>	< .02

- Es shift from training: \$57K/\$456K ~.125
- Investment: \$8,000/BM trained x 28 BMs trained = \$224K
- Return: +\$57K profit/BM trained x 28 BMs trained = \$1,596K additional profit
- ROI = 613%

Table 6-6. Treatment group vs. control group performance over one year after training

Trainees increased revenues and profits significantly more than the control group. Trainee versus control return on sales did not differ significantly. The effect size shift achieved by training and feedback is similar to that reported by McClelland (1998) for competency assessment feedback to executives. That the actual effect size is 28% of the meta-analytic mean for all training programs suggests that more in-depth training involving action learning projects could increase return on training investments.

Summary

The future of competency modeling lies in more precisely defining competencies and competency molecules that predict economic value added in precisely defined jobs/roles. This will occur through use of more scientific, valid, and reliable measurement tools and models.

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Chapter 7

Selecting the Right Performance Management System

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IN THE FIRST WEEK OF FRESHMAN PSYCHOLOGY 101, COLLEGE STUDENTS ARE introduced to the *Law of Effect*: behavior that leads to reward tends to be repeated; behavior that does not lead to reward tends not to be repeated. This simple theorem is the basis for the science of psychology. Much of the course work from there to the Ph.D. consists in understanding how this theorem applies in different types of situations, under different types of conditions, with different types and frequencies of rewards, on people with different types of life experiences.

Executives typically do not have advanced degrees in psychology, but they must be able to manage in complex organizational settings where great variations exist in the types of situations, conditions, and people. Most of these variations are inevitable, and they must be accepted and dealt with as they are. However, the organization can and should control the administration of the various types of formal reward spectrum—recognition, pay, promotion, and perks.

The importance of reward in shaping behavior in an organizational setting is known to managers as well as psychologists. Dr. Mason Haire, an

industrial-organizational psychologist, said, “What gets measured gets done. ... If you want to change how an organization behaves, change the measurement system.” Bill Gates, an executive rather than an academic, said the same thing much more succinctly: “People behave as they are measured.”

It is important to recognize that a *performance management system* has two primary parts: *performance appraisal* (the process of measuring performance) and *performance review* (the process of communicating the results of the performance appraisal to the person whose performance was measured). This chapter focuses on performance appraisal—what to measure, and how and when to measure it.

Choice of Appraisal System

Appraisal systems can be categorized by what they assume and on what they focus measurement. These include:

- *Trait-based*—Assumption that certain traits drive performance; measures personal characteristics of the position incumbent.
- *Behavior-based*—Assumption that certain behaviors drive performance; measures what the position incumbent does.
- *Knowledge/skill-based*—Assumption that certain knowledge/skills drive performance; measures what the position incumbent knows/applies. When traits, behaviors, skills, and knowledge are linked to organization success expectations, they are sometimes called *competencies*.
- *Results-based*—Assumption that achievement of objectives equals performance; measures what the position incumbent achieves.

Determining which type of appraisal system best fits your organizational and business needs depends primarily on your objectives, i.e., what you are trying to accomplish with the system. Is your priority increased job understanding on the part of the incumbent, individual growth and development, or performance planning and control?

Other important factors to be considered are:

- Business environment,
- Strategy and objectives of the business,
- Organization size and the management levels considered,
- Corporate climate,
- Values and style of the senior management group, and
- Available resources.

Further, not all appraisal systems can be utilized effectively with all types of employees. Appraisal systems are best suited to employee types as follows: *trait-based*—all employees; *behavior-based*—supervisors and

below; *knowledge/skill-based*—production workers, clerical workers, and some professionals; *results-based*—administrators/managers, most professionals, and executives.

System Type	Characteristics	Strengths	Weaknesses
Trait-Based	<p>Assumption that certain traits drive performance</p> <ul style="list-style-type: none"> • Emphasis is on personality/style/values • Traits are generic and may apply to all employees/groups • Evaluation based on perception • Rating tied to degree/frequency trait is exhibited 	<ul style="list-style-type: none"> • Simple to conduct evaluation • Can apply to different employee groups • Communicates important traits up front 	<ul style="list-style-type: none"> • Simple to conduct evaluation • Can apply to different employee groups • Communicates important traits up front
Behavior-Based	<p>Assumption that certain behaviors drive performance</p> <ul style="list-style-type: none"> • Behaviors are specific to the work environment • Tailored to different jobs/groups • Evaluation based on demonstrated actions • Rating tied to degree/frequency behavior is exhibited 	<ul style="list-style-type: none"> • Can be tailored to specific jobs • Helps employees understand specifically how job is to be done • Behaviors help reinforce culture/values 	<ul style="list-style-type: none"> • Time-consuming to develop and evaluate • Must be able to observe and measure discrete behaviors • Behaviors may not produce desired results
Knowledge-or Skill-Based	<p>Assumption that certain knowledge/skills drive performance</p> <ul style="list-style-type: none"> • Emphasis on employee capabilities • Tailored to each knowledge/skill area • Evaluation based on acquisition of knowledge/skills • Rating tied to degree/diversity of knowledge/skill achieved • Knowledge/skill tied to organizational objectives 	<ul style="list-style-type: none"> • Competency required on each job • Reinforces cross-training and flexibility • Direct link to pay system • Strategic view: pay for competencies required in the future 	<ul style="list-style-type: none"> • Assumes link between knowledge/skills and results • Employee may not use certain knowledge/skills • Difficult to measure diverse skills

Figure 7-1. Comparison of performance measurement systems (continued on next page)

System Type	Characteristics	Strengths	Weaknesses
Results-Based	<p>Assumption that achievement of objectives drives performance</p> <ul style="list-style-type: none"> • Objectives tied to job or organization goals • Develop objectives specific to individual/group by which performance is measured • Evaluation based on results achieved • Rating tied to degree of achievement 	<ul style="list-style-type: none"> • Tailored to specific jobs/ organization • Emphasizes results • Encourages dialogue and employee buy-in if goals are jointly established 	<ul style="list-style-type: none"> • Time-consuming to develop and evaluate • Limited to work where specific objectives can be established and measured • Debate between short-term and long-term emphases

Figure 7-1. Comparison of performance measurement systems (continued)

Figure 7-1 presents a comparison of the general characteristics, advantages, and disadvantages of the four systems. Figure 7-2 presents a different type of comparison of the four types of performance appraisal systems, focusing on the utility of each for different performance appraisal program objectives. In Figure 7-2, an X in the box indicates that that type of measurement has utility for that objective, two X's in the box indicates a high degree of utility for that objective, and a blank box indicates that type of measurement lacks utility for that objective.

Designing a Performance Appraisal Program

Appendix A presents a detailed checklist of the many issues to be considered and the decisions to be made when designing a performance measurement program. Most are straightforward and need no discussion. A discussion of two key issues that are not so straightforward follows:

1. Choice of Appraiser

The person chosen as the appraiser *must* have the opportunity to observe the employee's performance on an ongoing basis. The most obvious choice as the appraiser is the employee's immediate superior (EIS), but many times the EIS does not have the opportunity to observe the employee during the most important aspects of performance.

For example, a maintenance supervisor may have infrequent contact with maintenance personnel when they are performing repairs at various locations. Systems analysts may spend much of their time with users, far from where the EIS is working. Sales reps may be several states away from the EIS most of the time. In such cases, evaluation by the EIS alone is inad-

Program Objective	Type of Measurement			
	Trait-Based	Behavior-Based	Knowledge /Skill-Based	Results-Based
Increased Job Understanding		X	X	XX
Remedial Performance Improvement	X	XX	XX	XX
Career Development	XX	X	XX	X
Focusing Employee's Efforts on Specific Tasks	X	XX	X	X
Increasing Output	X	X	X	XX
Human Resources Planning	XX	X	X	X
Linking Pay and Performance		X	X	XX
Improving Teamwork	X	X	X	X

Figure 7-2. Utility of different performance measurement systems for different objectives

equate. Additional inputs are required to fully and fairly evaluate the employee. Several solutions are possible: peer ratings, evaluation by subordinates, client/customer/supplier ratings, use of outside experts, or some combination of these raters (Figure 7-3).

Careful consideration must be given to the advantages and disadvantages of each alternative in each specific instance where the EIS needs assistance. Particularly in the case of peer ratings or evaluation by subordinates, care must be taken to keep the focus on performance and to avoid a “popularity contest.”

Rater	Strengths	Weaknesses
Peers	<ul style="list-style-type: none"> • Excellent opportunity to observe performance • Good knowledge of job requirements 	<ul style="list-style-type: none"> • Low rating may create resentment • Possibility of collusion (everyone gets rated high) • May weaken group cohesion/ group trust

Figure 7-3 Choice of raters (continued on next page)

Rater	Strengths	Weaknesses
Subordinates	<ul style="list-style-type: none"> • Excellent opportunity to observe performance • Good knowledge of job requirements 	<ul style="list-style-type: none"> • They may distort ratings to curry favor—or to get even • They may be afraid to be negative when it is deserved • May weaken the supervisory relationship
Clients/ Customers/ Suppliers	<ul style="list-style-type: none"> • May observe the most critical aspects of performance 	<ul style="list-style-type: none"> • May not see some important aspects of performance • May distort the proper business relationship • Possibility of collusion (employee does favors for rater in return for high rating)
Outside Experts	<ul style="list-style-type: none"> • May possess excellent appraisal skills • High degree of objectivity due to lack of personal relationship with appraisee 	<ul style="list-style-type: none"> • Limited opportunity to observe performance • May not understand all aspects of the job • Can be expensive

Figure 7-3. Choice of raters (continued)

2. Method of Measurement

The following four sections each present detailed information on the design of one of the four types of performance measurement. While each is different, they share one common feature. Each trait, behavior, skill, or result must be weighted specifically for the job at hand. Weighting may be as simple as high, medium, or low relative importance, or it may utilize percentages for each factor. This weighting factor reflects the relative importance of the traits, behaviors, skills, or results to one another and to the job; it is not simply an indication of time spent by the incumbent in these areas.

When assigning percentage weighting factors, the following rules should be applied:

1. No single trait, behavior, skill, or result can be weighted more than 20%. If a trait, behavior, skill, or result warrants more than 20%, this indicates that it is complex enough to be broken apart into more specific aspects. For example, if sales is felt to be 70% to 80% of the performance of a sales rep, then sales should be broken apart into four or more aspects. These might be: repeat sales of existing products to old accounts, sales of existing products to new accounts, sales of new products to existing accounts, sales of new products to new accounts, average margin on sales.

2. No single trait, behavior, skill, or result can be weighted less than 5%. If a trait, behavior, skill, or result is less than 5%, then it should be incorporated as a sub-part of another trait, behavior, skill, or result.
3. Avoid using fractions of a percent. It is impossible to determine such small differences. Many organizations prefer to stick to three or four weights—5%, 10%, 15%, and 20%, for example. These then would correspond to important, quite important, extremely important, and critically important.
4. The total of all percentages must equal at least 95% and must not exceed 100%. (The use of less than 100% is allowed to indicate that there are other small but important elements to the job.)

The Trait-Based Performance Appraisal Process

As noted previously, a trait-based appraisal process rests on the assumption that certain traits drive performance, so it measures certain personal characteristics of the position incumbent. Therefore, the first step in developing a trait-based appraisal process is identifying the traits to be measured. There are two possible approaches. One is to select different traits for different jobs from a “pool,” based on those characteristics considered to be important for that job. The other is to use a common set of traits for all positions, weighting them differently for each position based on their relative importance to each position.

The former approach allows for the best fit between the selected traits and the job requirements. However, it is time-consuming to develop. The latter approach not only is quicker and easier to develop, but it has the advantage in human resources planning as it allows any employee to be compared with any job.

The following are illustrative traits:

- *Relationships with others*—works in cooperation with others to achieve result.
- *Communication*—transfers ideas and thoughts by speech and writing.
- *Planning/organizing tasks*—develops and arranges activity to achieve a result.
- *Judgment*—evaluates job situation to arrive at sound decisions.
- *Autonomy*—works with minimal supervision required by job.
- *Work accuracy*—works within error standards.
- *Work quantity*—meets work volume required within designated time frames.

Sometimes the lines among traits, behaviors, skills, and results are blurred. Are *communication*, *planning/organizing tasks*, and *judgment* traits or are they skills? Are *work accuracy* and *work quantity* traits or are they really behaviors? Results?

The Behavior-Based Performance Appraisal Process

As noted previously, a behavior-based performance appraisal process rests on the assumption that certain behaviors drive performance, so it measures what the position incumbent does. Therefore, the first step in developing a behavior-based appraisal process is identifying the behaviors to be measured, selecting different behaviors for different jobs from a “pool,” based on those characteristics considered to be important for that job.

The use of behaviorally anchored rating scales offers several options as to the number of rating levels and as to whether or not a middle point is available (i.e., an odd or even number of levels). Typically, four to seven levels are used. Many behaviorists feel that seven to nine levels represent the maximum number of distinctions that can be reliably made, but it is not unknown for some organizations to use a 100-point scale.

One of the main problems with all performance appraisal ratings is rating inflation; this is especially true of trait-based ratings. It is not only in Lake Woebegone that everyone is above average. Behavior-based scales attempt to reduce this type of creep by providing specific definitions of the levels of performance. Figure 7-4 illustrates one type of behavioral anchoring. Selected points on the scale are explicitly defined; points in between on the scale are defined by implication. Other approaches to behavioral anchoring explicitly define every point on the scale (see Figure 7-5).

The Knowledge/Skills-Based Performance Appraisal Process

As noted earlier, a knowledge/skills-based process rests on the assumption that certain knowledge/skills drive performance, so it measures what the position incumbent knows/applies.

Therefore, the first step in developing a knowledge/skills-based process is identifying the knowledge/skills to be measured, selecting different knowledge/skills for different jobs from a “pool,” based on those considered to be important for that job.

The first challenge is to define the level of specificity to be used when defining knowledge/skills. Is leadership the skill to be measured? Or is it to be broken down into more specific skills? Figure 7-6 presents one approach to defining the component skills involved in leadership.

The positive value of such a breakdown is that it allows for a much more exact assessment of leadership than is possible if it is measured as a single skill. For example, a given individual may have average leadership skill if it is evaluated as a single entity. However, if evaluated on the components of leadership, the individual may be excellent in some and deficient in others.

This more precise assessment has obviously greater utility for performance enhancement and career development. The problem with such a

<p>5 – High</p>	<p>Accurately identifies employees’ strengths, weaknesses, and potential; makes some job assignments based on experience needed for promotability; ensures that development plans consider correcting performance deficiencies as well as building proficiencies; communicates expectations; keeps direct reports apprised of their performance; immediately confronts problems; deliberately lets subordinates wrestle with solutions rather than making decisions for them.</p>
<p>4</p>	
<p>3 – Medium</p>	<p>Recognizes individuals’ strengths; may be unaware of developmental needs or hidden potential; appropriately places individuals in positions compatible with qualifications; may neglect to challenge good performers sufficiently; identifies and informs others of unsatisfactory performance; requests improvement but may not offer suggestions for change; at times, neglects to offer deserved praise.</p>
<p>2</p>	
<p>1 – Low</p>	<p>Unable to recognize or evaluate strengths and weaknesses of individuals; places subordinates in positions incommensurate with qualifications and experience; fails to view others as possessing unique talent and potential; stifles growth by confining people to predetermined roles; subordinates are confused about what is expected; sets up subordinates for failure; allows problem performance to continue unabated; fills job vacancies on personality alone.</p>

Figure 7-4. People development

<p>7 [] Excellent</p>	<p>Develops a comprehensive project plan, documents it well, obtains required approval, and distributes the plan to all concerned.</p>
<p>6 [] Very Good</p>	<p>Plans, communicates, and observes milestones; states week by week where the project stands relative to plans. Maintains up-to-date charts of project accomplishments and backlogs and uses these to optimize any schedule modifications required. Experiences occasional minor operational problems but communicates effectively.</p>
<p>5 [] Good</p>	<p>Lays out all the parts of a job and schedules each part; seeks to beat schedule and will allow for slack. Satisfies customers' time constraints; time and cost overruns occur infrequently.</p>
<p>4 [] Average</p>	<p>Makes a list of due dates and revises them as the project progresses, usually adding unforeseen events; investigates frequent customer complaints. May have a sound plan but does not keep track of milestones; does not report slippage in schedule or other problems as they occur.</p>

Figure 7-5. Planning, organizing, and scheduling project assignments and due dates (continued on next page)

3 [] Below Average	Plans are poorly defined; unrealistic time schedules are common. Cannot plan more than a day or two ahead; has no concept of a realistic project due date.
2 [] Very Poor	Has no plan or schedule of work segments to be performed. Does little or no planning for project assignments.
1 [] Unacceptable	Seldom, if ever, completes project because of lack of planning and does not seem to care. Fails consistently due to lack of planning and does not inquire about how to improve.

Figure 7-5. Planning, organizing, and scheduling project assignments and due dates (continued)

- a. **Creates Shared Vision:** Defines, communicates, and reinforces a common sense of purpose and set of values that are adopted by subordinate employees.
- b. **Motivates and Empowers Others:** Influences, convinces, directs, and persuades others to achieve specific objectives; provides sufficient latitude to allow subordinates to achieve specific objectives.
- c. **Credibility:** Engenders the respect and confidence of others based on personal influence and reliability or organizational authority.
- d. **Integrity:** Demonstrates consistency in beliefs, words, and behaviors.
- e. **Sensitivity:** Alert to the motivations, attitudes, and feelings of subordinates and uses this knowledge positively to direct behavior and achieve desired results.
- f. **Develops People:** Identifies and addresses principal developmental needs of subordinates; provides frequent, effective feedback about accomplishments, strengths, and development needs.
- g. **Group Skills:** Plans, conducts, and participates in meetings in which the collective resources of the group are used efficiently.

Figure 7-6. Leadership skills

breakdown is that leadership is but one of a number of skill areas necessary for job performance. If each is broken into its component parts, the total will easily exceed 20 and may even exceed 30, depending on the position and the fineness of the breakdown. It is impossible to work effectively with that many elements of performance, both for administrative purposes (developing an overall rating) and for performance review (how do you focus the interview when you have 20+ ratings to discuss?).

Even assuming that the proper number and fineness of knowledge/skills have been identified, there is still the question of how to measure them. The link between possessing a certain knowledge/skill and its application to performance is at issue here. If you define possession of a skill by its application on the job, you are essentially measuring results, not the skill *per se*. If you

define possession of a skill other than by its application on the job, you are getting into complex, technically difficult measurements. Depending on the skill involved, this may require special skill tests or even getting into the individual's psyche.

For example, look at sensitivity, one of the components of leadership in Figure 7-6. An individual may appear to be "alert to the motivations, attitudes, and feelings of subordinates," but it is impossible to know if he/she really is "alert" except by actions that demonstrate this ("using this knowledge positively to direct behavior and achieve desired results"). Even if one treats leadership as a unitary skill, how do you assess it except by either its application (which is behavior) or its outcome (which is results)?

The Results-Based Performance Appraisal Process

In any sound management system, an important element is some procedure, preferably quantitative, to determine the degree to which results are being achieved. For example, a budget is a plan for spending money over a period of time. Periodic review of actual against planned expenditures provides an important check to control and correct negative variances or permit reallocation of resources in the event of an unpredictable event.

The measurement of results is what most people think of when they think of performance appraisal. Indeed, most people equate performance with results: good performance is that which leads to desired results; poor performance is that which does not. The author has met thousands of managers over a 30-plus-year career as a management consultant, every one of whom believed that they could easily recognize good performance when they saw it. Yet few of them could appraise performance effectively. Their failure was rooted in the lack of proper definition of what constituted good performance.

The first step in results-based performance appraisal is to determine what results are going to be tracked for a particular position. These performance elements are the *dimensions* of performance for that job. Dimensions communicate what results the organization considers to be the most important. Not all dimensions are created equal; some clearly are more important than others. Each dimension of performance must be assigned a percentage weighting factor.

Dimensions may be permanent aspects of the position (i.e., making sales), specific one-time objectives (introducing a new product to the XYZ company), or a mixture of the two. Organizations that use a management by objectives (MBO) approach can fit these objectives into the performance appraisal process as dimensions if they so choose. Some may prefer to keep the annually developed MBO dimensions separate, perhaps tied into a bonus program, and use the permanent dimensions for a performance appraisal pro-

gram that is tied into base salary administration (pay for performance) and/or for development purposes.

Then, for each dimension, *measures* must be established. Measures communicate how the organization will assess achievement of the results. The term “measure” refers to an index against which performance can be assessed; it does not specify the desired level of accomplishment (i.e., how much is “good,” how much is “excellent,” etc.).

Finally, for each measure, *standards*, the definition of the levels of accomplishment against the index of expected results, must be developed. Standards communicate how the organization will know if it succeeded.

1. Measurement of Results

It must be recognized that all performance measurement is subjective; there is no such thing as objective performance measurement. What many people call objective measurement (sales volume, number of units produced, percent of products meeting quality standards, etc.) is just as subjective as what those same people would call subjective measurement (customer relationships, communication, product knowledge, etc.). The differences between the two categories are in the degree of quantification and when the subjective judgments are made.

So-called objective measurements are those that are highly quantifiable and that allow for putting the subjectivity at the beginning of the measurement period rather than at the end of it. For example, sales volume is generally considered an objective measure of sales performance.

Suppose Sales Rep A sells \$1,003,234.65 in a year, while Sales Rep B sells \$1,534,201.32. What is A's level of performance? Marginal? Good? Excellent? What is B's? Clearly B has sold more dollars worth of product than A, but has B performed at a higher level than A? Not necessarily, depending on such factors as the products that each were selling (if A sells specialty items and B sells commodity items, A may represent a higher level of performance than B) and the territory in which they were selling (B may be in an established territory with little competition, while A may be in a new territory with well-established competition). Relative sales volume alone is meaningless for comparing performance. Measures are always meaningless unless a *standard* is developed, and that is where the subjectivity enters in.

It is necessary to develop standards for every measure. These are usually developed at several levels—*acceptable* (just enough to get by), *good* (target or expected), *very good* (clearly better than expected), and *outstanding*. (Feel free to pick your favorite term for each of these four conceptual levels of performance.)

The development of the standards for each measure *in advance of the performance period* is critical to performance enhancement. As the saying

goes, “If you don’t know where you are going, you will never know when you get there.” Many otherwise excellent performance appraisal programs fail because standards were not properly developed and communicated *in advance of the performance period*.

The process of using results for performance appraisal requires all three elements if it is to be successful:

- *dimensions*—what aspect of performance you want to measure
- *measures*—what indicator(s) you are going to use to assess each dimension
- *standards*—the meaning of the level of results achieved on each of the measures

2. Comparison of Types of Results Measures

In thinking about the results measurement process, there are a number of important points to keep in mind. First, in establishing indicators, we need to direct our efforts toward finding the most quantifiable measures of performance. As we do this, we increase the chances that, regardless of who makes a performance assessment, the judgment will be the same. That is, there will be a high agreement among independent observers or evaluators.

In those cases where measures must be less quantifiable (and these are common), it is possible to increase accuracy by using either more than one measure or more than one observer or evaluator. Since the use of multiple observers is limited, multiple measures are often used. As a rule of thumb, no more than four indicators should be used to measure achievement against any one dimension of performance. More than this tends to confuse people.

Least Quantifiable

General Descriptions: judgments used to indicate end results achievement. For example:

- Satisfaction expressed by supervisor
- Satisfaction expressed by customers
- Favorable publicity
- Quality of report or analysis

Judgmental Scales: measurement based on rating of results on a scale, such as 1 to 7, with 1 representing worst results and 7 representing best. For example:

- Perceived value of data processing services, low to high on 1-7 scale
- Level of personnel support, low to high on 1-7 scale
- Adequacy of drafting services, highly inadequate to highly adequate on 1-7 scale

Ratios: these use quantified, numerical results and match actual performance to available opportunities. For example:

Figure 7-7. Types of results measures (Scale from least quantifiable to most quantifiable) (continued on next page)

- Employee turnover ratio
- Labor hours per unit of production
- Market share

Direct Counts: these are completely objective and quantified measures dealing with physical objects, specific occurrences, and other objective data. For example:

- Dollars of sales
- Cost of goods purchased
- Cost of operations
- Number of units produced or sold

Sometimes it is easier to count the exceptions than to count the normal occurrences.

For example:

- Number of errors
- Number of complaints

Most Quantifiable

Figure 7-7. Types of results measures (Scale from least quantifiable to most quantifiable) (continued)

Given our preference for quantification, we may find certain highly quantifiable measures that we cannot use. Why? They may be quantifiable but irrelevant—of marginal importance to the measurement process—or even downright trivial. Quantification should be valued, but not at the cost of relevance, practicality, and common sense.

Finally, there is the problem of the appropriate “cost/benefit ratio” for any specific measure. We may believe we can develop an unusually sound and highly quantifiable performance measure. However, further analysis may show that the cost of developing the measure (time, energy, money) is so high that the benefit (relevance, practicality, objectivity) is not worth it. We may achieve a tour-de-force by developing and using the measure—but it surely is not good business practice. Better to use a couple of rough-and-ready measures that are useful and inexpensive.

3. Developing Results Measures

In some cases, measures are directly suggested by the dimension of performance and they are fairly easily specified and quantified. In those cases where this is not so, it is often helpful to ask two basic types of questions about the job:

1. What are the concrete signs of outstanding performance on this dimension? Often it is not too difficult to come up with the hallmarks of the real standout performance, and these signs should lead to measures of end results.
2. What are the concrete signs of poor performance on this dimension? It is often easier to bring to mind the things that represent an unsatisfac-

tory performance. These, too, can be helpful in deriving useful measures.

The task is to identify the possible measures and narrow the choice to a few that capture most directly the nature of any end result that the position is to achieve.

The selected measures should meet the following criteria:

- *Relevant*—They should relate directly to the major results, rather than activities or less important results. Measures should focus on the result, rather than divert attention from it.
- *Specific*—They should accurately reflect performance the employee can control or directly affect with his/her job or organizational unit. For example, a manager of manufacturing might be measured on production costs or “value added,” but not on profit, since he/she has no control over the material costs or the selling price per unit, both of which also impact directly on profit.
- *Obtainable*—Wherever possible, use measures that now are or can easily become available; avoid the need for major new and/or complex tracking mechanisms.
- *Practical*—In most performance areas, many measures are already in use as common means of setting goals, controlling operations, and reporting results. Use these whenever possible, because they represent the organization’s business focus.
- *Reliable*—Other raters will come to the same conclusions about level of performance from the measurement data.
- *Timely*—Data must be available soon enough after the end of the performance period to affect most of the following performance period.

Appendix B presents some sample measures for line and staff jobs. This list is not all-inclusive, but it should provide further clarification of the types of measures that can be used to assess performance.

Working with a Results-Based Performance Appraisal Process

Once the dimensions are identified and weighted, and the associated measures and standards are developed, results-based performance appraisal is simple. Performance is defined as the attainment of the specified results as defined by the standards. Performance appraisal is simply the comparison of the results achieved versus these specified results.

Appendix A

Appraisal Issue	Diagnostic Issues	Decision Choices
Philosophy	What is the primary need to evaluate?	A. Accountability B. Improvement/maintenance C. Support of other systems (e.g., rewards, values)
Objectives	What specifically do we want to achieve?	A. Detailed evaluation B. Summary evaluation C. Combination
Type of Criteria	What makes employees/ teams effective?	A. Knowledge or skill-oriented criteria B. Process-oriented criteria C. Output-oriented criteria D. Combination
Type of Measurement	How can we actually tell whether the employee/ team is effective?	A. Trait-based B. Behavior-based C. Knowledge- or skill-based D. Result-based E. Combination
Data for Measurement	What type of information is available for assessing effectiveness?	A. Quantitative B. Qualitative
Choice of Appraiser	Who should evaluate performance?	A. Supervisors B. Peers C. Subordinates D. Clients/customers/suppliers E. Outside experts
	How many people should evaluate performance?	A. Single appraiser B. Multiple appraisers
Choice of Appraisal Instruments	What kind of documents should be used?	A. Checklists B. Narratives C. Rating scales D. Goal-oriented instruments
Appraisal Interviews	How should information be fed back to the employee/team?	A. Interviews B. Other (e.g., written document)
Appraisal Training	How should training in the conduct of the appraisal be provided?	A. Internal staff B. Consultants C. Combination D. Other (e.g., self-paced)

Table 7-1. Performance appraisal diagnostic (continued on next page)

Appraisal Issue	Diagnostic Issues	Decision Choices
Assessment Period and Timing	Should timing be fixed or based on need?	A. Scheduled appraisals B. Appraisal in response to problems C. Both
	Is evaluation a continuous or discontinuous process?	A. Day-to-day data collection B. Periodic data collection C. Varies
Alignment of Outcomes with Objectives	Is appraisal going to do what we wanted to achieve?	A. Quality B. Timeliness C. Credibility D. Cost E. Accountability
Interactive Appraisal Design	Should the subordinates' appraisals be linked to the supervisor's appraisal and others in the value chain?	A. Separate appraisal systems B. Linked appraisal

Table 7-1. Performance appraisal diagnostic (continued)

Appendix B. Sample Measures of Performance

Sample Measures for “Line” Jobs

Cost-Effectiveness

- Actual/budget (by category and/or time period)
- Net income/net sales
- Forecasted/actual (by month/quarter)
- Gross margin or gross operating profit (by profit center, product line, etc.)
- Return on capital/risk
- Breakeven point as a percent of capacity
- Average collection period
- Return on investment
- Return on assets
- Earnings before taxes

Productivity

- Dollar cost/unit of product or service provided
- Actual/standard cost (by category)
- Currency of human resources planning
- Currency of work methods
- Bottlenecks in work flow
- Downtime of equipment
- Absenteeism

Length of time for employees to meet performance standards
 Turnover of above average performers

Relationships

Promptness of problem notification to others
 Understanding of other functions' objectives and plans
 Minority employees percent/percent in available work force
 Grievances (employee, community)
 Agreement on schedules
 Adherence to schedules
 Peers' and superior's reactions

Staff and Organizational Development

Use of objectives by staff
 Completion and application of job-related study
 Number and type of decisions delegated
 Number of conflicting objectives
 Number of conflicting action plans
 Results of career discussions
 Job sequencing plans
 Job enrichment plans
 Results of attitude surveys

Quality

Internal reject percent
 Complaints from customers
 Results of internal/external audits
 Employee commitment to standards
 Actual/standard (errors, reject rate)
 Warranty costs
 Accuracy (production reports)
 Raw material quality
 Results of work sampling

Marketing

Knowledge of end user requirements
 Number of new products (programs) developed
 Actual/forecast (sales, operating expenses)
 Market penetration (share)
 Percent net income in R & D
 Results of market research and advertising (public information) programs
 Timeliness of forecast submissions

Cost Control

Actual/standard (by cost category)

Actual/forecast (by cost category)
Workers' compensation costs
Unemployment compensation costs
Lost work hours due to absenteeism, accidents, tardiness, etc.
Direct/indirect labor ratio
Use of electric power
Cost of telephone service
Travel and per diem expense

Sample Measures for "Staff" Jobs

Some performance dimensions, such as those found in certain staff positions, are difficult to review. In some cases, it is best to use a measure that indicates what has not occurred rather than what has. For example, "unscheduled downtime" might be the most reliable indication of the incumbent's performance on a dimension involving the effective utilization of EDP equipment. The reviewer can assume that the most likely thing is for the end result (effective utilization of equipment) to occur. So rather than counting or describing what has happened, he/she focuses effort by considering only those times when the desired result was not achieved. This amounts to keeping track of "unscheduled downtime."

Measures for staff positions must deal with end results that are to be achieved by the staff unit. The vital question is "What is the output of the position?" Some common measurements are:

- Number of occasions on which schedules were missed
- Number of proposals implemented per number of proposals made
- Quality of service as rated or described by "client" or user
- Number of complaints (or commendations) regarding services provided
- Audits of effectiveness of services provided (internal or external)
- Number of "exceptions" found by outside sources—e.g., customer complaints, outside audit
- Number of person-hours (or budget) spent per service area vs. plan
- Number of units of output per employee
- Descriptions of kinds of service provided relative to kinds of service requested
- The organization's record in an area (e.g., accident frequency, EEO data, workers' compensation rates) compared with industry average
- Descriptions or ratings of the relevance and quality of innovations or new services developed

Chapter 8

Performance Appraisal: Myth and Reality

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CHARACTERIZING MOST PERFORMANCE MANAGEMENT PROCESSES TODAY AS woefully ineffective is probably an understatement. Study after study of performance management show a deep dissatisfaction among both managers and employees alike. And, like many processes involving people, no single “silver bullet” or best practice has emerged that truly makes a difference. Indeed, for the few brave souls who take the plunge, improving the effectiveness of performance management can feel like running a never-ending medieval gauntlet, full of risk and danger. So what’s going on? Why is “fixing” performance management so hard? Can performance management be saved? A logical first step is understanding why it is so ineffective in the first place. Based on extensive research and experience in working with organizations across many industries, dissatisfaction with performance management can be boiled down to three main causes:

1. The process is viewed as burdensome and transactional in nature. Employees and managers often complain about the degree of activity that is required to “fill out the forms” and they treat the process as a

necessary (and evil) act of compliance in order to arrive at a performance rating and pay increase.

2. There is a lack of alignment with other key business processes and the way work gets done. Key elements of performance management, such as setting expectations and assessment, are often done in a vacuum, with little or no linkage to other key processes such as strategic planning, operations planning, and business process improvement. Consider, for instance, that the performance management cycle is almost always force-fit to the fiscal year regardless of whether the cycle of work is several days or several years.
3. There is a perceived low return on investment. Employees and managers view the process as a cost of doing business, versus an investment in performance, and feel that very little value is generated from the effort involved. The transactional nature of most performance management processes, along with the lack of linkage to how work gets done, contributes to this perception of low ROI. In fact, our experience shows that dissatisfaction with the burdensome nature of the process is more often actually dissatisfaction with the lack of value that the process generates. In other words, managers may be willing to spend even more time on performance management if it yielded greater value.

With these challenges in mind, this chapter explores several strategies for improving the effectiveness of performance management. It will help you run the gauntlet to more effective, purpose-based practice, dispelling myths, avoiding traps, and dodging arrows along the way that often plague organizations as they search for a better way to manage the performance of their talent.

Defining the Purpose of Performance Management

Taking a critical look at performance management begins with the most fundamental question: *What is its purpose?* While some organizations address this explicitly, more often this question is overlooked as almost too obvious or rudimentary. Of course, the purpose of performance management is to improve performance, most practitioners would say. Yet, the reality in many organizations suggests a different purpose: to determine a rating and make a pay decision. In fact, it is not uncommon to see performance management “reverse engineered,” starting with the pay system, in essence allowing compensation to “hijack” performance management into a subordinate role. In our experience, a strong performance management process is designed to achieve one (or more) of three basic objectives:

1. **Drive results.** The intent of performance management is to drive

improvement in business results through individual, group, and enterprise goal alignment, measurement, and rigorous performance information sharing.

2. **Build capability.** The intent of performance management is to drive organization and individual capability development by clarifying role-specific competencies, establishing an environment of constructive feedback, and using formal coaching/mentoring.
3. **Carve up consequences.** The intent of performance management is to differentiate performers and yield a defensible performance assessment/rating that can be used to make rewards decisions involving compensation, work assignments, career advancement, and recognition.

In determining the purpose of performance management, an organization is making a key decision about a strategic business process—not a decision to be taken lightly. And organization leaders must avoid the trap of choosing all three as “primary,” since focused, rather than fuzzy, processes almost always have more impact—and certain design features and supporting tools will be more prominent, depending on the purpose. Moreover, an organization may determine that different units within the enterprise may require different performance management objectives, based on the nature of the business and its competitive landscape. One effective way to ensure clarity of purpose is through the development of guiding principles that represent the foundation and philosophy for performance management across the enterprise. Guiding principles describe and define what the purpose of performance management is and the utility and importance of the process to the organization, providing direction and guidance to both managers and employees. (See Figure 8-1.)

Organizations that are truly serious about performance management must address this question of purpose head on and have the discipline to follow through in the design and ongoing execution of the process. Each type of

- Employees understand what the business is and how key initiatives fit into the overall company strategy
- Employees are engaged in the business: they understand how their actions and behaviors impact results
- Individuals “own” their performance and development
- Performance information exchanges are honest and constructive: they drive continuous improvement
- Performance assessments are derived from observable activities and behaviors demonstrated
- Ongoing dialog is emphasized over formal assessment
- Performance results are linked to consequences

Figure 8-1. Performance management guiding principles: insurance company

purpose has real implications for the design of the process, the desired supporting management behaviors, and the tools used by both managers and employees. With this in mind, it is important to explore the potential objectives of performance management further.

Potential Purpose: Driving Results

A performance management process intended to drive the achievement of key business results is typically designed to ensure that individual, group, and enterprise goals and expectations are clearly defined, focused on key priorities, and well connected to the drivers of results. Organizations that explicitly define this alternative as the primary purpose have identified their human capital as a key lever for executing business strategy and achieving competitive advantage. These organizations can have very different competitive positions and challenges. In one example, a leading pharmaceutical company invests significantly in performance management as a key process for sustaining dominance in its markets. Yet, in another example, an airline services company realized that it needed to use performance management as a mechanism for engaging its employees in turning the company around.

There are several characteristics of performance management processes that are intended to drive performance:

- There are multiple, formal channels for communicating performance expectations and goals and ensuring goal alignment across groups.
- There is rigorous, formal performance measurement at several levels in the organization, with an appropriate balance among financial, operational, and customer-based metrics.
- Employees have access to multiple sources of timely performance information and can make course corrections to achieve predefined goals. Sources of information range from structured performance-reporting tools (see Figure 8-2) to technology-based visual information systems that provide real-time performance data.
- There are mechanisms and tools in place that help employees understand how they can affect the drivers of business success in their daily work. These tools range from “learning maps,” “value trees,” and online tutorials that graphically and interactively show how all the pieces of an organization fit together, sparking continuous improvement that involve groups solving tough performance problems (see Figure 8-2).

Watch Out! Trap/Myth: The process needs to be streamlined; it’s too burdensome.

Response: The claim that the process is too burdensome—often about three

Splicing Weekly Results Sheet
Example

Productivity Measures	Week Ending			Standard
	5 June	12 June	19 June	
Absent	0	0	0	0
Spliced per Hour	189	200	225	300
Total Rolls	1,890	2,000	2,250	3,000
Quality Measures				
Wrong Surface	0	0	0	0
Wrong Product	0	0	0	0
Wrong Quantity	0	0	0	0
Matched Mixes	3	4	10	0
Mis ID'd Batch	0	0	0	0
Total Problem Orders Per 1000	3 .16	10 .005	14 .0018	0 0
<p>Topics: This week we're to concentrate on the bags and wait for my breaks to talk. Comments: We have been focused on rate, not quality. Team: <u>Quality Splicers</u> Date: <u>July 18, 2003</u> Supervisor: _____ Date: _____ Note: Standards and results are illustrative.</p>				

Questions:

- How can we eliminate mixes?
- How do we level out productivity if rates are different for each machine?
- What's more important, rate or errors?

Topics:

- Training new hires
- Productivity vs. quality

Legend:
 At or above standard
 Below standard

Figure 8-2. Performance conversation tool, batch chemical processor

hours per year per employee—is a red herring for a different problem: the perception that the process adds little value.

Key Message: *The cost of doing this well is significant, but the cost of the opportunity missed is enormous!*

Watch Out! Trap/Myth: The organization needs to change its performance management process to better weed out poor performers.

Response: Weeding out poor performers is a management responsibility that transcends the performance management process.

Key Message: *Design the process to help people improve results, not walk the plank!*

Potential Purpose: Building Capability

A performance management process intended to drive capability development is typically designed to help employees understand *what* they need to learn and *how* they need to learn it. Organizations that explicitly define this alternative as the primary purpose have determined that learning and development play a critical role in building needed organization capability. For example, a start-up technology company invested early in its performance management process as a mechanism for broadening the capability of several key, highly populated, technical roles. In another example, a hospital system used its performance management process to develop and maintain diverse skill sets to care for patients of all ages with varying needs.

There are several characteristics of performance management processes that are intended to build capability:

- Managers and employees are able and willing to engage in constructive conversations, establishing a culture of dialog that serves as the foundation to performance management. They are able to participate in different types of conversations based on the context and the situation. There are essentially five different types of conversations between managers and employees (see Figure 8-3).
- Performance feedback is used as a primary tool for development, with different types of feedback that can be delivered, depending on the situation. Multi-rater feedback, often administered through an anonymous instrument (in particular, for senior executives), is used to create a holistic picture of an individual's performance strengths and opportunities for improvement (but the results are purely used for development and typically not linked to compensation or other consequences).
- Employees are expected to be in a constant growth and learning mode, demonstrating organization and/or role-specific competencies—the bundles of skills, behaviors, and knowledge that are critical to the organization's ability to execute its business strategy.
- Coaching and mentoring programs and processes are used on a fairly formal basis to provide employees with ongoing support as they develop and apply new competencies.

The five conversations do not take place in a sequential process, and can occur as the situation demands throughout the year. These conversations can happen as frequently as needed, and you may find that more than one type of conversation is used during one discussion. The five types of conversation are:

1. *Laying the groundwork* for a relationship between an employee and a manager or coach/mentor.

Figure 8-3. The five conversations (continued on next page)

2. *Clarifying expectations and standards* between a performer and a manager, coach, or project leader.
3. *Providing performance information* on an ongoing basis to ensure that the performer understands progress against goals/standards and can make course corrections if necessary.
4. *Intervening in a problem* where an employee must significantly improve his/her performance in one or more areas to remain a viable employee.
5. *Creating development strategies and plans* to address performance opportunities and needs based on feedback.

Figure 8-3. The five conversations (continued)

Watch Out! Trap/Myth: More assessors are needed to mitigate favoritism and distrust.

Response: While some degree of assessment is needed, objective performance information is often more helpful and positively received by the employee.

Key Message: *Judgment is worthless; observation is priceless!*

Potential Purpose: Carving up Consequences

A performance management process intended to carve up consequences is typically designed to yield a performance assessment that can easily be used to make decisions involving compensation, work assignments, career advancement, and/or recognition. Organizations that explicitly define this alternative as the primary purpose often have determined that rewards are a critical “lever” of performance, requiring a highly effective process for differentiating performance and distributing awards. In these environments, such as with sales forces or investment banks, money is one of the most important indicators of success and is used to communicate messages about performance. But even beyond sales-driven organizations, “operations-based” organizations have chosen this path as well. For example, another pharmaceutical organization has an annual, strict forced-ranking policy that covers all employees and is used primarily to make reward decisions. While there are many complaints every year about the Darwinian nature of the system, managers typically say that they cannot imagine a more effective way of distributing compensation dollars.

There are several characteristics of performance management processes that are intended to carve up consequences:

- The way in which measures and goals are developed lends itself to differentiating individuals and/or groups.

- The performance assessment process culminates in an overall numerical or text-based rating, reflecting a scale with multiple gradations. One manufacturing company even decided to call their rankings platinum, gold, and silver award levels, reflecting the value of the contribution as well as the monetary value of the award.
- There are formal guidelines for ensuring that performance ratings are well distributed, such as forced ranking or suggested distribution “audited” by HR.
- There are formal processes in place for ranking employees based on an overall rating and supporting managerial input.

Watch Out! Trap/Myth: The organization needs to change its performance management process to ensure that even the worst managers can execute it effectively.

Response: The best managers use performance management as a key tool in their management toolbox.

Key Message: *Design the process for the best managers, educate the middle, and fire the worst!*

Watch Out! Trap/Myth: The compensation “gurus” in the organization are hijacking the performance management process to suit their needs.

Response: Even with consequences as a primary or key objective, the system still needs to do a good job of measuring performance.

Key Message: *Maintain the “p” in performance management!*

In summary, it is imperative that organizations be very conscious and clear about the importance of defining the purpose of the performance management process and take great care in determining the extent to which the process is designed to make compensation decisions versus drive results or build capability.

Strategies for Running the Gauntlet

In discussing the three main purposes of performance management, several characteristic practices were identified and briefly described. With this in mind, and acknowledging that performance management remains a realm with limited empirical evidence of “best practices,” our experience suggests several “strategies” for running the gauntlet to a more effective process and creating real value for an organization over the long term. The priority an organization places on each of these strategies and the amount of resources invested depend on the primary purpose of the performance management process. These strategies include:

1. *Develop different purposes and approaches for different employee groups (if needed).* Once an overall purpose and philosophy is determined, or the decision is made to allow the purpose to be defined at the unit level, a next practical step is to determine the extent to which performance management processes and practices need to be consistent versus customized for specific business units and/or employee segments. Today's organizations are often large, complex, dynamic entities with multiple business models, structures, and employee populations. These complex organizations rarely thrive on generic, one-size-fits-all business processes. Consider companies such as GM and IBM that have volume-based manufacturing businesses as well as knowledge-based service businesses. The best performance management system for industrial engineers in the manufacturing division is probably not the best system for financial analysts in the financial services unit. Even in relatively simple organizations, where there may be a single core business, performance management may need to vary somewhat, such as to meet the needs of sales people as well as those in R&D, for example.

Effective differentiation begins with segmenting the workforce of an organization based on the nature of work, opportunity for impact, and labor market dynamic. (Performance management may be different, for example, for roles that are in very high demand versus roles that are highly replaceable.) Potential workforce segments can include core operations roles (e.g., gate agent, production team leader), technical/knowledge roles (e.g., research scientist, systems analyst), customer-facing roles (e.g., call center rep, sales rep), and management/leadership. Once an organization has identified potential segments, it can then explore how the different elements of the performance management process might vary or be customized by segment while staying true to the overall intent, purpose, and principles of performance management for the enterprise.

Watch Out! Trap/Myth: Sales people don't need active performance management, since compensation is the main performance driver.

Response: All types of employee segments/roles require some form of performance management.

Key Message: *Good performance management is good people manage-*

2. *Integrate the enterprise with the individual.* Almost without exception, an organization that decides to improve its performance management system begins with the individual—and this is almost always the wrong place to start. Before an organization looks at individual or, for that matter, team performance management, it should first take a critical look at how the *enterprise* manages performance through its processes and practices of goal setting,

strategic business planning, measurement, and information sharing. Ineffective and inconsistent practices at the enterprise level create a “black box” of performance, where it is difficult for individuals, teams, and units to connect their expectations, goals, and measures to the strategic objectives and success drivers of the enterprise. In this all-too-common situation, employees are carrying out job responsibilities but have limited understanding of, and engagement in, truly impacting the business results that matter. No redesign of the performance appraisal tool or requirement to meet quarterly for feedback will add value if there is little opportunity for employees to connect their work activities to the business. Enterprise performance management therefore plays a critical role in setting the whole performance management system in motion. (See Figure 8-4.)

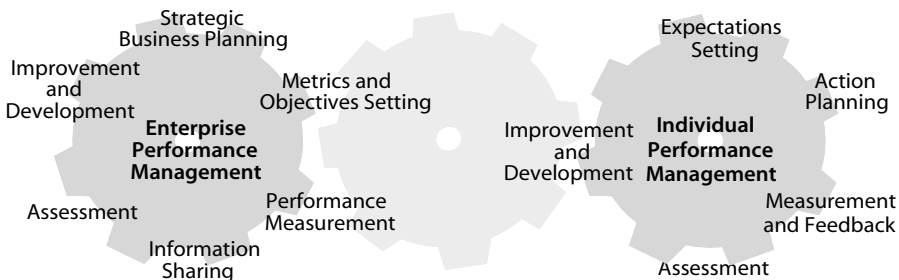


Figure 8-4. Enterprise and individual performance management

Enterprise performance management creates the foundation for individual and group performance management throughout the organization. Group and individual performance management must be explicitly tied to the strategic objectives and measures of the larger organization.

Watch Out! Trap/Myth: Changing the form will help improve performance management.

Response: A change in the tool may help just a little for one performance cycle, due to the Hawthorne effect, and then the organization will revert back to business as usual.

Key Message: *Forms and tools alone make no real difference!*

3. *Create a culture of conversation and performance information.* Research tells us that employees at all levels need, want, and value feedback, and the most common practice for delivering feedback is through the important interactions between an employee and his/her manager. Yet feedback—and more broadly, *performance information*—can come from many other sources within an organization: customers, suppliers, analysts, peers, work

teams, coaches/mentors, and other organization stewards of information (e.g., IT and the intranet).

The first challenge in creating a culture of conversation and performance information is to develop sources of information that are accessible to employees. Once performance information is available, the next challenge is to foster high-quality interactions about the performance information through skilled, constructive conversations. In most organizations, conversations about performance are often hollow, confusing, and unsatisfying, proving the ability to engage in great conversations does not come naturally to most people or work cultures. The organization must therefore create an environment conducive to conversation, helping employees build the skills needed to seek, give, and receive feedback in a constructive way. One key to getting performance conversations on a productive footing is ensuring the right intent—to help the person perform better. Other intentions, including making the employee feel good (or bad) or satisfying the emotional needs of the giver of feedback (to vent anger, for example), do not improve performance. Another key to the development of these skills relates to the different types of feedback that can be delivered, depending on the situation. A productive conversation can focus on one or more of the following elements: expectations, observations, assessments, and consequences (see Figure 8-5). The nature of the conversation will vary based on the type or types of feedback being delivered (and received). For example, in the case of a person being unclear about his/her role, the conversation will focus on expectations. In the case of an individual being unclear on his/her impact on a situation, the conversation will focus on consequences. In most cases, however, learning is derived from fact-based observations involving objective information, versus judgment-based assessments involving subjective information.

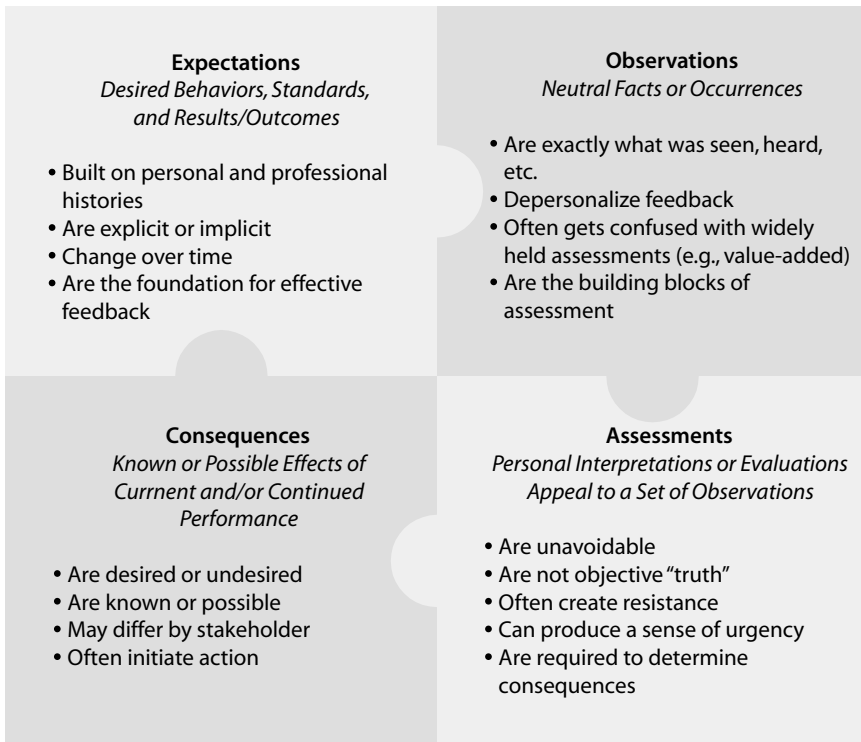
In organizations where key conditions exist—performance information is available, people have developed the needed skills to give and receive critical information, and people are held accountable for driving business results through their work—employees will *seek out* feedback and will *desire* to have performance conversations, thereby reinforcing a culture of conversa-

Watch Out! Trap/Myth: Requiring quarterly feedback discussions will create a culture of conversation.

Response: Mandating more frequent performance conversations won't improve their quality.

Key Message: *Compliance isn't the deal!*

Watch Out! Trap/Myth: Automating performance feedback processes, such as multi-rater feedback, will improve effectiveness.



The Feedback Framework shows several different types of feedback that can be delivered based on the situation. It is critical that the people involved in the conversation are clear on the type of conversation that is appropriate, given the situation.

Figure 8-5. The feedback framework

Response: The more prominent a role technology plays in a feedback process, the less opportunity there is for dialog.

Key Message: *It's all about the conversation!*

tion.

4. *Invest more in process execution than program design.* In the end, and regardless of its primary purpose, performance management succeeds only with relentless execution as a key business process. More often, however, organizations choose to invest their valuable resources into the redesign of the program or supporting tool(s). Effective and sustained process execution requires several main ingredients.

First, roles and responsibilities must be clearly defined, with specific responsibilities designated for HR, managers, and employees. As a general

rule, HR should be working to reposition itself from a driver of the process to an enabler and supporter. Managers and employees, on the other hand, should take more ownership for carrying out the process, with employees in particular taking initiative. Organizations today are increasingly complex and diverse, and less hierarchical; work relationships are complicated and dynamic. Often an individual may have multiple “bosses” and serve on multiple teams, some “permanent” and some “temporary.” In this space, it is ultimately up to the individual to change behavior based on feedback and take control of his/her development. A manager cannot “make” an employee change behavior; it is up to him/her.

Second, hold managers accountable for process execution by prioritizing its importance and linking manager performance assessment and rewards to the ongoing execution.

Third, minimize transaction cost by integrating performance management with other key processes, such as strategic planning, talent management, budgeting, and staffing. Provide user-friendly, technology-enabled tools and eliminate unnecessary transactions and activities.

Fourth, share and recognize performance management success stories and highlight their impact on the organization. Where possible, talk about performance management as the way in which the business is managed.

Finally, develop and track measures of process effectiveness and periodically examine and communicate these results. Again, depending on the primary purpose of the process, an organization might consider metrics such as:

- a. Business results improvement/sustentation
- b. Distribution of performance ratings
- c. Frequency of formal performance conversations
- d. Quality of assessments
- e. Correlation between rewards and performance ratings
- f. Employee understanding of business goals, performance drivers, and

Watch Out! Trap/Myth: Greater consistency in executing the process is the key.

Response: Consistency in practice may have very little to do with effectiveness, especially when different employee segments have different needs.

Key Message: *One size never fits all!*

Watch Out! Trap/Myth: The silver bullet is to hold *only* managers more accountable for performance reviews.

Response: A process that is “done to” the employee by the manager will always be sub-optimized. Don’t drive manager accountability without a commensurate increase in employee accountability.

Key Message: *Create demand; don't push supply!*

Watch Out! Trap/Myth: HR needs to play a role in auditing performance management practices.

Response: Checks and balances should be built into the system and monitored by line managers.

Key Message: *HR "cops" are often corrupt!*

associated expectations

Determining the Need for Change

It seems every few years the typical organization decides it should do something about the performance management system and decides to run the gauntlet. Stated reasons for the need typically range from "the appraisal form is universally hated" to "a lack of discipline on the part of managers in addressing poor performers." Often, these stated reasons are just symptoms of the *real* reasons for a need for change, lurking below the surface, leading to false starts and failed runs. With this in mind, there is value for the organization to invest in asking the question: *Why the need for change?* Using a few formal indicators of the need for change can serve as the backbone of this diagnostic process (see Figure 8-6). In the end, the organization's decision to take the plunge should be based on a solid business case for change that outlines the root

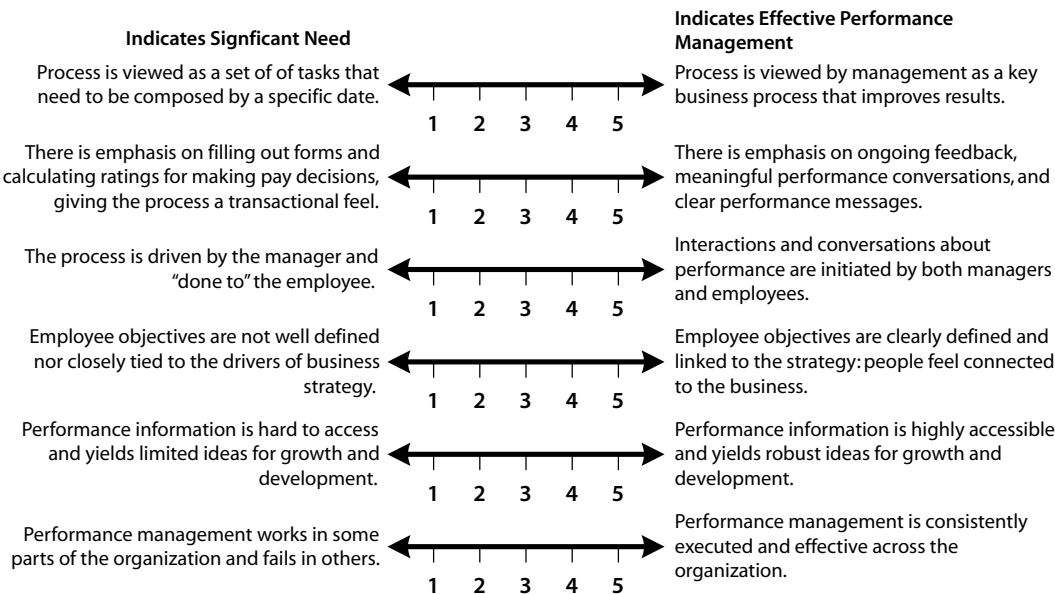


Figure 8-6. Indicators of the need for change

causes of performance management ineffectiveness, the alternative interventions to make it work better, and the desired measurement-based outcomes of getting it right.

Taking the Plunge

Running the gauntlet to more effective, purpose-based performance management is a high-risk, high-reward endeavor. Many myths must be dispelled and many traps avoided. A successful run requires significant investment, sustained commitment, and the underlying belief that performance management is a core business process that can create competitive advantage when done well, in a way that is consistent with its intended purpose, reflective of the diverse needs of the employee population, and aligned with the values and culture of the enterprise. It is an unending journey that involves relentless investment in achieving the most difficult type of change: the modification of human behavior. In this respect, the gauntlet never ends, but an organization can increase the likelihood of success by deploying specific and proven practices that are consistent with the overall purpose of the process.

Chapter 9

Using 360-Degree Feedback in a Talent Management System

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THE PRACTICE OF USING MULTI-RATER FEEDBACK SYSTEMS—USUALLY referred to as 360-degree feedback—has long been popular with training professionals and human resource departments. It has a demonstrated record of effectiveness as a tool that supports the development of management and leadership skills and, as such, can be an important element in an organization's talent management strategy, helping to assess the strengths and weaknesses of employees and providing a basis for training or coaching plans that address the weaknesses and further capitalize on the strengths.

An article in the *CPA Journal* explains, "In the 1980s and 1990s, as organizations became flatter, the average manager's span of control increased dramatically. As a result, many managers no longer knew enough about their direct reports to make proper assessments. The growing irrelevance of top-down performance reviews led to more top-down/bottom-up assessments, and eventually to the 360-degree assessment. The International Personnel Management Association recently reported that nearly 90% of *Fortune* 1000 corporations now use some form of a 360-degree assessment."¹

The reasons for the enthusiasm surrounding 360° feedback are fairly clear: direct, honest observations, coming from co-workers—including direct

reports, bosses, and peers alike—can help individuals understand the impact of their own behavior, and this kind of realization can result in measurable changes that benefit the individual and the organization. This approach can be particularly useful to assessments of Superkeepers—employees who greatly exceed organization expectations—and Keepers—employees who exceed expectations—but it can also help simplify evaluations of Solid Citizen—employees who meet expectations.

Nevertheless, as is the case with many good tools, 360-degree feedback is often subjected to misuse, which nearly always yields disappointing results. For example, multi-rater instruments are often used for single-event interventions, rather than as an integrated feature of human resource management systems. In this kind of environment, time constraints can frequently lead to inadequate design and administration of the instrument, ineffective presentation of feedback, and missed opportunities for follow-up. With careful attention to the following fundamentals of this potentially powerful tool, you can dramatically increase the level of its effectiveness in your organization.

Selecting the Instrument

Before investigating feedback instruments available on the market, it is important to develop a clear sense of what you are trying to accomplish. What do you want participating individuals to be able to do differently once the process is completed? Answering this question means finding out about the model on which each instrument is built, in order to know whether it is compatible with your organization's model of leadership and management effectiveness.

If you learn that an instrument is based on a particular theory or study or on someone's idea of the qualities that constitute leadership competency, be sure that the items in the instrument seem appropriate for your organization and your objectives. For instance, do individual survey items have what is called "face validity"—that is, do they make sense to you and will they make sense to a manager filling out the survey? Have the items been worded clearly and unambiguously?

Beyond this, your investigation should find that each item passes the following tests:

Validity. Every survey question should measure a behavior that has been proven to relate directly to managerial effectiveness. Knowing that the survey is valid, based on sound empirical research, will increase participant's willingness to take the process seriously and to make good use of the feedback provided. Validity data, which should be contained in a technical report obtainable from the authors of any instrument, will attest to the survey's integrity, meaning that it measures what it claims to measure and that what

it measures correlates directly with effectiveness on the job. Sometimes this validity will be based on evidence that survey scores related closely to the metrics of another, independent source, such as performance appraisals, or scores on a separate instrument developed by other authors. When this type of corroboration is not available, look for data indicating that raters using this instrument also rated the same managers similarly when using a different scale of effectiveness. In either case, the report should describe at least one study demonstrating strong relationships between scores on this instrument and some other measure of actual managerial effectiveness.

Reliability. Similarly, the technical report should show that survey items have three types of reliability.

Test-retest reliability refers to stability over a period of time; i.e., would those rating the individual in question respond to the survey items in the same way if they answered them again after a few days or weeks—assuming there is no change on the part of the one being rated? The technical report should indicate a test-retest rating of at least .4 for each scale in the instrument.

The second type of reliability is *internal consistency*. This refers to the requirement that all the items in a given survey scale measure the same thing and that there be enough items in the scale to measure it accurately. If, for instance, a scale purports to measure effectiveness in communicating with direct reports, each item in that scale must measure a behavior that is truly related to this construct. Consequently, managers who score well on one behavioral item in the scale should also tend to do well on the others. A low internal consistency coefficient indicates that the items do not have enough in common or that more items are needed to provide the needed cohesiveness. This coefficient should be between .65 and .85.

The third type of reliability is called *inter-rater agreement*. This is a measure of how similarly raters with a similar perspective on the manager respond to items in the instrument. Raters within a group, such as direct reports, should generally demonstrate moderate agreement in their responses. Low agreement would indicate that the instrument lacked stability or was hard for respondents to interpret clearly. Nevertheless, inter-rater agreement cannot be expected to be as statistically strong as the other measures of reliability, because raters are simply human observers of the behaviors they are evaluating and will respond to them in individual ways. Inter-rater reliability of .5 is considered to be high.

Wording. The way a survey item is worded has a lot to do with how successfully it will measure what you intend to measure, and this will naturally impact validity and reliability. In addition to examining the technical report data, you can do your own gut-level evaluation of survey items by considering several criteria:

- **Is it positively phrased?** Behaviors referred to in survey items should be expressed in positive terms rather than negative. If an item says, “Fails to communicate about key decisions that affect me,” this will discourage some raters, especially direct reports, from being honest in their assessment. Instead, wording like “Regularly keeps me informed of decisions made that affect me” will permit the rater to indicate whether or not the manager does this effectively, without seeming critical or negative. Furthermore, the manager will be more inclined to accept feedback that rates behaviors against positively worded criteria.
- **Is it put in personal terms?** A survey item that says “Treats me with respect” will be more effective than one that says, “Treats all staff members with respect.” An individual rater can respond on the level of his or her individual experience, but should not be expected to generalize to the point of speaking for the manager’s treatment of a whole group. If a manager does, in fact, behave differently with different people, a well-worded survey item will uncover this fact and add value to the feedback data.
- **Is it behavioral?** Each item should present specific and observable behaviors. If wording is too general or hypothetical, a rater may not be able to give a useful response, whereas if the wording is concrete, describing specific actions or practices, the resulting data will be stronger and provide feedback that can lead to clear, corrective steps as needed.

Flexibility and customization. Many organizations want or need to adapt an existing questionnaire to suit the requirements of their individual leadership or management models more closely. This was true at Blue Cross Blue Shield of Michigan, as explained by Senior Vice President and Chief Administrative Officer George Francis: “We needed the 360 program to be aligned and integrated with the other components of leadership development in the organization. We are a company of 8,800 employees, half of which are union people. When we talk about leadership, we are talking about both management and the unions. So, we needed to develop an instrument that reflected and measured against the leadership profiles developed by and for both groups, as well as the behaviors associated with good working relations between them. Working together with the consultants from Right, we created a tool that captured both of these profiles.”²

Another company, Experian, in Costa Mesa, California, had a similar need, according to Steve Hellman, Director of the firm’s Learning Center: “When you select an instrument, you are buying into whatever competency model that instrument was based on. The instrument we used previously was very robust, but too extensive and difficult to use if you needed to focus on specific areas for improvement. We needed something more straightfor-

ward, simpler to understand from the point of view of a leader, and with the flexibility to accommodate different models for line management versus other roles in the organization. The instrument we selected gave us all these capabilities, and it was easy to connect it to our existing training and development resources and initiatives—it embraced and enhanced these things instead of seeming external to them.”³

Steve Whitney, President and CEO of Albert Kahn Associates, Inc., a major planning, design, and management firm in Detroit, tells of using the 360 tool to support a culture change initiative: “We had been working to revise what we call our leadership promise and, in the process, began analyzing our own corporate culture. We realized we needed to be working towards a culture of collaboration. Our company—which has traditionally fostered a culture that reflected a technical perspective—needed to incorporate the ‘softer side,’ the people management, communications and human resources side of things, not just the technical and operational side. We have invested a lot of effort in addressing these issues and now we have included the 360 tool to assess where we are in relation to these cultural objectives.”⁴

Making the Instrument Work with Your People

Choosing raters for 360-degree feedback. Managers taking part in a 360-degree feedback are usually asked to select those who will complete the questionnaire relative to their behavior on the job. While there might be some concern that the managers could pick primarily those who they believe will provide positive feedback, experience has shown that even the closest of acquaintances will give honest answers if they are sure these will be kept confidential.

It is important, however, that each participating manager select individuals who have a relationship with him or her that permits them to give accurate feedback on issues of effectiveness. Selected raters should have had a chance to observe the manager’s behavior on the job for at least four months.

Communication issues. Asking one worker to assess the behavior of another—especially if the one being rated is in a superior position—clearly presents some delicate issues. Without careful handling of communications, organizations risk a low response rate from those selected to complete the questionnaire or responses that are less than fully forthcoming.

An article in *Compensation & Benefits Review* especially stresses the importance of consistency in communications: “We all know that communications need to be content rich, clear, concise and consistent. Consistency is often the downfall in 360. All too often we hear, for example, that three messages have been issued: ‘This is for development only,’ ‘This is primarily for development’ and ‘We do not foresee using this for assessment in the foreseeable future.’ This type of unnecessary sloppiness does irreparable

damage and can be avoided. The cynics feed off it. Give someone the role of 'continuity contact'—someone who checks each communication and listens to the 'word on the street' to make sure that the messages are getting across correctly. Communications can make or break a 360 process."⁵

George Francis of Blue Cross Blue Shield of Michigan said that a major communication effort was needed to make the process go smoothly and to achieve maximum participation. He said, "We talked a lot about the process with the organization. We stressed that responses would be confidential; we communicated that the process was not being used as a 'horserace' to evaluate people against one another—that it was an opportunity to compete against your own behavior in order to develop, improve, and make your best contribution. We ensured that all participants understood that peers, customers, supervisors, and subordinates would all be involved, and that those being assessed would have input into the selection of the raters."⁶

Raters need to feel that they understand the process in which they are being asked to participate and need to believe that their answers will never be connected to them personally. Communications need to include an explanation of the nature of the process, the importance of their honest feedback, the purposes for which it will be used, and the assurance of complete confidentiality of all responses. Confidentiality can be further ensured through the use of an outside, third-party consultant who will receive all completed questionnaires (either physically through the mail or electronically if the instrument is administered online) and who will process the results and produce the feedback report.

Another key to success—and an important element of the communications, according to Francis—is the genuine support of and involvement in the 360-degree feedback process of top management. Francis said, "We started with the company officers. It was important that they go first. The officers are charged with the responsibility for setting the tone for leadership in the organization, and they have oversight of the leadership development process. With the leaders of the company visibly committed and engaged, it became inevitable that the rest of the organization would feel the mandate to get involved and see the value of fully participating in this development opportunity."⁷

An especially critical message that needs to be communicated is the fact that the feedback will be used solely for developmental purposes. If a rater understands that the input provided will assist the individual to create a development plan to address identified weaknesses and further develop strengths—and *not* used as a formal performance appraisal or as a factor in compensation decisions—then he or she will be more inclined to make direct and useful observations regarding the on-the-job behavior of the manager in question.

Last, good communications can help prevent or minimize some common problems that occur in the rating process. For instance, “attribution error” is the result of a rater’s decision, conscious or unconscious, to rate the individual based on his or her good reputation, rather than on actual observed behavior. When this happens, the rater may give high ratings in areas potentially relevant to manager effectiveness, simply because the individual being rated is widely known to be effective. This phenomenon tends to blur the distinctions between specific behaviors, which, if properly observed and identified, could serve to point out areas needing improvement.

Similarly, the “halo effect” can occur when a rater responds to the questionnaire more on the basis of his or her own general positive or negative feelings about the person, instead of on the basis of observed behavior. As with attribution error, this has the effect of painting a manager with a broad brush and reduces the amount of helpful information collected for feedback. Pre-program communications can alert all participants to these potential pitfalls and encourage them to consider thoughtfully the real behaviors they have witnessed on the job and to base their responses on these.

Delivering the Feedback

In addition to providing written feedback reports, there is much to be said for also having workshops, where a carefully chosen outside facilitator can explain the feedback, help to interpret it correctly, and assist managers in using this information profitably.

George Francis said they found feedback workshops very important. He said that, when facilitated by the right person, with clear credibility and objectivity, these sessions go smoothly and serve to validate the feedback presented.

Steve Whitney, President and CEO of Albert Kahn Associates, said, “To get the best from everyone in an organization, you need the most candid feedback on what they do well and where there is room for improvement. For general staff, we conduct the sessions as a one-on-one with a supervisor. We have experimented with conducting group workshops for senior managers and their direct reports, and these have been very enlightening. We work hard to keep these sessions from taking on a ‘fault-finding’ tone and to overcome any fears people may have of ‘consequences’ from providing honest feedback.”⁸

Content of feedback workshops can vary, but certain key elements have proven to be especially helpful. Among these are the following:

- **Explaining the model the survey is based on.** Normally, the questionnaire would have been developed around a particular theory or model of effective management and leadership. This may have been a model

of the survey author's choosing or it may be a model specific to the organization, if the questionnaire was custom-built to be fully integrated with the company's other related development initiatives. In either case, the better managers understand the model operating behind the survey, the better prepared they will be to interpret and benefit from the feedback they receive.

- **Engaging managers in interpreting their feedback.** Managers who have substantial responsibilities in the organization may not appreciate forms of feedback that smack of a "cookie-cutter" approach, such as may be the case with some computer-based 360 instruments. Skilled facilitation can elicit from the managers valuable perspectives and interpretations that can reveal insights leading to needed behavioral changes. Also, managers who have been involved in the process of interpreting their own feedback are more likely to accept the implications of the feedback and to pursue a follow-up plan for self-development.
- **Keeping a balance of positive and negative.** A workshop facilitator should present feedback on strengths as well as weaknesses identified in the 360 process, keeping in mind that people are more receptive to criticism when they believe it to be well-balanced. The workshop can demonstrate that the feedback process shows managers what they are doing effectively and should continue doing, as well as what they might consider doing differently.
- **Encouraging managers to develop an individual action plan.** If participating managers are permitted to exercise a measure of control over the process, they will generally decide correctly what course is needed to improve themselves. The action planning process, coupled with an understanding of the leadership or managerial model being used, will lead participants to design a personal development plan that will address their individual needs and lead to more effective leadership behaviors.

Making the Most of Follow-up Activities

Most organizations using 360-degree feedback systems understandably place a lot of emphasis on the individual's own commitment to making improvements over time, based on the plan developed. As critical as this element is to successful outcomes, additional activities can accelerate and reinforce the developmental steps needed for a manager to make the desired progress. Experian's Steve Hellman explained that his firm positions 360 in the context of a much larger development experience. They take several days for the feedback workshops themselves, involving coaches to help with interpretation and

the development of actions plans, and then follow up with more coaching after six months. He said, "It's more of an ongoing process than an event."⁹

Follow-up can include training, coaching, and assessment of the effects of feedback, among possible activities:

Skill training. If the feedback identifies needed improvements involving behaviors or skills for which the recipient is inadequately trained, this training must be provided. Whatever the skill, the individual may be unable to make much progress on demonstrating it consistently without this kind of help. Training can be done individually or in groups, as follow-up immediately after the feedback session or separately scheduled, depending on the logistics, individual needs, and the nature of the skill in question.

Coaching. Providing support and coaching at the individual level can make a significant difference in helping managers make practical use of the feedback they receive. After some reasonable interval of time, such as four to six weeks, a follow-up session can be scheduled with the manager's boss and/or a human resource manager or an outside consultant, to review progress made against the development plan and challenges that may have arisen and to provide any other specific encouragement or coaching support appropriate to the individual need. Hellman said, "Training and development needs to be reinforced with coaches and mentors, and with real experiences that apply what was learned in the workshop environment. The most valuable development experience they have is working closely in mentoring relationships and in learning by doing."¹⁰

Assessment of feedback workshop outcomes. One of the most useful ways to get the most out of the 360-degree feedback process is to resurvey the original raters for a specific manager, after a period of time—usually about 12-18 months—to determine how the individual's behavior has been altered. In addition to providing critical information on the manager's progress, this method can also help quantify the organization's return on its investment in the program and workshops.

A strong theme among serious users of 360-degree feedback is long-term commitment. The use of this tool as a single-event initiative certainly generates temporary interest and even enthusiasm, but produces little lasting benefit. Clinton Wingrove, in his article, "Untangling the Myths of 360," put it this way: "Collecting feedback is relatively easy. Ensuring that people engage with the feedback, make sense of it and then actually change their behavior is substantially harder. Comments such as, 'I went through a 360 process and it was really interesting,' abound. Stimulating interest is not the objective."¹¹

Admittedly, committing to this process over time involves a significant investment of time and effort, not to mention expense. But comments from

regular adherents indicate it is an investment that pays off. In an article in *CIO* magazine, Michael Schrage writes, "Every management team I know that's implemented one [360° review process] whines and moans about how painful and time-intensive the process is. Then again, every single group that has gone through that agony more than once asserts that the feedback is superior to traditional top-down one-on-one job reviews."¹²

One company, a large property management firm in southern California, recently completed its third consecutive year of using 360 with a cross-section of its leaders. An analysis of the outcomes of this period, conducted by Right Management Consultants, showed that the 116 leaders who participated in all three rounds of the program achieved improvements in all but one of the measured competencies, by an average factor of .35 on a 10-point scale, which the client saw as a significant increase, as compared with others who had not been through the process over the three-year period.¹³

We firmly believe that careful attention to the principles explained in this chapter—relative to selection/design of the survey instrument used, survey administration and communications, feedback delivery, and follow-up development opportunities—will help to demonstrate the enormous potentials of this powerful tool, and lay a foundation for integrating 360-degree feedback with an organization's long-term development strategy.

Notes

1. Michael Sokol, "The 360-Degree Audit: Early Warning Device for High-Risk Audit Teams," *CPA Journal*, Vol. 72, No. 8, August 2002, p. 14.
2. George F. Francis, III, interview with Paul Wesman, December 2002.
3. Steve Hellman, interview with Paul Wesman, December 2002.
4. Steve Whitney, interview with Paul Wesman, December 2002.
5. Clinton Wingrove, "Untangling the Myths of 360: Straight Talk for Successful Outcomes," *Compensation & Benefits Review*, Vol. 33, No. 6 November/December 2001 pp. 34-39.
6. Francis, December 2002.
7. Francis, December 2002.
8. Whitney, interview with Paul Wesman, December 2002.
9. Hellman, interview with Paul Wesman, December 2002.
10. Hellman, interview with Paul Wesman, December 2002.
11. Wingrove, "Untangling the Myths of 360."
12. Michael Schrage, "Go Full Circle: Doing 360-Degree Reviews of Your IT Staff Will Help Manage User Expectations," *CIO*, Oct. 1, 2002, p. 48.
13. Ed Gannon, interview with Paul Wesman, December 2002.

Chapter 10

Determining Every Employee's Potential for Growth

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"I wish I had a crystal ball."

PAUL, CEO OF HIS FAMILY'S FAST-GROWING COMPANY, HAD ONCE AGAIN been politely reminded by his board that, even if he was in his early 40s, the day would come—sooner than he realized—that he would have to pass the reins to a new leader. And Paul had little idea how to select his replacement. Of course there were members of the family who could take over. But did they have what it takes to lead the firm?

Across town George, who runs one of the world's largest health care companies, was having a similar thought. Although the company had achieved renown through spectacular mergers and great products, it lacked the high-potential managers required to move to the next level. "Frankly, I'm not as concerned about the next 24 months," he confided to his senior team. "It's who has the potential beyond that which really concerns me. I wonder how our brightest team leaders and our best product managers will fare when they're running the new companies we inevitably will have to create. I wish I had a crystal ball."

Finding talented business leaders is a growing challenge for today's organizations. In the past, where structures, strategies, and even markets

were relatively static, leadership was less complex. One model for leadership was all most organizations needed. Those who fit the model were groomed over time—in the days when employees stayed with one organization for their entire career, they weren't going anywhere else—and eventually were moved into leadership roles.

At that time, developing great business leaders was much like developing great concert pianists. In any particular year, thousands of hopeful parents invest in piano lessons for their children. Over time, as these young virtuosos move from “Twinkle, Twinkle Little Star” to Tchaikovsky, the cream of the crop—those with real talent and passion—rises to the top. The process continues over years as these high potentials hone their skills. Ultimately, the world-class performers emerge.

Today, developing star leaders is even more difficult than developing star athletes and artists. For starters, the days of a single leadership model are gone. Even within a company a variety of leadership models are needed. And those models are constantly evolving. To add to the complexity, today's organizational leaders, even novices, must hit the ground running and immediately produce results.

So how does today's organization identify potential leaders? There is, of course, no single magic globe that will help Paul, George, and other senior executives predict the potential of future leaders. But there exist, we believe, three proven processes—a trio of crystal balls, if you will, that will help you “gaze” into possible leaders and ascertain whether they have the right leadership attributes.

These crystal balls can help you identify three critical attributes of good leadership:

1. How a person thinks
2. How a person works with other people
3. How resilient a person is

While the characteristics that enable people to perform well in these are-



Figure 10-1. The crystal balls

nas are not tangible, they can, based on research, be identified and, over time, be developed or modified.

Prestidigitation and the Peter Principle: Why Current Assessment Tools Fail

To learn the importance of these multiple crystal balls, let's look at how organizations typically select their leaders and why these methods, when used alone, frequently fail.

Take George's firm, for example. Some of his executives are keen to relieve their Chief Executive's anxiety. The head of the largest division tells George that she does not share the same fear because she has great performers in her division.

Hers is a common view: in the face of all the intangibles, the best predictor of success is past performance. Up to a point, it's a valid argument. Failure to perform certainly is a big red flag for predicting potential. But it only goes so far. One has only to look in the recent annals of business news to see a "rogues' gallery" of failed business rock stars—individuals who rose to greatness, only to be dethroned as their market, their company, or the scope of their role shifted beneath them. This is especially the case of individuals who are propelled up the organizational ladder by past successes. All too often the Peter Principle—promoting people to their level of incompetence—takes hold.

The fact is, as people rise in an organization, the demands both on their intellectual and people skills increase. An effective sales manager may not do well in managing a diverse group of professionals across a wide territory. An individual who has been perfect at leading systems implementation may lack the capacity to rethink a new direction in the face of tough new competitors entering their market.

The key here is one's definition of potential that makes a big difference in thinking about predicting potential. One large company we've worked with, we'll call it the Worldwide Leisure Group, employs a predictive process used quite commonly in larger companies. Each year as employees are reviewed, their manager's manager is asked to rate how far each of the people in their business unit can move. "High potential" applies to people able to move a position two levels above their present position in less than 36 months, "promising" people are those who could take a position two levels above in 36-60 months, and "promotable" people are those who can move one step, but perhaps not further. While Worldwide's criterion is a common one and is relatively safe, there is usually a spirited debate over the assessments, since these ratings have to be defended at a meeting of company's executive committee.

One advantage of Worldwide's system is that the person making the judgment is familiar with roles two levels above the person being assessed and is evaluating whether the person can fit the role. Thus a regional hotel manager would be assessing whether a hotel general manager could fill his or a similar role and, at the top, the executive committee will be looking at who can fill the company's most senior leadership roles. Another advantage of this method is that the stretch of two levels seems achievable. Many people can envisage which hotel general managers could take on the role of regional director, but most are more diffident about rating whether they could run the whole company or even the hotels division.

The debate in the executive committee often hinges on what it is the person is doing in his or her current role that gives the rater confidence that the person can successfully move ahead. Comments such as "I really know that Mark can move into a Regional VP role. Look at what he has done in consolidating the two properties we just merged with his and the innovations he has encouraged with his restaurant groups" are often countered with observations such as "Yes, but he has not had much exposure to finance and alternative ways of financing acquisitions. Can we help him develop those weaknesses?"

If the obstacles are too daunting, the person in question probably doesn't have the potential. If the obstacles can be removed with time and effort, he or she probably has the capability but not yet the potential to contribute at this level. Only if the person can overcome the obstacles in a reasonable amount of time should he or she be classified as having potential.

This approach works well when the career paths and role requirements are quite similar. It also works well in organizations where there are multiple interactions across the organization so that members of the management team know people two or three levels down from them.

But it takes a tremendous amount of management time and commitment when the organization is more diverse. Even in a self-contained organization such as Worldwide Leisure there are problems, since employees tend to be regionally based, with little interaction across groups.

Difficulties also exist in using this process in large organizations where the concept of levels varies. Consider the role of regional sales manager in a large pharmaceutical company with both animal health and primary care divisions. Regional sales managers in the flat animal health division may be only two levels away from the divisional CEO. Primary care regional sales managers, on the other hand, could be levels away from their divisional president.

While both roles have the same demands, "high potential" means very different things: Divisional President in Animal Health and Country GM or COO for Primary Care—clearly potential roles very different in size in scope.

To get around such confusion, some organizations, such as a global

health care organization we'll call Worldwide Healthcare Group, focus only on people who can take on general management roles.

Each year, along with reviewing employees' performance, the manager's manager is required to nominate people in his or her business unit who can take on general manager roles within the next 36 months. As in Worldwide Leisure, there is a spirited debate about what the person is showing in his or her current role that reflects high potential and the obstacles that have to be removed in order for the person to perform effectively.

At this level, however, another variable must be considered: the requirements for leadership often change dramatically in general management roles. Often, this is the first level where decisions must be made on the basis of information from several sources, with some of which the general manager will not have adequate experience to make an informed decision. General managers frequently also have to lead a diverse group of people—often at a distance—which also may be uncharted territory for them.

The key question is whether the person can deal with these levels of complexity. Merely performing well as a marketing manager, for example, will not predict success in larger, more complex roles. The marketing department may well be successful, but its smaller size and narrower scope require less complex leadership than the size and scope of the division to which it reports.

One problem with this broader assessment focus is the tendency to overlook potential lower down in the organization and consider only people who already are approaching the level of the general manager and are already demonstrating some of the more complex leadership skills that are required for larger roles.

Juggling the Crystal Balls: Why Three Views Are Better Than One

It is evident that many popular methods for assessing leadership potential have their limits. Some fall into the Peter Principle trap, others fail to take into account major shifts in leadership scope, and others easily overlook possible candidates. Add to these the fact that no one—including leaders and potential leaders—is perfect, you begin to understand why executives go begging for some magic answer and why we recommend not one but three crystal balls.

The good news is that potential great leaders don't have to be perfect. They don't even have to meet a complete and lengthy laundry list of characteristics or competencies that form the preferred leadership model in many organizations today.

Our own research into competencies has shown that the best predictors of leadership success are a handful of key competencies that, in various combinations, most frequently lead to outstanding performance. Our three crys-

tal balls (which actually are based on years of research into leadership competencies) address these key characteristics by answering three questions that are important no matter what assessment process or rating system is used by an organization.

Ball Number 1 asks, "How does this individual set his or her business agenda?" Ball Number 2 asks, "How does this individual take others with him or her?" Ball Number 3 asks, "How does this individual present himself or herself as a leader?" In order to "read" the answers our crystal balls provide, you need to understand at what level a person is operating. As we noted earlier, the variety of levels and various sizes and scopes of roles are one reason that performance alone is not a good predictor of future success.

To understand at what level a person is operating, you need to look at three areas: the scope of management; the scope of problem solving, and the scope of impact.

The scope of management refers to whether the person manages strictly within a self-contained team or across a wider scale in the organization. Here, you have to look beyond the prescribed or stated role, since frequently high-potentials move beyond that standard.

Consider for example, two regional sales managers in the same technology firm. Manager A leads 10 sales managers. He is very active in his territory and has built a high-performing sales team. Manager B also leads a high-performing team of 10. But, unlike his counterpart, he is in continual contact with regional sales managers in different territories, swapping ideas and practices. Manager B is aware of what is going on in corporate marketing and understands how he can actually influence and use it to his advantage. In short, Manager B has broadened his scope so that he does not drive a defined business in a clearly bounded business unit, but works across boundaries to better understand and react to the implications of potential, broader decisions.

By observing the behavior of these managers and how they approach and make decisions and solve problems, we can better understand the scope of problem solving and its impact on leadership. Regional Sales Manager A does what the role prescribes. He solves problems that are required for his people to perform their role, using a prescribed body of knowledge. There is little originality and creativity in his approach, but he meets his objectives. Regional Sales Manager B also follows the prescribed body of knowledge, but at the same time demonstrates originality and creativity. In reality, he is continually expanding the body of knowledge that future sales managers will have at hand.

The scope of impact of these regional sales managers varies. Manager A clearly impacts his team and their goals. His decisions will have a relatively short effect in terms of scope and time. Manager B impacts his team and, in addition, he makes decisions that impact the wider organization and are longer-lasting.

There is a potential downside to operating beyond what the role requires. It may impact day-to-day performance, but more often leads to frustration as the person tries to work beyond set parameters, but often sees himself or herself blocked.

To use the crystal balls effectively, you need to sense how a person is operating and imagine him or her operating several levels beyond that current role. Ultimately, to assess an individual effectively, you need to return to the present and answer some key questions about his or her current level of capability. To do that, a better understanding of each ball may be helpful.

The First Crystal: How Do High-Potential Leaders Set Their Business Agenda?

To examine the first crystal ball, let's look at how two very different leaders—Anna and Tony—set their agendas. Which do you think has the most potential?

Anna, the marketing manager of a fast-paced consumer goods company, is frustrated. Her mission of launching the company's global brands in the Eastern European country to which she recently moved has been effectively thwarted by a large competitor that has launched an intensive campaign that dwarfs the efforts of Anna's predecessors. "There has to be a better way," she thinks as she drives to work, "but what is it?" Suddenly she notices cases of milk cartons being delivered to the large apartment complexes in her neighborhood. Unlike milk cartons in major Western cities, these have very little print on them.

Suddenly, as she would later note, she "saw an opportunity to get her company's message across every morning to millions of consumers." By the time she arrives at the office, she has devised a plan to persuade the cooperatives that distribute milk to allow their cartons to become advertising space.

Tony is also a creative business developer who spots potential product ideas for his global healthcare company and negotiates licensing arrangements. He is intrigued with science but is certainly no researcher. Rather, he enjoys matching his scientific knowledge with know-how about customers, markets, and trends. He has an uncanny way of seeing product possibilities that others have overlooked.

"What I enjoy," he says, "is seeing how things come together after I have talked with physicians, read the latest research reports, and discussed trends with my team."

When we look into our first crystal ball, we find both Anna and Tony have potential, even though they develop their direction from very different sources. What to look for here is where people get their ideas, their direction, the reasons that they want to act as leaders.

Anna and Tony represent two basic thrusts that predict how high-potential leaders set their agendas. Tony primarily uses intellectual reasoning, while Anna's decisions spring from a deep motivation to achieve, improve, or excel. Of course Anna must think through her ideas, but the source of decision-making comes from a deep feeling that there has to be a better way. Tony also thinks about finding a better way. But his primary motivation comes from a fascination with ideas. Some leaders will drive their agendas from both these sources, although either one will predict potential.

Intellectual reasoning is seldom about pure logical thought. Instead, it is usually demonstrated in behaviors such as Tony exhibits: perceiving possibilities, quickly grasping complex concepts, and seeing their implications.

Achievement motivation arises from a deep need to improve and to exceed standards of excellence. In real leaders we often see this as a driving force that comes from their "gut," rather than an intellectual level.

While either intellectual reasoning or achievement motivation is necessary to set the agenda, they become predictors of performance only when they are deployed at certain levels. High-potentials using intellectual reasoning, for example, should be able to simplify a good deal of complexity to the point of forming new concepts that lead people in a compelling way.

The level of achievement in high-potentials should be a driving need for making improvements or exceeding standards of excellence that is channeled into forming larger business concepts. People operating at this level start to look at the cost-benefits of moving in different directions, for example. They also channel their dissatisfaction or desire to exceed standards into real business projects, and they persist in these efforts no matter what the obstacle.

The presence of these two agenda drivers at lower levels may predict raw capability in this area, but not potential.

A lack of either of these drivers to create an agenda should raise a huge red flag. Consider, for example, the person who develops an agenda to impress rather than for results. Such individuals sometimes go far on the basis of the impressions they initially create. Eventually, however, when the results fail once again to materialize, they will fall.

The Second Crystal: How Do High-Potential Leaders Take Others with Them?

Here too, Anna and Tony are quite different but equally effective.

Anna is very persuasive with individuals, but uses a thoughtful, low-key manner to influence groups, especially those outside her usual scope of leadership. As one of her subordinates put it, "She is not really charismatic, but she is determined. There is no mistaking what she wants, but she does this

in a way that makes you feel good working for her. You feel she hears you and respects you and she also trusts you to get it done.”

Tony, on the other hand, is seen as very charismatic. As one of his direct reports tells us, “He really knows how to get a team going. We work together very well because he is very clear upfront about what he wants. He also enjoys the big stage and can be very persuasive with large groups. People in the industry know him and respect him.”

As in setting an agenda, there are a number of approaches to gaining support that are equally effective. Some leaders are very empowering with individuals, others with their team, and others at forming influence agendas across a whole organization.

These influence strategies are often fuelled by empathy for others. Empathy grows into political or organizational smarts, what we commonly refer to as organizational awareness. At the heart of both of these attributes is the genuine pleasure some people gain from having a positive impact on people and organizations.

One or both of these characteristics are necessary to predict potential. And, as with the agenda, it is the level at which people deploy their skills that is critical to assessing their potential. While most leaders can be personally persuasive, the higher you rise, the less time you have to persuade personally. Strategizing how you influence others indirectly or how your presence might spread through an organization reflects a higher level of both empathy and organizational awareness, and thus higher leadership potential.

The Last Crystal: How Do High-Potential Leaders Present Themselves as Leaders?

In gazing into this globe, three important attributes should be sought in high-potential leaders.

The first is self-confidence and self-awareness. Are they willing to take on real challenges to achieve goals? Are they aware of their strengths and weaknesses in getting there? Anna, for example, is on assignment in an Eastern European capital because she wanted the challenge of setting up programs in an environment where the art of marketing was less developed than in her home territory. She thrives on the challenge, even though the obstacles are quite large.

The second attribute is an ability to stand back and look objectively at situations and objectively assess the strengths and weaknesses of others. They avoid snap judgments by thinking through the issues and not immediately reacting. Tony is very good at selecting people to work for him because he does not rush to judgment. Instead, he takes the time to develop a sense for

their strengths and weaknesses and consequently how the person will complement him or his team. “Frankly, I like people I can learn from,” he reflects.

The third attribute is the emotional fortitude to deal with high-pressure situations in an evenhanded way. Anna, for example, works long hours but is careful not to allow her frustrations with her new environment to get the best of her. She often takes quick breaks from work that revitalize her.

The key here is balance and consistency. High-potential leaders need at least two out of three of these attributes to present themselves as leaders in consistent, positive ways that help drive performance.

Potential leaders with higher levels of these characteristics integrate them into their persona. Self-confidence, for example, expresses itself not in the challenges that a leader takes on, but rather in the intuitive self-confidence he or she expresses in the face of a tough decision. Over time leaders know themselves better and integrate better judgment into their behavior. They see situations more objectively and, despite the pace and the pressure, show resilience in tough situations.

Conclusion: Creating Crystal Clear Assessments

What if you look into your crystal balls and see someone highly qualified in only one or two of the three? What about the immensely bright and creative engineer who can lead a team, but only by issuing repeated directions? Such individuals may have some capabilities that over time can be developed, but they still lack the potential to be good leaders.

What is important to spotting high-potential leaders is that they exhibit strengths in all of these three areas at a high level. A lack of evidence in one or even two areas often leads to imbalances that predict failure.

Consider the person who lacks the ability to influence others. Often he or she fails because the complexities of influencing across more complex situations becomes too much for him or her. Likewise, the person who has gaps in setting an agenda will often show great people skills but exhibit little ability to set direction or deal with complex strategies because he or she does not have what it takes in that area. Indeed, balance is more important than having perfect scores in one or two areas.

Without resorting to lengthy leadership models and complex assessment processes, the three “crystal balls” developed through our research of high performing leaders can give accurate insight into identifying high-potential candidates. By “gazing” into these globes and selecting leaders who appear in all three orbs, you can increase the probability of leadership success in your organization and take a huge step forward in improving talent management.

Chapter 11

Finding High-Potential Talent Throughout the Organization

John A. Hunter
Senior Vice President Customer Services
QVC

AS SENIOR VICE PRESIDENT FOR CUSTOMER SERVICES AT QVC, IT IS CRITICAL to continually assess the strength of my management team. The need for assessment was exacerbated by significant QVC growth. In particular, a call center would be completed in 18 months and the issue of staffing the venue was of major concern. First, I had to consider placing a management team in the call center and needed to determine which managers could be transferred from other locations. A second critical issue focused on supporting a new international operation with qualified staff. Our assessment processes, however, were limited by insufficient personal knowledge of the strengths, weaknesses, and potential for growth of the staff two and three levels below my direct reports. This realization was a wake-up call. A company growing at 18% a year required a more formal approach to internal staffing and it became the primary reason for implementing the Management Leadership Review Process throughout QVC.

For me, it was absolutely essential to be able to identify, develop, and promote the right people to help sustain QVC's growth. Orders taken in our

call centers are QVC's main source of revenue generation. Critical jobs within the Customer Services organization and clear replacement strategies for these jobs had to be developed to maintain competitive dominance. As the senior executive of the Customer Services organization, it was frustrating and limiting to have little knowledge of the staff two levels below me. Knowledge of QVC's human resources capabilities was absolutely essential to support the kinds of growth strategies that would develop high-potential people optimally and transition out poor performers. It was necessary for long-term success that I have the tools to find the answers to QVC's people requirements.

Early Efforts at Developing a Talent Management Program

I initiated the management and leadership review process by soliciting input and ownership from the COO, the human resource vice president, the head of training, and my general managers. With the support of these people, I set off for an offsite retreat in Virginia. Our first goal was to develop a set of competencies that could be used to judge the skills and strengths of our people. We tried to define what critical competencies are vital requisites for successful QVC managers.

Implementation for the new program came next. Each of my direct reports was requested to use the competencies and a 1- to 9-point grading scale to assess his/her management team. I scheduled a meeting 30 days later to have the general managers review the results with their peers. At the session an interesting scenario arose. Several supervisors were rated 9, the highest rating on the scale, while several area managers were rated much lower. How could this be? Does that mean that there were some supervisors who should be general managers or vice presidents? Did we rate on favoritism and thereby distort the evaluations?

The first attempt at building a solid assessment tool was a failure. The flaws were:

1. We had not tried to anchor the jobs or establish criteria within each function to determine what was a good score or a poor score for a supervisor, a manager, etc.
2. The general managers feared speaking ill of their employees in public, believing their honest assessment could impede their chances for future promotions or assignments.
3. No one wanted to have his/her staff criticized in open forum.

The process revolved into a "free-for-all" with resulting bruised feelings. We were forced to go back to the drawing board.

Back to the Drawing Board

An experienced consultant was brought in who had created a similar assessment system based on best practices from *Fortune* 500 companies. This time the site area managers were included in the process. The site area managers are critical jobs at QVC. They report to the general manager and oversee 90% of the human resource assessments done in the call centers. In QVC, supervisors report to shift managers and the shift managers report directly to the two site area managers. One area manager is in charge of order entry and the other is in charge of customer services. Typically, the two area managers are accountable for assessing 40-50 supervisors and managers. The area managers were critical to the discussions because they influenced or made the ultimate decision on accepting or rejecting candidates who were to be evaluated by the new assessment process. The original retreat group, along with the site area managers and the consultant, developed the Management Leadership Review Program (MLRP).

After the first failed process, I wanted to ensure this new effort had every chance for success, so I took a leadership position. I explained to the consultant the critical nature of the venture for the long-term viability of QVC. The consultant helped the committee avoid some of the pitfalls originally encountered. Some of the changes made from the first programs were:

1. The process was line driven with support from a consultant and human resources. This shifted ownership of the program to line management.
2. The ability to develop a core leadership team of internal people to start up the new call center within 18 months was the key goal for the process.
3. The nine existing call centers had to undergo minimum disruption, so replacements for the displaced employees needed to be developed or found.
4. The process had to be driven from the bottom up. The area site managers must "own" the process for it to work.
5. New and more appropriate competencies had to be developed. Additionally, each competency had to be anchored to a specific job and a set of weighted behavioral descriptions appropriate to that job within a competency definition had to be defined. For example, a front-line supervisor would score between a 2 and a 3 in communications; a 2 would be the anchor or standard for the job and a 3 would be performing above the job requirements. Specific definitions were created to define a "2."
6. Human resources and training professionals helped with developing the competency definitions to ensure that they were clear, actionable, concise, and measurable.

7. The area managers were made responsible for the training of any staff who would be doing the MLRP assessment. Again, this was critical because it created buy-in from the top ranks of the organization. Their ability to train the program also meant the area managers could explain program aspects thoroughly and could answer questions accurately.
8. A small group of coordinators was created, using one area manager from each site to discuss problems and issues and to ensure consistent implementation across all sites.
9. All of the employee evaluation tools were tied together into one concise document. Previously, performance evaluations, personal development and growth assessments, and the management-by-objective process were separate, unlinked tools. All these tools had the potential of being confusing and delivering conflicting messages to the employee. All the pieces of information were combined into one process. This linked employee performance—the “what” they accomplished—with the “how” they accomplished it. The MLRP process included clear development plans for addressing potential employee weaknesses and leveraging employee strengths.

Once the new program was finalized, area managers underwent training first. The area managers held site assessment training meetings. This gave the managers making the assessments an opportunity to solicit feedback from professionals and peers. This led to multi-rater input from supervisors, self, and peers and it was a critical component of the meetings. Shift managers were encouraged to discuss each of their supervisors with their peers. Discussions included supervisor strengths and opportunities for further development. Highlighting two specific strengths and two specific development areas, managers solicited feedback on their assessment from their peers based on these criteria. The corporate human resource manager and I visited each site after the initial meetings and listened to assessments, giving input to ensure that the evaluation process was consistent across the different sites. These visits were also an opportunity to ascertain the capabilities of the managers and supervisors to deliver a spirited message about the importance of the MLRP to QVC’s long-term viability.

Results of the MLRP Process

In the four years since adoption of MLRP, QVC has made continual improvements to the initial undertaking. Today, I no longer need to make site visits to get detailed human resource information. The general managers and the human resource managers come to corporate headquarters to formally review their organization. Each organization has a complete presentation that includes employee readiness for the next position, employee potential for pro-

motion, employee performance, competency assessment, and individual employee development plans that enable every employee to improve in his/her current position or to transition to another position.

It was important to QVC that MLRP not be considered solely a succession planning program, although succession planning and a list of candidates who are ready for the next position is clearly a by-product of this process. MLRP was described to the staff as a development program for all QVC employees, with everyone receiving an individual action program. All employees participate in a yearly (frequently more often) conversation on their core strengths and opportunities for competency development. They are informed about what is needed to enhance performance in their current job or to prepare for the next level in QVC. Existing job improvement is critical to program success because not every employee will be designated as promotable. MLRP is superior to succession planning programs because it includes individual development plans and fosters openness about each employee's performance and potential. Consequently, MLRP has ensured QVC a great reservoir of creditability with its employees.

The Focus on Development

Individual development plans are a very successful and pivotal element of MLRP. Each individual development plan includes an in-depth discussion of the employee's key strengths. The plan sets forth specifics about how those strengths are to be developed for optimal performance in a present and/or future position or, in the case where an employee exhibits exceptional competency skill, how the employee is to mentor other employees in the competency. Key discussion points include what the individual can do for self-development and what QVC will do for that person's development.

For example, in the individual development plan (IDP), QVC has a section devoted to strengths, opportunities, targeted behaviors, initiatives/activities/training courses, and expected developmental outcomes/learning. The document is completed by the supervisor and it is discussed in detail with the employee.

As an example, Joe Smith's strength is communications. Joe's strength is elaborated with specific points: "Joe is a very effective communicator; he presents clearly verbally and in written formats. He avoids vagueness, ambiguity, and mixed messages. He regularly keeps the general manager informed on all business issues and often comes to the table with recommendations. He also communicates in tough situations in a way that is respectful of others' viewpoints." Joe should mentor and support others who have difficulty with their communication style because of his exceptional communication competency. The same IDP would identify a weakness or developmental

opportunity for Joe. If the developmental need is in Joe's business and technical expertise, the weakness could be stated as "Joe is tasked with expanding his knowledge—outside of QVC experience. He should seek best practice solutions from other organizations to allow him to stay current on developments that might impact or improve QVC operations." The targeted behavior Joe should improve would be "to consider multiple sources of information and weigh them appropriately when making decisions." Joe would take accountability for his improvement in this area by being asked to do something specific: "Review the impact of employee training and tenure on QVC's quality scores. After reviewing this analysis, provide a comprehensive set of recommendations to improve our qualitative scores." The company's accountability would be outlined: "QVC will allow Joe to attend outside call center training seminars that would expose him to different approaches to quality and running call centers." The "expected development, learning, or outcome" would be the improvement of Joe's "quantitative knowledge" that would help prepare him for the next level of management. "Why it is important to the job" would be defined as Joe's ability to consider multiple sources of information when making decisions that would make him a more effective business leader and improve the company's ability to generate critical programs. Information given to the employee is specific and actionable and presents clear expectations for outcomes.

Human Resources Planning Considerations

Each year, with general managers and human resources professionals, we develop resource budgets for supporting training, special projects, cross-functional assignments, temporary assignments, and permanent relocations. MLRP assessments for 250 QVC management personnel are tracked on a Microsoft Access® database for ease of computation and data collection. Information on employee strengths, possible career moves, and developmental actions is readily available online. The Microsoft Access® database is a wonderful tool to respond to QVC growth requirements or to simply know which personnel are ready for an international or local assignment.

The talent pool identified through MLRP was used to position staff in the new call center. It enabled the call center to be up and running on time. Happily, the site later produced some of the best quality scores and productivity in the organization. Three general managers were subsequently identified for the international operations. We believe that QVC's hiring 75% of the call center's positions from within was a key factor in improving the company's bottom line by \$6 million last year.

The MLRP Success Factors

In summary, MLRP's success is due to:

- The program being driven by the senior leader, who ensured that all employees understand its importance to them as well as to the organization.
- The program being driven with line instead of human resource accountability.
- The early buy-in of site area managers, who created a bottom-up approach.
- Outside consulting support that provided the expertise to do it right.
- Centralizing all of the different processes used to communicate with employees, in order to avoid mixed messages.
- Refining and improving the process each year; by the third year, the program was ingrained in the organization.
- Developing a common language for the competencies around all sites.
- Identifying critical components of every QVC job.
- Automating and making the process simple to access and use.
- Restricting all data input to one form, enabling the assessors to easily and quickly complete one key input document. This took the drudgery out of the process.
- Introducing the multi-rater component at site reviews. Peer input is the most time-consuming aspect of the review but also the most constructive. The dialogue, about 15 minutes for each individual, creates buy-in among the team for developing the individual.

Chapter 12

Casting a Wider Net: A Case Study in Optimizing Employee Potential

Vikki L. Pryor, President and Chief Executive Officer
SBLI USA Mutual Life Insurance Company, Inc.

IN 1999, A NEW MANAGEMENT TEAM WAS INTRODUCED INTO THE SAVINGS Banks Life Insurance Fund. Our charge was to breathe new life into the organization and create a new company. Team members credit much of their success to a human resources technique that we call “casting a wider net to attract and retain a talented workforce.” This wider net involves looking in untraditional areas for talent, both inside and outside of the company, reinforcing our core values from the bottom up to energize the current work force, and integrating experience staff, trusted outsiders, and new employees. The technique has enabled employees—known as “associates” at SBLI USA—to grow beyond their own expectations.

Complexity, competition, and chaos have frequently characterized the workplace of the 21st century. Many companies have responded with traditional, hierarchical leadership structures. Many members of the new SBLI USA management team had worked in those settings and succeeded in them. When they joined SBLI USA, however, they decided the structure would be a different one and that we would broaden the search for talent to untraditional areas, both inside and outside of the company. We have found

that using our “wider net” technique has had four major benefits:

1. Casting a wider net has allowed SBLI USA to reaffirm the intellectual and cultural diversity of its workforce and recognize that a range of talents is necessary to fuel a high-performance organization. This enhanced diversity has made our financial services firm more competitive.
2. Dropping preconceived notions dictated by education or career backgrounds has enabled managers to identify staffers’ genuine and potential core competencies and skills. Managers have become more skilled at managing complexity effectively.
3. Casting a wider net has required the company to focus less on quarterly results and more on a longer-term investment in its people. Managers are nurturing a holistic organization, one that is more likely to stand the test of time.
4. As a result of the wider net technique, the company has tripled in size in less than three years, yet has retained 80% of its pre-1999 workforce.

“My biggest surprise since the new management team’s arrival and the turnaround of the company has been the realization that I count! My intelligence, experience and thoughts do count!”

—SBLI USA Associate of almost 30 years

Step One: Energizing Existing Staff

On my first day, I looked at the existing staff. The SBLI Fund was a small organization—just 77 associates, many of whom had been there for decades. As we planned for growth, we deliberately cast a wider net than the company had ever cast before.

The wider net was startling to some long-time associates. A finance officer recalled that I asked him and other high-ranking executives to craft a new business plan—in a week. “No one had ever asked us to do anything like that before. Orders had always come down from the top,” said this veteran of more than two decades. “We put something together as best we could and Vikki very gently took our work and improved it.”

Many other changes followed:

1. A quick but thorough assessment was made of existing management talent. Teams were reorganized and title changes were implemented. Everyone was given expanded responsibilities and accountability. Core capabilities and a willingness to work were the keys for all changes. Associates rallied at the notion that they were being given a chance and that neither a lack of formal education nor prior experience was considered a barrier to promotion.

2. Changes were made to the infrastructure on the fly. The information technology department, such as it was, came alive. Associates were empowered to begin making immediate technology improvements and changes were implemented based upon their best judgment.
3. A clear and swift investment was made in people. The physical plant, training and development, benefits, and company policies were all revamped. The mandate was that the associate was to be at the center of all decision-making.
4. Communication was made a first priority. "Management by walking around" became the order of the day. Informal communication was used extensively to get immediate input and buy-in and to implement the new plans.
5. Planning became critical and included everyone. The board of trustees quickly adopted the operating plans that were being drafted, implemented, and modified with a speed that most had never experienced.

Step Two: Integrating Experienced Staff from the Banks

We set about hiring a number of people who had worked in the issuing banks: men and women who knew how the banks' back offices worked and were hungry to create an efficient new operations team without alienating long-time customers. One associate had only a high school diploma, but more importantly to us, she had 22 years of experience in the insurance department of one of the 16 banks. She took a cut in title—but not in pay—to become a team leader at the new SBLI USA. She said she made the switch after hearing me speak at a job fair. "Vikki made you feel as empowered as she is. She talked up to you—not down to you." Within three years, this associate has been promoted three times and is among the top level of managers running SBLI USA's state-of-the-art call center.

Step Three: Integrating Trusted Outsiders

We brought in a few key people with whom I had worked in the past: a risk-taking head of operations and finance and a soft-spoken visionary to head marketing and sales. We decided that strong general managers were critical to our success. I had known one of our first key hires socially and felt that her general management background would make her a good Chief of Staff. Very quickly, she was promoted to Senior Vice President for Human Resources and, ultimately, Executive Vice President for Administration. She has her own observations about what casting a wider net meant in 1999 and what it means now: "The assumption was that everyone had value, that everyone

had something to bring to the table. In other corporations, people would take what was on your resume and put you in a box. If you were fortunate enough to prevail outside that box, you might get an opportunity to grow. But here, there was no risk associated with pushing people outside of the box." The Executive Vice President for Administration continued: "It might take an investment of resources, time and money, but the return on that investment has been much greater than keeping people in a box."

Step Four: Finding Talent in Unexpected Places and Promoting from Within

Another associate was an early beneficiary of the new team's out-of-the-box thinking. A 35-year-old actor, he had reluctantly accepted a temporary two-week assignment as executive assistant to the new CEO. After his first day—also my first day—this new associate was not eager to stay. Within a week, however, I offered him a permanent job, asking him to become a member of our team. He called this the beginning of a personal Cinderella story. "Vikki understood who I was, my values, my work ethic and she believed in me." In five months, he assumed the position of Vice President and Chief of Staff and became the president's liaison to the board of directors as well as the corporate spokesman. He led the renovation of the New York offices and the opening of the Newark, New Jersey Operations Center. He continues to oversee a burgeoning staff—at the end of 2002 numbering 240—more than three times the staff when the new management team arrived. "We constantly assess the people we work with and can quickly see who's exceeding our expectations," said the Vice President. "If people appear to be under-performing, the assumption isn't that those persons have failed. The assumption is that we must evaluate the strengths of the associates and determine the areas in which they can reach their true potential."

Threads of the Wider Net

A year and a half after the new team arrived, our senior officers met for a four-day retreat to track where we had been, codify our successes, and plan for future growth. We identified three central threads in our wider net technique: formal and informal performance reviews, training and education, and last, but not least, community and caring.

Formal and Informal Performance Reviews

When human resources instituted a formal annual performance review process, managers were judged on their ability to:

- set clear and measurable goals,

- communicate effectively,
- display energy and passion for their work,
- multi-task effectively,
- think strategically,
- demonstrate integrity, compassion, and positive thinking,
- encourage team work, and
- develop their staffs and themselves.

Associates were judged on a similar scale. The primary difference was that associates were asked to be open to new ideas and to work cooperatively. Values, passion, compassion, and a desire for continuous learning were encouraged across the board and were included as core competencies in the performance review process.

Despite the formal structure, the yearly evaluations have contributed just 25% to the wider net technique. Instead, informal evaluations have become much more important and routine, occurring during weekly—even daily—brainstorming sessions. “We’re comfortable with that,” one Executive Vice President said, “because too much structure would bog us down. It’s part of our entrepreneurial culture. It’s part of the reason why we’ve decided that no matter how big SBLI USA grows, no unit will be larger than 150 people. We know and we want to know our Associates as individuals. We can only do that if we keep our offices small.”

Still another associate was one of the beneficiaries of the informal brainstorming. A high school graduate, she had worked as a clerk for her first 11 years at the company, typing letters to policyholders. Only occasionally would she set up medical examinations for insurance applicants by phone, talking with customers, a bank’s sales agents, and doctors. Those telephone exchanges caught the attention of members of the new operations team who were in the midst of a “sink or swim” frenzy during the meshing of the banks’ and the old SBLI Fund’s cultures.

As the team shuffled some 70 associates, trying to match skills with needs, “We set up training classes and we looked at peoples’ personalities,” a manager recalled. “One Associate had such a strong personality, we knew her current position wasn’t the right one for her. We saw something in her that she didn’t know she had. We reassigned her to a job in which she could be a star performer. And we did this for everyone on the staff.”

This associate was tapped to become a customer service representative. Once she got over the shock, she realized she loved her new job. She aced a 55-hour insurance licensing class and quickly became one of SBLI USA’s most successful sales agents. “If I never get another promotion, I’m still further along than I ever thought I’d be,” she said. “A lot of people have potential that they don’t think they have until someone comes along and calls

them on it. If I worked someplace else, I wouldn't have had the opportunity to go to school, to become a sales agent and to grow."

Training and Education

Since 1999, associates and managers have been offered a range of some 25 different training and development classes. Among them was the exhaustive 55-hour insurance licensing class that many front-line associates took. The company has also offered:

- half-day simulation-based classes on communications in the workplace;
- a series of daily classes for the operations team to bring them up to speed on newly installed computer technology;
- myriad classes on product knowledge, sales skills, compliance, fraud, and policy training; and
- Microsoft applications—evening classes in Excel, Word, PowerPoint, and Project.

One of the current operations directors began her career as an SBLI Fund underwriter when she graduated from college in 1968. She took time off to raise two daughters, but came back full-time 18 years later. No one ever doubted her technical skills, but she thought she'd risen as far as she could in the old SBLI Fund. In 1999, she embraced the new risk-taking, entrepreneurial strategy. She and her colleagues worked all day, desperately trying to organize the mountain of files and correspondence that the banks delivered to the new SBLI USA. Then they would stay—without complaining—until 9 or 10 p.m. to master the Microsoft classes. Like others, she had not seen what the new managers saw in her. Quickly, she blossomed from being a narrow specialist into an effective manager of people—a member of the top tier at the all-important operations and call center. She was a beneficiary of both the ongoing, informal performance evaluations and the new focus on education. "I don't know exactly how or why I was tapped to take a two-day Project Management class in 2002," she said. "But I'm grateful for it. People have grown because they've been given a chance. We've taken risks and sometimes made mistakes. If I don't go any further in my career, I'm still more today than I ever thought I'd be."

Community and Caring

The new SBLI USA team worked to create a sense of "compassion and discipline." Some called it a nurturing style—a blend of facts, determination, common sense, caring for people, and intuition.

In 1999, the team replaced old, dark offices with light, cheerful colors and computer terminals on every desk. The team began the tradition of hol-

iday parties, a Thanksgiving lunch, company picnics, and an annual gala to recognize the accomplishments of outstanding associates. The company introduced monthly celebrations of associates' birthdays and quarterly staff meetings to answer questions, squelch rumors, and explain the company's evolving business strategy. Associates were given T-shirts, jackets, caps, and briefcases with the SBLI USA logo and the company began sponsoring a series of philanthropic activities.

Associates have been encouraged to participate—even bring their families—on walks to raise funds for breast cancer research and AIDS research and to help the developmentally disadvantaged. Associates donated to Toys for Tots and canned goods to City Harvest. For two years, SBLI USA staffers participated in New York City's Caribbean Carnival. We even created an SBLI USA Choir. As one long-time associate said, "They made working at SBLI USA fun."

However, the management team had more than fun in mind. Our staff and board of directors represent a United Nations of ethnic backgrounds, hailing from more than 41 countries. Today, SBLI USA's team belongs to the very demographic groups that the company was and is seeking to attract as customers.

Intellectual Capital

It would be tempting to suggest that our wider net technique was the brainchild solely of my SBLI USA management team. As we raced through our assessments and experimented with IT platforms and human resources concepts, we tracked our progress and were pleased to see our work validated in several important publications.

In 1999, a new book, *7 Kinds of Smart: Identifying and Developing Your Multiple Intelligences* by Thomas Armstrong, emphasized that there are no losers, only people who are more gifted in one area than another. In keeping with the author's central thesis, SBLI USA team members were encouraged to trust their instincts and honor their feelings when interacting with associates.

A year later, another book was published that underscored a major challenge facing our new team—restoring SBLI USA's community- or family-based environment, while at the same time creating a hungry, aggressive entrepreneurial spirit. *The Alchemy of Growth: Practical Insights for Building the Enduring Enterprise* was the work of three seasoned management consultants at McKinsey & Company. They indicated that, on the one hand, emerging businesses require an entrepreneurial temperament. By contrast, managing current businesses requires managers with a different temperament and style, a focus on excellence of execution. The task for our team was to do both: to identify staffers who could thrive in an entrepreneurial

atmosphere as they searched for new products and new markets to grow the business, and to identify those who could focus on excellence while reinventing the “back office” chores they’d done for decades: underwriting, processing applications and claims, as well as answering customers’ questions.

Intuitively, we had been using the model developed in *Alchemy*. We had institutionalized a growth pipeline without being conscious of it. By casting a wider net, we automatically had associates experimenting with existing processes, exiting unprofitable products as well as lines of business, and adding new growth businesses. In 2002, when we came upon the model as articulated in *Alchemy*, it was for us a turning point. The book’s ideas enabled us to help people focus and understand the importance that different kinds of abilities bring to creating growth in an organization. It was affirming for us that we were using a model that had significant strategic implications.

At the end of 2002, another new book echoed our SBLI USA team’s approach. In *The Support Economy: Why Corporations Are Failing Individuals and the Next Episode of Capitalism*, Professor Shoshana Zuboff and Dr. James Maxmin found that the era of “managerial capitalism” has ended and in its place a new era of “distributed capitalism” is emerging. Under this new system, wealth will flow toward those corporations that offer “deep support” to consumers—corporations that offer consumers freedom from stress and contempt. It’s a complete inversion of the old system, the authors indicate. Their ideas resonate with the central threads of SBLI USA’s “wider net” philosophy: the company’s embrace of diversity among both associates and customers, its focus on community, and its commitment to education and technology.

Throughout SBLI USA’s transformation, my team and I consistently operated with a spirit of optimism and good cheer. We have been the archetypal “little engine that could” even when some of our stakeholders doubted that we could succeed. Our attitude was validated in yet another publication, *Learned Optimism: How to Change Your Mind and Your Life* by Martin E.P. Seligman. The author emphasized that success is achieved through perseverance, by getting up each day and attacking the chores at hand. That philosophy dovetails with one that I have held for many years: that small steps matter, especially if those small steps are taken with conviction. Our optimism, perseverance, and commitment have allowed SBLI USA to see the good in each associate, to give up on no one, and to create a wider net that has attracted and retained an expansive staff. Our model has brought to life the notion that “the whole is greater than the sum of the parts.”

Conclusion

Almost four years into SBLI USA’s experiment, the “casting a wider net”

technique has produced unarguable successes:

- Despite massive changes in both operations and the corporate culture, SBLI USA has been able to uphold its historic mission and retain and *retrain* 80% of its original staff.
- The company has enjoyed two years of double-digit growth in sales and is poised to repeat the performance in 2003, despite the downturn in the overall U.S. economy and numerous domestic and international tragedies.
- SBLI USA has begun a nationwide expansion: planning for first-in-the-nation insurance retail stores in upstate New York and Puerto Rico, and moving from one to five sales platforms in 10 key states.
- The company has grown from just an insurance provider to a full-service financial services provider, offering a range of products for customers throughout their working lives.

The new team's slogan is "You can ... plan your life, build your future, achieve your dream." Using an innovative wider net technique we are living this slogan at SBLI USA.

Chapter 13

Finding the Crown Jewels: Locating the Superkeepers

Rolf D. Naku, Senior Vice President
Sunoco, Inc.

HAVE YOU TAKEN THE OPPORTUNITY TO ARTICULATE YOUR ORGANIZATION'S core values and to communicate them to your employees? Can you name those employees who embrace those core values beyond your organization's expectations? These Superkeepers are very special, high-performing, high-potential individuals and are vital to your company's future success. These talented people are the crown jewels of any organization and can help promulgate and reinforce the behaviors necessary for a high-performing company. Your crown jewels must be managed and developed properly to realize their full value. The employees in this category are rare and they would be sorely missed by the organization. What is required is a system that enables identification of these rare jewels and provides the tools for honing their skills and realizing their full potential. If your organization has failed to adequately address these requirements, you are not alone. Sunoco was in this position just a short while ago.

Sunoco found itself in an unenviable position when it was confronted with the possibility that nearly 50% of its top 200 managers would be eligible to retire within the next five years. In general, Sunoco's professional

workforce was older—average age over 46—and had longer service—17 years—than is typically found in organizations. Sunoco's demographics had many positive aspects that included skilled and dedicated workers with low turnover costs. On the other hand, Sunoco had not adequately prepared for the potential wave of retirees and their replacements. Sunoco had failed to consider the transference of a healthy, successful business to the next generation of employees. Sunoco lacked a system-wide process to identify and analyze possible successors and had no existing plans to develop those employees who had the potential to lead the company in the coming years. If Sunoco was to have sustained growth, it was clear that this threat must be addressed. Sunoco required an orderly process to properly frame the problem and then identify possible solutions.

Initially, Sunoco needed to articulate the core values and behaviors within the company that it believed ensured the greatest possibility of sustained success. Then those employees who best embodied those core values needed to be objectively identified. Writing core competencies was more challenging and time-consuming than anticipated but a very satisfying and revealing exercise when completed. Sunoco selected TalentReservoir® to guide it through this process because it offered a very straightforward and practical approach.

Defining Core Values and Behaviors

The key to successfully defining an organization's core competencies is to take a collaborative team approach. Sunoco included its 10 most-senior executives in the definition phase. This included the CEO and his direct reports. Sunoco was fortunate that its CEO realized the importance of this process and gave considerable thought and input. His commitment to this effort was crucial in setting the tone for other executives participating in the exercise. Each executive was asked to independently identify those competencies that he/she believed were the best indicators of success at Sunoco. To help the thought process, Sunoco presented the executives a list of competencies used in other organizations, including some in comparable industries. Sunoco, a capital-intensive petroleum products manufacturer and marketer, had unique competencies relevant to its industry. Typically, a company selects no more than 10 competencies. An interesting by-product of identifying critical Sunoco competencies was observing the variance of competencies other organizations deemed vital to their success.

After the initial definition sessions, the aggregated competency descriptions were returned to the senior executives for wording refinement. A list of reworded competencies was compiled and circulated to the executives for additional comments. Finally, the executive team met as a group to discuss

the core competencies, eliminate any conflicts, and make adjustments. At the completion of this phase, Sunoco had a consensus of nine core competencies that accurately describe those attributes that the senior leaders believed were vital to Sunoco's current and future success. This core competency definition process lasted for several weeks. Time for the management team to digest and refine the input was crucial. Full commitment and a sense of ownership by senior management are mandatory to forge momentum for the process. An organization should not have to revisit the competencies once the assessment of employees has started.

Assessing Employees

Once the critical stage of developing core competencies was completed, Sunoco began employee assessment. The task of assessing the entire population of salaried employees, often many thousands, can appear to be overwhelming. However, each supervisor is required to assess only his direct reports—typically five to 10 individuals. To avoid the perception that this effort was daunting, Sunoco decided to implement the assessment process in three separate phases. The first assessment phase was the pilot project and focused on approximately the top 200 managers. A group this size was very manageable and the process could be adjusted if necessary before rolling it out to larger segments of the workforce. Within this initial group, Sunoco had many successors to top and key positions. Crown jewels were also identified. This top layer also included employees most familiar to senior staff. Senior staff realized the validity of their efforts that resulted in even greater acceptance of the process. If the assessment process was well received by senior executives, the odds were great that it would also be well received at the lower levels of the organization.

Each senior executive, including the CEO, met with his senior human resources manager to begin the assessment process of his five to 20 people in the top 200. The assessment process in TalentReservoir® is powerful and yet quite simple. The inputs include the performance rating based on the company's own performance measurement system, assessments of the individual against each of the core competencies as described for his/her job level, and an assessment of potential, future possible positions and possible replacements. Additional employee-specific data on strengths, weaknesses, suggested coaching and training, and suggested actions for career development is included.

The most astonishing aspect of this initial process was how engaged the executives were in assessing their people. Although the assessment process was estimated to take about 15 to 20 minutes, in a number of cases more than an hour was used to carefully assess each person. No doubt there is a

learning curve to the process and the more often it is performed the faster it will be. However, the diligence demonstrated that there was not only commitment and a sense of ownership to the process, but more importantly and unexpectedly, the executives enjoyed doing the assessments. The process was nonthreatening and simple to use and provided meaningful results.

Understanding “Potential”

One of the more misunderstood concepts of the process was homing in on the meaning of “potential.” “Unlimited potential” for our top 200 would mean that they had the potential to rise to the senior executive ranks or for the senior executives it would mean the potential to be CEO. There may be many employees who exhibit outstanding performance but they may not have the potential to advance to higher levels. “Potential” refers to the level of complexity an individual could handle if he or she were to acquire the knowledge and skills required of a higher position. Developing knowledge and skills in high-potential employees is essential to their preparedness for advancement. Management had difficulty understanding and accepting that possessing limited potential or no potential is not necessarily a negative quality, but soon understood the concept. Also it had to be understood that future assessments could result in different potential determinations. In going through the individual assessments, the assessors realized the built-in objectivity of the TalentReservoir® process. It removed the “halo effect” from some individuals and revealed some serious flaws and/or limitations for advancement that were not apparent prior to the process.

After all the executives completed their first round of assessments, the data was compiled in TalentReservoir® and reports were generated for each executive, showing all their reports and the overall bench strengths for their groups. Next, they met again with their human resources managers to review the output and interpret the results. Some of the reports revealed conflicts in replacements, timing, and relative rankings; adjustments were made to the assessments accordingly. The second-round changes were input into TalentReservoir® for compilation.

A series of updated reports was generated for each executive and summary reports were produced for all 200 top people in the organization. With the data well refined, a meeting of the senior executives was called to share the results of all 200 assessments. This was the first opportunity to share ratings.

TalentReservoir® produces a number of summarized reports that highlight global organizational issues and gives insight into some of the key ones. For example, it highlights the organization’s strongest and weakest competencies. It reveals such valuable information as how many key positions lack replacements and how many high-potential individuals are blocked from advancing. TalentReservoir® paints a vivid picture of many critical issues

and induces lively and productive debate on how to deal with those issues. While organizational issues might be perceived, the ability to build a case from verifiable TalentReservoir® data is a powerful tool.

Identifying the Crown Jewels

But what about Sunoco's crown jewels? Nothing generated as much stimulating discussion as the Employee Ranking Grid. This report is composed of a two-dimensional matrix with performance on the horizontal axis and potential on the vertical. When reviewing the numbers on this report, the executives quickly focused their attention to the matrix box that included a small number of high-potential/high performers. This should be a very select group that typically represents only 3% to 5% of the total employee population.

The first sharing of these crown jewels led to some very animated discussion. In general, the names in this category were known to all and supported. However, there were a few names that resulted in strong disagreement. Input was volunteered and all agreed to adjust the assessments, taking into account the additional feedback. It is significant to note that there was great sensitivity to who should be included in the crown jewels group. So much concern was shown that little or no time was spent on reviewing the people in the other grid ranking categories. This rather natural process of sharing results revealed how the top priority for the executives was to ensure that the best people have been identified accurately.

There must be strong agreement on who are the crown jewels. Validating the outcome against the core competencies should objectively guide the organization to the right people. However, in the case where disagreement cannot be resolved through open debate, the organization must determine the best approach to resolving such conflicts. The decision could be made by the CEO, by a majority, or by the assessor. Leaving the final decision with the assessor has been Sunoco's approach. We are certain that the conflicts will get resolved over a few assessment cycles.

Keeping the Crown Jewels

Now that Sunoco can identify its crown jewels, what's next? Assurances must be made that these people remain with the organization. They must be kept in challenging jobs and given opportunities when they occur. They must have development plans established to give them the skills required to assume more complex positions. They need to be encouraged and rewarded through incentive programs and given the opportunity to work on special projects that will provide greater exposure to the senior executives and outside board members.

An innovative idea to reinforce the core values is to utilize the crown

jewels as role models for the rest of the organization. They can receive special recognition by being made part of an in-house faculty that is used to develop meaningful curriculum and instruct others in core competencies with real-life illustrations.

Chapter 14

Using Outplacement Techniques to Evaluate Employees

Geof Boole

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THE PROVISION OF CAREER TRANSITION CONSULTING (OR OUTPLACEMENT) for groups or individual employees losing their jobs has become virtually standard organizational practice over the past two decades. Downsizing, right-sizing, reorganizing, mergers and acquisitions—all these have prompted major organizations to give displaced people the support they need to make a successful transition into their next job. A global research study Right Management Consultants conducted in 2002 showed that about 85% of the nearly 1,500 companies surveyed provide outplacement consulting—primarily one-on-one programs—to their mid- to senior-level managers and executives. Motives for doing so typically range from fulfilling legal and policy requirements, where applicable, to “doing the right thing” and preventing litigation.

Perhaps a much less commonly articulated reason given for providing career transition support is the management of talent. It might even seem somewhat contradictory or ironic to think that an employer could advance or strengthen its “employer of choice” agenda in part through the means chosen to help people *leave* the organization. But a closer examination of this topic

shows that, properly used, the various manifestations of career transition consulting can indeed play a key role in a company's efforts to attract, retain, and develop top performers by sharpening a mutual understanding of an employee's current and potential contribution to the organization.

The many scenarios of downsizing are now part of the general corporate landscape. Whether it's done in the context of cost reductions, strategic restructuring, merger integration, or performance management (e.g. cutting the "bottom 10%" of performers), the result at the individual level is the same—people lose their jobs. It is, of course, also general practice that companies continue recruiting and hiring during and following a reduction-in-force, to acquire needed new competencies, rejuvenate stagnated initiatives, respond to market opportunities or rebounds in the economy, or to effect a change of culture, among other possible reasons. The question is: Are organizations making the best use of the talents within their walls during all this change? Or are at least some of the costs of turnover, succession, recruitment, and training entirely unnecessary?

Clearly, the effective management of talent in the midst of change is a huge topic (hence this book and many others), touching upon a wide range of potential practices and methodologies and the philosophies and cultures from which these may spring. The specific focus of this chapter, however, is the role that what is broadly called career transition consulting can play in supporting an organization's talent management objectives. To explore this, we'll look at some of the forms career transition consulting can take and some of the organizational objectives it can support. We'll also examine the experience of two large organizations that take a proactive approach to career management and transition issues and the benefits they realize in the process.

The Career Transition Process

When an individual faces a potential change or transition, several things happen. The prospect of change threatens to remove the person's familiar sense of structure and control; this increases stress and makes clear decision making difficult if not impossible. Simply put, a robust career transition consulting program aims at giving back to the individual as much of that sense of control and structure as possible, reducing stress, providing a professional, supportive environment in which critical information can be absorbed, skills can be developed, good choices can be made, and a successful outcome achieved.

Outplacement

At Right Management Consultants, these objectives are supported in part by the various ways in which programs are delivered, involving one-on-one consulting time, self-assessment tools, interactive group sessions, job skills

development course, and a wealth of Internet-based career management resources. But, the core of all of these methods is a single conceptual model that has to do with the way the individual actually experiences the transition itself. We have used and refined this model over the course of many years and it remains demonstrably effective in guiding each person through each phase of a complex and emotionally charged life change. We call it the Zeroing-In Process® and its component stages are described as follows (see Figure 14-1):

Preparation—Understanding Yourself

- Evaluate your strengths and preferences.
- Develop a career search focus.
- Set your objectives.
- Develop a strategy.
- Create self-marketing tools.
- Formulate key messages.

Research Your Market

- Investigate the business environment and employment market.
- Develop your network of strategic contacts.
- Clarify your work options.
- Leverage the potential of the hidden and informal job market.
- Learn to use the Internet to broaden your search.

Focus in on Specific Jobs

- Continue to identify and narrow down your most promising options.
- Test and validate your original strategy and key messages.
- Learn to select the best opportunity.

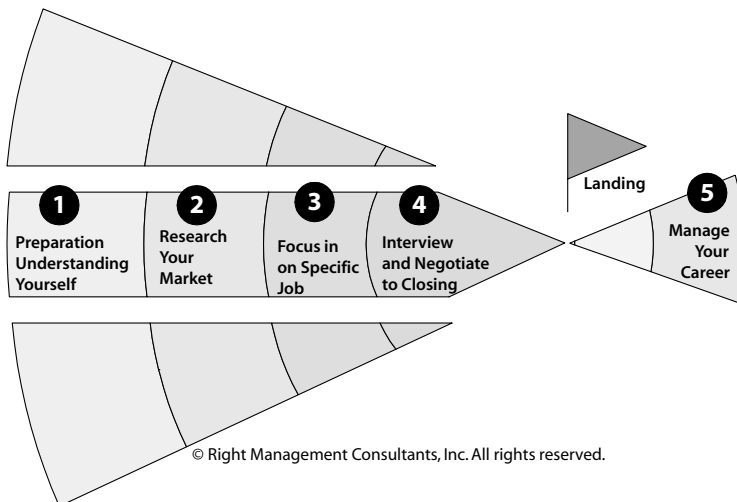


Figure 14-1. The Zeroing-In Process®

Interview and Negotiate to Closing

- Increase your effectiveness in interviews.
- Evaluate offers.
- Negotiate your optimum terms.
- Land your new position.

Manage Your Career

- Capitalize on what you learned to strengthen your approach to lifetime employability.
- Gain greater control of your career.

Use of this model within the context of a career transition consulting relationship enables an individual to develop and refine a profile of his or her ideal job and devise the strategies needed to pursue it.

From the organization's perspective, of course, such a process has the potential to accomplish several things, in addition to fulfilling any legal requirements (these exist in many countries) or company policy provisions. In the global study mentioned earlier, we found that about 76% of organizations said they provide outplacement whether or not laws require it. Motives for doing so predictably included "doing the right thing" (84%) and the (very important) prevention of litigation (55%). But there was also more than a hint of talent management behind two other reasons given: sending positive signals to remaining employees (78%) and good public relations (56%).

Whether the career transition process is used as an element of succession planning, performance management, or any other initiative involving "managing people out," employees who feel they have been materially helped to make a successful change will—even as they leave—hold the organization in higher regard than those who do not feel this way. This creates good will in the marketplace and within the remaining workforce, all of which supports the company's reputation as a desirable place to work.

Inplacement and Career Decision

But another side of the career transition process is that, in helping an employee gain a better sense of his or her place in the world of work, it often becomes clear that this place is still within the same organization—in a completely different position or function or in a recrafted version of the present position. Whatever the circumstances leading to the separation of employees, employers with a sense of vision can often use the process as an opportunity to capture information about competencies within the organization and move proactively to put these talents to work whenever possible, maintaining company loyalty, preserving continuity of intellectual capital, and reducing hiring costs. Even in the case of poor fit or performance, the consulting process can uncover opportunities for coaching or development

that may result in salvaging a potentially valuable individual capable of making a meaningful contribution to the organization.

One form of career transition assistance—referred to in our firm as “career decision” consulting—provides the organization with a specific tool with which to help employees evaluate their best options, either inside or outside the organization. This can be used in a range of situations, including employee “burnout.” One consultant told of working with a top-performing executive in a *Fortune* 100 company who was in need of a change and new challenges. The career decision process allowed him to assess his strengths and interests, learn to network internally, and locate development opportunities. He had lost enthusiasm, energy, and creativity by being in one place too long, because he didn’t know how to manage his career or market himself. He was put in a new, more challenging position, making a more valuable contribution to the company, and was back “on track” with his career—and his move left a great developmental opportunity for another fast-tracker. In a contrasting situation, an employer needed help for an individual who had strong skills but was not a good cultural fit in the company. A career decision consulting engagement helped her identify options outside the company and develop a more appropriate career path.

Some companies have taken a very proactive, systemic approach to providing this kind of career decision/career management support. One insurance company set up a one-year, on-site program, staffed by our consultants, complete with all the tools employees would need to undertake an examination of their careers: consulting support, online resources, assessment instruments, and networking workshops, to name a few. Employees could also approach their managers and say, “I really want to make a better contribution to the organization but I feel as though I’ve reached my limits in my current situation.” The company would then set up a consulting relationship to help the employee look at his or her skills, interests, preferences, and so forth, examine what was satisfactory or unsatisfactory about the current position, and either craft a new job description better suited to the individual’s desires and ability to contribute or identify more appropriate existing career opportunities within the organization—or outside of it.

This employer used this method to say, in effect, “We want everyone in the organization to be in the best place for them and for the company. We like you, we want you to stay, but we want it to be right for both sides.” In contrast to laying people off, the career decision approach produced a low-key, nonthreatening environment. It was a way of helping take people through a potentially stressful process with a sense of opportunity and self-development.

Two Case Histories

Two outstanding examples will serve to illustrate the considerable potential of utilizing career transition support as an important element in a larger talent management strategy.

A major multinational, even when faced with large-scale downsizing due to the economy, holds to its long-term view of the importance of being an employer of choice. It invests heavily in creating a strong, supportive, development-focused environment and historically has worked actively to hire back as high a percentage as possible of the people it is forced to displace. During one recent restructuring of the organization, the company engaged our career consultants to work onsite to spend time with affected employees on the day of their notification, rather than their last day of work. The company was able to help workers evaluate whether they would try to transition into new roles or move to another location, among other options, and to assist with preparing them for networking and interviews. The individuals' employment profile goes into the organization's talent pool and is actively marketed throughout the company.

Separated employees are typically given two months of job search time before their official severance period begins. During the first 30 days of this, they are permitted full access to their offices, computers, and other resources. They are all provided with virtually unlimited career transition consulting support, initially to help them market themselves within the organization. They want people to find jobs internally—within 60 days, if possible. If this doesn't work out, employees take the search outside the company.

The company's view is that through investing in this support system, it is protecting and enhancing its employment brand—with those remaining as well as those leaving. The leaders know that when the economy takes an upturn, they will need to be able to rehire quickly to stay competitive. They hope that those who have left will have such a sense of loyalty and respect for the organization that 50% of any hires will be former employees.

This company is considered one of the most desirable places to work in its industry. Employees and outside observers alike are impressed with its consistent commitment to maintaining this environment. And, as a result, it has few so-called collateral issues associated with downsizing, such as security problems or litigation.

The second company, a major U.S. manufacturer, has an active voluntary separation program in place. This approach assists employees in making an informed decision to leave, while achieving cost-reduction objectives and minimizing legal issues. Voluntary separation can be a useful tool to accomplish surgical workforce cuts within handpicked groups and can be offered to whole classes of employees or those identified with performance issues.

The program provides targeted employees with career decision consultation to examine the options of staying versus leaving, moving to another company location, downgrading, etc. Several hours with a consultant helps them to see what makes sense in context of their career and life. The employer encourages spouse or partner attendance in these consultations, as they are sometimes more upset at the prospect of change than the employees. The company also provides financial consultation, as well, which actually increases the rate of participation in the voluntary separation program; people feel unfamiliar with the job market and the whole process of making a transition, and the consultation gives them a genuine sense of making the decision themselves.

Employees are given up to 45 days to make a decision. If they are leaving, they may do so immediately or stay for a two- to three-month transition period. In either case, they are offered a career transition consulting program appropriate to their individual needs.

One key to successful administration of a career decision program is to ensure that managers know how to present the offer to employees—they have to be prepared for people to want to stay with the company. Our firm conducts “notifier” training sessions for the managers involved, specially designed to help them communicate the benefits of the program and promote active participation.

The effects of this voluntary program have been very positive. It produces a high degree of good will within the organization: those leaving feel they have been given essential help in making a difficult decision; those staying feel their friends and colleagues have been well-treated. Those who go through the career decision process and decide to remain with the company feel they have been given an opportunity to discuss their options, examine possible pitfalls, and evaluate new behaviors they may need to demonstrate to be more successful in their position going forward. And, of course, management is happy because it is able to meet headcount and structural goals, with very little bad press or legal problems. Lastly, each employee departure actually contributes to a rejuvenation process in the organization by opening avenues for advancement and development for others.

All of this is good internal and external public relations and supports the recruitment and retention of key talent.

Conclusion

Clearly, the old notion of the outplacement firm as a somewhat distasteful enterprise bears no relation to reality—and never did. The provision of professional support in the consideration of career transition issues, whether in a large-scale, involuntary scenario or individually tailored or voluntary pro-

grams, has always benefited both the individuals affected and the organization itself in numerous important ways. While for some companies the knowledge that they are doing the right thing by providing such support for their employees may suffice to justify it, most will also be gratified to realize the larger, more strategic virtues of helping the right people to be in the right jobs, developing their capabilities and making the best possible contribution to their organizations.

Chapter 15

Finding and Hiring Fast-Track Talent

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President and Chief Executive Officer
The Diversified Search Companies

SUPERKEEPERS—PEOPLE HIGH IN POTENTIAL AND PERFORMANCE WHO ALSO personify the organization's value-creating competencies—are a rare breed, hard to identify and even harder to recruit and retain. Top-quality organizations cannot succeed without them. An organization's performance or lack of performance can be directly traced to the quality and quantity of these individuals. The likelihood of successfully developing these people from within, combined with the cost of doing this, makes it a daunting challenge at best.

Companies that have successfully developed their own in-house Superkeepers have also gotten much better at devising strategies and incentives to keep them from leaving. The cost of having to replace them, just in terms of time and money, can be staggering and their departure can disrupt the culture and momentum of an organization. Astute companies have put in very strong retention measures and we, as recruiters, are constantly challenged with trying to figure out the best way to get around the roadblocks that obstruct our path. We develop strategies to tempt Superkeepers to look

at other opportunities. To begin the “dating game,” we must ensure candidate confidentiality and make it clear that considering a new opportunity will involve minimal risk.

Before we begin recruitment, we advise our clients on the best methods and strategies. The management of the organization’s interviewing process is critically important and good search consultants must be able to help facilitate a successful process.

The recruitment strategy begins with answering the following questions:

- How do you identify who the Superkeepers are in other organizations?
- How do you pry them away from their current employers?
- How do you ensure diversity in your reservoir of Superkeepers?
- How do you build bench strength of Superkeepers?

How to Identify Superkeepers

An important first step in identifying Superkeepers is uncovering the profile that will best mesh with position requirements and organization culture. Clearly “one size does not fit all.” Each organization has its unique culture and each position has specific requirements. An in-depth and concise assessment of the key elements of organization culture and job structure is a crucial first step. By defining these elements, you are able to match candidates who have specific backgrounds, work experiences, and inner personal qualities that will make for a good fit. The culture context should be clearly articulated. In fact, the simpler the better. The first step is to define the culture (values, competencies, skills) and to match it with the candidate’s qualifications. The second step is to look at target companies that have similar cultures and methodologies. The third step is to identify the individuals holding the positions in the targeted companies and, through networking, determine if they have the technical, management, leadership, and innovation skills and the appropriate style to fit your organization.

The identification of Superkeepers should be continual. In addition to outside executive recruiters, there should also be an established process for surfacing external Superkeepers through internal referrals. Employees within the organization can be prompted to ponder the following questions:

- Who are the outstanding performers in competitor organizations?
- Who are the “up-and-comers” in competitor organizations?
- How are career path opportunities developing for talented people in other organizations?
- Are the outstanding performers and “up-and-comers” content with their present situation?
- What are geographical and family lifestyle preferences of high-talented people?

Tracking and monitoring external Superkeepers can provide quicker access to such talent pools when business creates a need. Assemble a database of potential outside candidates.

An organization can also source talent from synergistic organizations. These organizations may not be direct competitors, but they can be a source of future Superkeepers. In this type of situation, innovation and creativity must be used to guide organizations and their recruiters about sourcing. Sourcing from synergistic organizations will expand your total pool of potential Superkeepers and sometimes find people who can bring different perspectives to your organization.

Often a slow economy presents an ideal opportunity to recruit Superkeepers. During economic downturns, they are typically more open to considering potential opportunities. Superkeepers are astute, smart people who manage their environment, pride themselves on being prepared, and seek to expand their options when threatened.

Finally, expanding the organization's contacts with "in-tune" individuals both internally and externally is a sure and fast way of finding the Superkeepers. Learning the hot buttons to tempt them to move to another organization will most accurately be determined through networking and sourcing.

How to Recruit Superkeepers from Competitors

In today's environment, it takes more personal intervention and relationship building on the part of organizations than ever before. The brand name or reputation of an organization alone is not enough to attract top-notch talent. To convince Superkeepers to join your staff, you will need the support of individuals within your organization who have the passion, integrity, vision, and ability to create a level of excitement that will lure them to enter your door. Search firms cannot do it alone. An organization's mating ritual is a very personal process. In-house individuals who are helping recruit Superkeepers need to be compassionate leaders with charisma and trusted senior-level management. Superkeepers need to feel they are going to be part of a special cadre of people to whom they can relate and with whom they are proud to be associated. Use your own Superkeepers to recruit them.

In addition to the personal touch and an appealing job content, an attractive and compelling compensation package must be offered. Superkeepers need to see substantial upside potential based on their performance. One test of whether a person is a Superkeeper is how he/she negotiates the compensation package. If the candidate is seeking large incentives based on performance, you will know that you have found a potential Superkeeper. You can expect that stock options, employment contracts, change-of-control provisions, and pension plans are typically high on the list of many Superkeepers.

Before making a decision, Superkeepers will also try to answer the following questions:

- Is this the kind of an organization with which I want to be identified?
- Is it in a product or service area that is a good match with my goals and objectives?
- Am I going to be better off in five years in the new opportunity than if I stayed in my current job?

To lure and retain Superkeepers, they must be convinced that the organization has a commitment to ensuring the Superkeeper will be successful. This is particularly true since retention is difficult in today's environment where corporate loyalty is not valued and staying in a job for any length of time is perceived as a negative to career development. Consequently, organizations must continuously monitor Superkeepers' contentment with the mentoring, training, and career development programs offered to them.

Retirement, health care and flex benefits, and day care assistance are important issues in today's workplace. People have become more conservative and less willing to take risks when considering quality-of-life issues. They are likely to "ride it out" and compromise on career progression if it means a major disruption in family life. Many Superkeepers place quality of life considerations high on their "must-have list."

How to Ensure Diversity in Your Reservoir of Superkeepers

Today, more than ever, diversity is a top priority for organizations seeking to augment their Superkeeper cadre. Companies that clearly demonstrate sensitivity to and an understanding of this issue will be very attractive to female Superkeepers and Superkeepers from diverse cultural backgrounds. Many companies in the past have created diversity programs headed by diversity executives to specifically go out and recruit diversity executives. Many are perceived to be only token efforts and window dressing. The diversity talent cadre is savvy and can readily differentiate reality from tokenism. Good diversity candidates are fully aware of their demand in the job market, but first and foremost, they want to be appreciated and respected for the talent and skills they bring to the job.

How to Build Bench Strength of Superkeepers

Finding and retaining Superkeepers is a very difficult challenge. Organizations must remember that Superkeepers are used to being highly recognized and assured that they are on the "proverbial fast track." This condition, when com-

bined with a healthy supply of ego and energy, means that they are not going to be easily persuaded to wait any length of time for opportunities. To build a Superkeeper cadre, the organization must address this issue.

Organizations that have done a good job at managing this situation have developed and communicated clear and exciting career path opportunities. GE named several vice chairmen as potential successors to Jack Welch and they could realistically see themselves in the hunt for the top job. The potential successors navigated on a clearly defined set of tracks to reach the top. GE's action ultimately retained most executives before the final decision on the CEO was made.

Careful career development also has to be done for Superkeepers so they feel they are acquiring new skills, new growth experiences, and new successes that will strengthen their resume value, making them more marketable should their career ascension not proceed at the rate they desire.

Superkeepers must feel they are moving ahead, respected, and appreciated by the organization, adding value, fairly compensated, given the support they need to be successful, and part of an environment that is supportive and values-driven will make it difficult for others to lure them away. That's a tall order for any organization to fill, but must be addressed if Superkeeper talent is to be retained. Above all, Superkeepers should never be taken for granted; they must always be on your radar screen. You can be sure they are on your competitors' radar screen and in the databases of executive recruiters.

Chapter 16

Using a Talent Management Model for Selection: Guarding the Entrances to Your Organization

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THE SELECTION PROCESS IS A VITAL STEP TOWARD BUILDING A SKILLED AND competitive workforce. Successful recruitment is critical in developing the pool of future team members that will ensure organizational success. Selecting new employees is the most critical purchasing decision an organization can make.

To understand the importance of sound selection decisions, one need only look at examples of failed attempts at selection in the latest business news. Glowing press announcements herald a new hire, who then crashes and burns before the year is out. Reports of double and triple turnover rates in almost every industry appear daily, with the inevitable increases in dollars allocated to recruitment and retention activity. The biggest cause of turnover is weak employee selection.

During the selection process, recruiters and recruits often lapse into a choreographic interaction. Kabuki theater is a good metaphor for the stylized posing, costuming, and choreographed dance the recruiter and recruit act out. The interplay is reminiscent of the stilted interaction of the Kabuki actors. The script followed by the human resources department to hire candidates is replayed over and over. The show commences with the public announcement of an open position, the request for resumes, the sorting of the respondents, and the call to several candidates for an interview. Candidates know their role as well. They have performed the same role in interviews with other organizations. The ritualized process includes a playbill of the candidate's experience (the resume) distributed on executive grade paper with watermark, the hand-signed cover letter, and the standard candidate questions. The interview is the corporate enactment of the Kabuki performance played by recruiters and candidates.

Candidate and recruiter in appropriate organizational costumes, scripted on resumes and job description, are key elements of the drama. The scene includes predictable questions with predictable answers. Yet, both parties know that "the essence of the job" is not really found in the job description and the candidate's spirit cannot be reduced to words on a resume. The recruiter and candidate intuitively know that they must go beyond the words of the script to find any mutual truth. Both parties know there are important matters that are frequently not discussed or covered in the ritual-like interview. What is the job really like? Will I fit into this company? Will they appreciate me and meet my needs? Answers to these questions are essential to a candidate's acceptance decision. The recruiter needs to discern the candidate's truthfulness to the answers to key questions to determine how the candidate will fit into the culture and how his/her skills will add value to the organization.

Kabuki Rescripted Through TalentReservoir®

TalentReservoir® is a process that can enable recruiters and job candidates to add a meaningful dimension to the selection process. Fundamentally, it does so by freeing the recruiter and candidate from the stilted Kabuki-like script discussed above. TalentReservoir® is a talent management process that integrates diverse assessment systems into a single program that links jobs to employee capabilities in order to generate a continuous cadre of qualified replacements. It identifies key areas of retention risk and organizational and employee deficiency. When used in the selection process, TalentReservoir® utilizes organizational competencies as defined by stakeholders within the company and meshes those competencies with a candidate's skills and behaviors. Competencies—behaviors and skills that enable a person to be success-

ful and effective in his/her job—are the foundation for TalentReservoir® and should be an integral element of the selection process.

This chapter provides an examination of two nonprofit agencies and a staffing company that use TalentReservoir® to reengineer their internal practices to improve selection procedures. This model offers the following benefits:

1. More meaningful discussion of an employee's potential fit.
2. Alignment of the candidate's capabilities to organizational values.
3. Improved prediction of the employee's future job performance.
4. Reduction of turnover through the selection and hiring of the right employees.
5. An assessment of how the candidate's skills can add value to the organization.

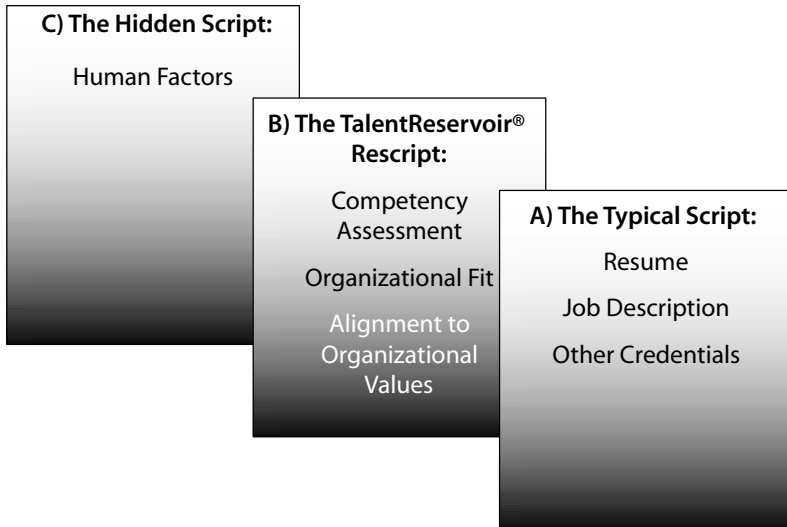


Figure 16-1. TalentReservoir® candidate selection

What typically occurs in a job interview looks like part A of Figure 16-1. The “typical script” plays out with a standard resume presented by the candidate and a job description outlined by the employer. The TalentReservoir® script enhances this process to provide a deeper, more meaningful look at the candidate by addressing fundamental personal job match requirements as outlined in B and C. The candidate is asking, “Will I fit into the organization? Do I believe in the organization’s mission and values?” The employer wants to know, “Does the candidate possess the values and skills our organization finds important?” and “Will he/she fit into

the organization?" In the "hidden script," the candidate privately asks questions like "Do they share my values?" and "Can I balance my work and family life here?" The employer may have the following concerns: "I am not sure I like this person, but she appears to be the best qualified" or "I've never had much luck hiring people from the suburbs for jobs in the city." The "hidden script" includes the concerns that are rarely verbalized. Since TalentReservoir® expresses organization culture in terms of core competencies, recruiters and candidates have a valid and understandable context to share information. The recruiter is encouraged to discuss core competencies at an appropriate time in the selection process.

Agency Overview

United Staffing Services, Liberty Lutheran Services, and Ken-Crest Services are institutions located in Southeastern Pennsylvania that experience common areas of concern around high turnover and the requirement for high-talent employees and healthcare workers in a highly competitive labor environment. The need to identify and reward top performers, evaluate and develop staff, proactively engage in succession planning, and manage internal training resources is also shared by the three.

Liberty Lutheran Services is the 55-staff parent/management corporation to three merged social service agencies: Paul's Run, a continuing care retirement community that serves 700 and employs 290 staff; Lutheran Children and Family Services, a social services agency that provides services to 3,025 individuals and 452 families in such areas as adoption assistance, foster care, refugee resettlement, and senior center programs with 185 staff; and Artman, an assisted living, skilled nursing facility with a wellness center serving 750 individuals through 250 employees. This merger created the need to create a common culture and means of evaluating, developing, and compensating staff.

Ken-Crest Services is a 100-year-old agency serving 6,000 individuals with developmental disabilities in 350 work sites. Services are provided by 1,300 staff in a variety of settings, including residential, early intervention/daycare, and vocational. Ken-Crest chose this model and the TalentReservoir® system to standardize the selection, evaluation, and development of staff. This was important because Ken-Crest needed to use the same criteria agency-wide to assess and select staff. It also wanted to better track career movement and the development needed to move from one position to another.

United Staffing Services, a health and human services staffing company since 1985, serves customers in the Southeastern Pennsylvania area. United Staffing Services chose TalentReservoir® to improve the selection of its tem-

porary staff and to measure the satisfaction of its customers with the staff placed on their work sites.

Talent Management Model: The TalentReservoir® Process

TalentReservoir® is a proprietary system of selecting, evaluating, and developing staff. TalentReservoir® integrates all components of talent management: selection (both internal and external), competency and performance evaluation, coaching and staff development, and succession planning. This information is input into an integrated computer program that generates human capital reports that are instrumental in workforce planning and employee development.

While the process of implementation varies between organizations, there are features and processes that are common to all companies. When the process is used for selection, either internally or externally, the following steps must be followed:

1. **Select Competencies**—Competencies represent skills, attitudes, and behaviors that are needed to succeed in a job. All three organizations chose their own organizational competencies after a careful review of mission statements, core values, guiding principles, and other documents (performance appraisal tools, annual reports, and interviews with key stakeholders including clients and staff). Collectively they were used as a means of identifying behaviors and creating subsequent definitions that are needed to be successful in job positions specifically and the organization generally. The designated competencies support the organization's mission and align staff to its values. Typical competencies selected included team participation, respect for others, communication, integrity, innovation, caring and compassion, financial responsibility, safety, professionalism, planning, follow-through, technical skills, and results orientation.
2. **Define Measurement Scales**—Rating scales are determined for the selected competencies based on organization levels much like those in a job evaluation point factor approach. The scales incorporate a series of statements descriptive of successful behaviors pertinent to each job in the organization.
3. **Develop a Structured Interview Outline**—Using the competencies and measurement scales, the recruiter develops a list of questions directly related to the job.

Selection Through the Talent Management Model

Ken-Crest and Liberty Lutheran use the TalentReservoir® system to provide tools to evaluate and select internal candidates for open positions. United Staffing Services extended the core function of TalentReservoir® to the selection of external candidates and to measure the satisfaction of its customers with the temporary staff assigned to them.

The United Staffing model relies upon competency data obtained through interviews with its customers (health and human service providers) and successful temporary staff, a survey of all temporary staff, and interviews with the staffing professionals. From this data, eight competencies and a multi-rater process were developed for inclusion in the selection process.

The selection process incorporates the competencies into a multi-rater staff assessment model that includes the candidate (self), interviewer, and references. This process works as follows:

1. **Self**—At the initial interview, the applicant completes a self-assessment form. This form asks the applicant to identify the extent to which he/she exhibits each of the eight selection competencies. Competencies measured at United Staffing are adaptability, communication, compassion and caring, dependability, interpersonal skill, planning, professionalism, and job competency. The following five-point rating scale is used: greatly below peers, below peers, same as peers, exceeds peers, greatly exceeds peers.
2. **Interviewer**—The interviewer reviews the self-assessment and begins his/her assessment of the applicant's competency levels. To aid in this process, targeted interview questions that tap into the competencies are selected. For instance, the competency of compassion and caring is defined as follows: "Shows concern about others' needs and feelings. Exhibits kindness and concern with co-workers, consumers, and customers. Exhibits fair treatment to all people and shows a willingness to give others support, the benefit of the doubt, and opportunities." A targeted interview question is as follows: "Tell me about a time when a consumer/patient/student became difficult. What did you do to resolve the situation?" This question is asked during the interview process and the answer is used in the interviewer's determination of the competency rating score. Other information correlated with competencies includes the applicant's resume and employment application.
3. **References**—Finally, references are provided with a form that includes the same eight competencies, their definitions, and the same five-point rating scale that the candidate and recruiter use. A release of informa-

tion statement must be signed by the applicant prior to soliciting feedback from reference sources.

4. **On the Job**—Once candidates are selected by United Staffing for assignment, it periodically assesses their performance on the same eight competencies and rating scale, using customer feedback.

Conclusion

United Staffing feels that the TalentReservoir® process is very promising for ensuring a workforce with the behaviors and skills linked to customer demands. Customers appreciate the opportunity to give their input on the staff supplied by United Staffing using the competency definitions and their feedback is critical in providing coaching for competency improvement and input for better selection decisions.

A well-designed talent management system can be used for staff selection. The benefits are evidenced in improved selection of staff. There are seven lessons that have been learned from using TalentReservoir® for improved selection.

1. **Start at the Top**—It is important to start from the executive level down in order to ensure buy-in and ownership of the process by the leadership of the organization.
2. **Tie Competencies to the Organization Mission and Core Values**—The organization mission and core values must serve as value-driving behaviors for the staff. TalentReservoir® capitalizes on this and uses these core values and competencies to properly align the staff. These competencies must clearly translate into value-driving behaviors that move the staff toward those things that matter most to the organization.
3. **Survey Key Stakeholders**—While organizational mission and core values identification are important, equally important is a survey of key stakeholders, including customers, employees, and others. These stakeholders can describe the competencies and behaviors that are important for a staff person to successfully perform his/her job and that are vital to the organization and its success.
4. **User-Friendly**—Manuals, training, and staff communications must be easily understood and free of jargon known only to human resources professionals.
5. **Inclusion**—Include those persons from the inception who are responsible for the maintenance of the talent management system. This includes human resources staff, information systems staff, and especially key individuals from the service division.
6. **Simplicity**—When used for the selection of staff, keep the talent management system as simple as possible. At United Staffing Services, the

competencies were limited to eight and the forms were streamlined to include only items important to the process.

7. **Predictive Capabilities**—United Staffing will continually evaluate how TalentReservoir® predicts successful job performance. This will be determined by reviewing the pre-placement forms (self, interviewer, references) and comparing these results with the post-placement (customer assessment) forms.

TalentReservoir® offers a systematic approach for determining whether a candidate's behaviors and skills mesh with the competencies developed by key stakeholders within the organization.

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Part III

Talent Planning

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Chapter 17

Achieving Organization Excellence Through Talent Planning and Development

Lori Grubs, Senior Consultant
Hewitt Associates

ACROSS THE ENTERTAINMENT AND SPORTS INDUSTRIES, SUCCESSION MANAGEMENT is a part of everyday life. Stage actors have understudies, athletes are backed up by the second string, and orchestras invariably include second-chair musicians ready to make the move to the top spot when the time is right.

So, too, does the American government have a chain of command, which extends from the President to the Vice President, then on to the Speaker of the House and down the line. And while some have begun to question whether Britain's monarch has become an antiquated figurehead, there's no denying that the royals' traditional "heir to the throne" system has provided a steady stream of ready-made successors for centuries.

If Nathan Lane, President George W. Bush, and Queen Elizabeth all can have successors standing by, just waiting for the call to action, it only seems logical that the corporate world would have made similar provisions. After all, great leaders focus employees on business goals and build a high degree of trust and confidence among their teams, making them absolutely invaluable to the organization.

Sadly, the majority of companies fail to give adequate attention to succession planning until tragedy strikes in the form of a plane crash, a heart attack or some other unanticipated occurrence. For a number of organizations, the tragic events of 9/11 brought home in a dramatic way the need for succession planning. Among the 3,000 lives lost on that fateful day were a number of key leaders for whom little thought had been given in terms of successors. Suddenly there was a void at the top and no one had been preselected or prepared to fill it.

In the months following the terrorist attacks, a wave of corporate governance scandals only served to further heighten the anxiety that was slowly building around the issue of succession planning. With controversy swirling around many executive suites, numerous senior management heads rolled, leaving those organizations in a desperate search for new leadership. Such high-profile scandals also helped create a palpable, albeit often unspoken, sense of trepidation across corporate America, as companies questioned how prepared they would be to react in a similar situation.

Unfortunately, the demographic trends that fueled the labor crunch of the 1990s won't do anything to assuage those fears. As members of the mammoth Baby Boomer generation continues to depart the workforce in ever-increasing numbers, there simply aren't as many workers in the ensuing generations to take their place. This trend is particularly alarming when one looks at the rapidly shrinking 35- to 44-year-old segment, often considered the key pool of developing leaders. (See Figure 17-1.)

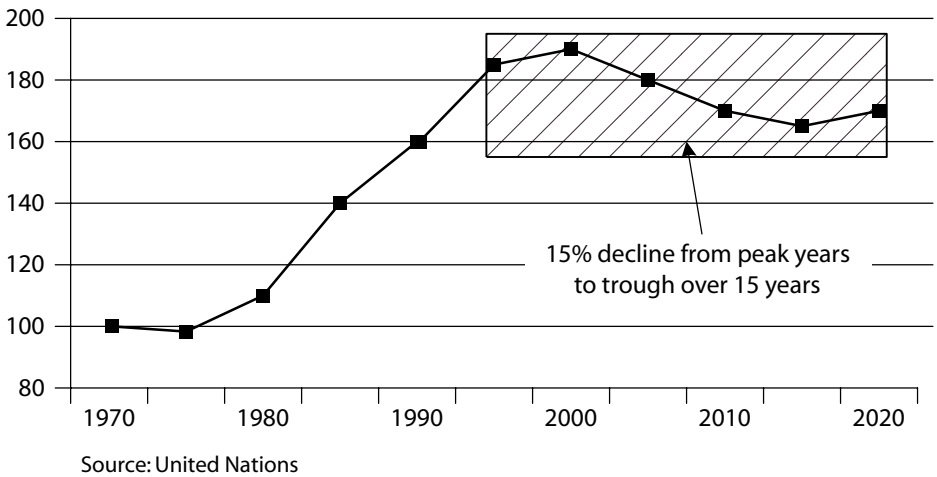


Figure 17-1. The coming of age of the baby bust generation—a smaller pool of 35- to 45-year-olds (key developing leader age) in the workforce

Along with this decrease in sheer quantity comes a heightened competition for those who possess true leadership potential. As a result, corporate boards and senior officers have begun asking the questions HR has been focused on for years: “Are we developing the talent that can lead this corporation into the future?”

Unfortunately, many companies still fall woefully short in their attempts to build leadership bench strength. That’s not to say that corporations haven’t made any efforts to institute some sort of succession-planning program. On the contrary, a 2002 Hewitt Associates survey of CEOs and HR executives at 240 major U.S.-based, multi-national companies revealed that 77% of responding organizations had formal processes and programs for developing leaders. Just 32% said their organizations had proven effective in achieving that objective, however.

This chapter provides a framework for designing and implementing a robust succession-planning program that will enable your company to achieve its objectives. We will describe who should be involved at each stage of the process, what kinds of tools can aid in decision-making, and which key success factors differentiate from the rest those organizations that manage to continually produce top-notch leaders.

Laying the Groundwork: The Design Process

Before you can embark on designing a succession-planning process, you need to define the underlying objectives. What exactly is the organization trying to achieve? Is it using succession planning to develop people internally? Is the goal to find potential successors to the CEO? Or is the intention to drive the program down into the organization? Part of defining the objectives of the succession management program is to determine who the targeted audience is for the program:

- Role-based program—focused on specific key positions, which are either difficult to fill or critical to the business’ success
- Individual-based program—focused on particular people with the potential for advancement
- Pool-based program—focused on a number of high-potential people who conceivably could move into any of several leadership positions within the organization

Once the objectives and population have been defined, the next step is to establish a set of leadership competencies or qualities that are considered desirable in a high-potential person. These could include anything from financial acumen and cost control to aggressiveness, vision, and risk-taking. Clearly defined criteria are important, as they provide the framework for

identifying and developing potential successors for key leadership positions. Such criteria also serve as the core thread linking the leadership development program to the organization's HR processes. While the goal is certainly not to create the perception that leadership development is "just another HR program," the defined competencies—when integrated into the company's hiring, development, assessment, and reward processes—will enable the succession-planning process to be more effective.

Once you have defined the objectives, audience, and leadership competencies, the last phase of design is to create a process for how succession will be implemented throughout the organization, along with the tools needed to support the process. Typically, companies create a process map outlining the key steps, the dates, and the responsibilities associated with these steps. Then, HR creates the tools needed for each step in the process. Best practices would indicate that HR creates the process and tools in conjunction with the business units to ensure that business needs are met and that the process and tools are simple enough to gather the information, while minimizing the time it takes for business leaders to gather this data.

Handing over the Reins: The Implementation Process

Now that you've completed the design phase of the organization's succession-management program, the time has come to implement it. Unfortunately, this is where many organizations fall short. As mentioned previously, 77% of major U.S.-based multinational corporations have formal leadership development processes in place, but just 32% believe such processes are effective. They may know how to define a great leader, but they've been unable to create a strong bench of new leaders. The answer is often found in a lack of execution.

To help your organization avoid this common pitfall, we have mapped out a six-stage process for implementing a succession-management program. Within each stage, you will learn about objectives, critical steps, and valuable tools, as well as who owns and who participates in the process.

Stage I: Preplanning

Preplanning serves as the transition from the design phase to implementation, in which HR prepares those who will play a key role in the leadership development program. Unfortunately, many organizations overlook this critical stage and simply expect their business leaders to proceed accordingly without adequate training, education, or communication. That can become a barrier to effective implementation, because the ultimate success of the

implementation is dependent upon everyone being on the same page from the very beginning.

The preplanning stage basically consists of three critical steps:

- Explain the underlying goals of the process to those business leaders who will be charged with identifying and developing the company's future leaders. If the goal is to fill key leadership positions from within, rather than having to look outside the organization, for example, convey that, along with the rationale, such as saving money, developing better leaders, or creating more bench strength in the organization.
- Impress upon business leaders their accountability for assessing their people. Foster a culture in which managers feel comfortable identifying high-potential people, rather than being threatened by them. The overriding point of view should be that finding talent is a positive thing and that it won't threaten those at the next level of the organization.
- Train participants on the company's succession management process. Provide each business leader with a process map that explains the process, along with the corresponding forms and charts. Hold informational sessions and take them through a practice run, using a case study, so that they can see how the process actually works and what their role will be in it. Depending on the size of the participant population and the number of training sessions that will need to be held, you may wish to consider developing an instructor guide, a manager's toolkit, and/or a video to ensure consistency throughout the organization.

Stage II: Assessment

Now that business leaders have been given the tools and knowledge necessary for a successful leadership-development program, they are ready to put their training into action, evaluating talent and identifying business-critical positions. Mindful of the business competencies established during the design phase, they should begin considering their people, asking themselves who has exhibited the performance and the potential to become the future leaders of the organization.

Working either by themselves or in concert with HR, these managers complete individual profiles (see Figure 17-2), reflecting each person's career history, business accomplishments, strengths, and development needs and then rating them in both performance and potential. Because potential can be an extremely subjective determination, HR should provide participants with definitions for each rating to ensure consistent application across the organization.

Name		Manager		Years of Service
Position		Age	Gender	Grade
Division, Location		Race		
Career History				
Dates (from year to year)	Company and Business Unit		Position, Title, and Scale of Role and Key Responsibilities	
Key Business Accomplishments (Last 12 Months)				
Towering Strengths		T-CHART	Development Needs	
<ul style="list-style-type: none"> • • • 			<ul style="list-style-type: none"> • • • 	
2-3 Key Questions (reflects leadership challenges they will face in next 12 months)				
Relocatable:	<input type="checkbox"/> Within Country <input type="checkbox"/> Within Region <input type="checkbox"/> Globally			Exceptions:
Languages Spoken and/or Written (List)				
Performance				
<input type="checkbox"/> Significantly Exceeds Expectations <input type="checkbox"/> Exceeds Expectations <input type="checkbox"/> Fully Meets Expectations <input type="checkbox"/> Marginally Meets Expectations				
Potential				
<input type="checkbox"/> High Potential <input type="checkbox"/> Expandable <input type="checkbox"/> Well-Placed <input type="checkbox"/> Issue <input type="checkbox"/> Too New to Rate				

Figure 17-2. Individual leader profile

For example, potential ratings could be defined as follows:

- **High Potential:** An executive who has the versatility to play a number of executive leadership roles in the organization; a leader who you are confident will be in the next wave of senior/executive leadership; he/she demonstrates the ability to see things from new perspectives and to quickly adapt to change; would be difficult to replace due to the value that he/she brings to the company.
- **Expandable:** An individual seen as capable of contributing to the organization in a role with greater complexity, impact, scope, and scale than his/her current role.
- **Well-Placed:** Well suited for current role. Unlikely to move to the next level or take on expanded responsibility within the next two years.
- **Issue:** A person who requires significant coaching or a person who is mismatched to his/her position or a person who has become a blocker to another's success.
- **Too New to Rate:** This individual has been in the organization less than six months.

Using the ratings and information from the individual profiles, business leaders then populate a performance and potential grid (see Figure 17-3), placing their people in the appropriate quadrants. Typically, we find approximately 65% of the people are placed in the second and third quadrants, which companies use as a guideline when reviewing the results of this assessment. Once people have been placed on the grid, management begins to consider how to proceed and what types of development may be suitable for each individual. Those who place in the top right quadrant, for example, are provided with accelerated development and management looks for opportunities to provide them with roles of greater complexity, impact, scope, and scale to continue their growth.

When it comes to determining the proper course of action for ensuring appropriate development, each candidate is evaluated individually to assess what skills or knowledge he/she is lacking in order to prepare him/her for future roles. In some instances, areas for improvement may be evident, in that the candidate might be in need of operational or international experiences. Other high-potentials may be lacking in communications or interpersonal skills. These kinds of shortcomings are much tougher to resolve and often present opportunities for HR to suggest practical solutions that will help the future leader improve his/her performance.

Stage III: One-on-One Discussions

Even with a preplanning phase before implementation, assessing potential future leaders can become a subjective process. After all, people are making

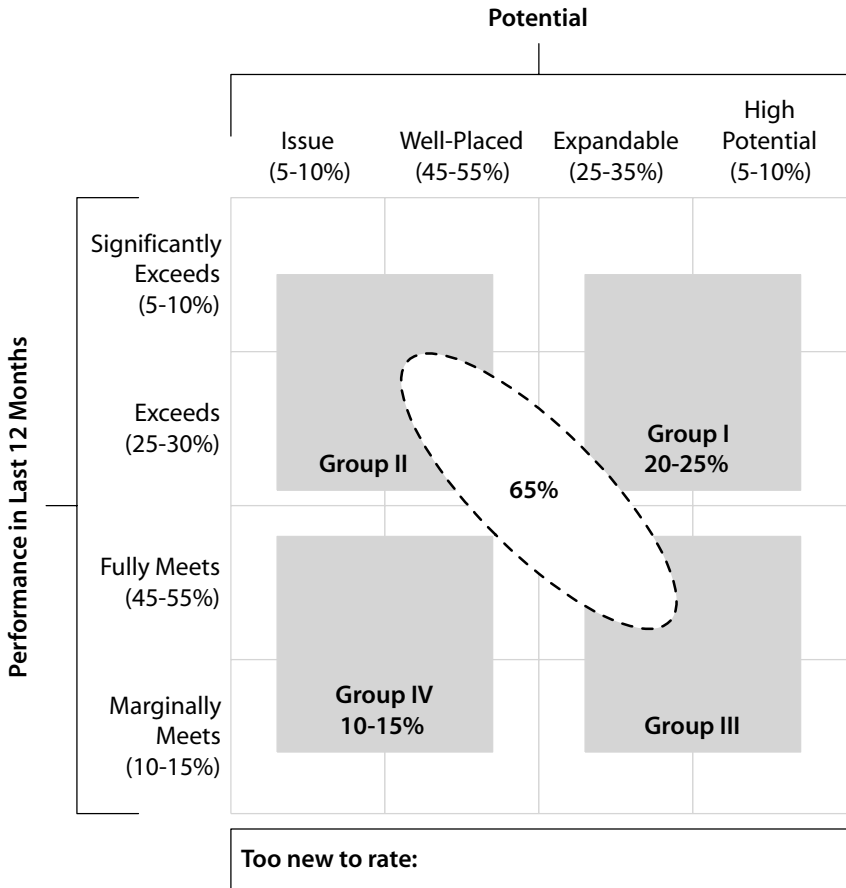


Figure 17-3. Performance and potential grid

assessments of individuals based on data they have or perceived situations. To minimize this subjectivity, it is important to elicit input from a variety of people to ensure that all relevant parties are generally in agreement as to who are the organization's high-potentials and how they should be developed. These discussions could simply take place between HR and the business leader or they could be held between direct reports, such as the vice president of finance and the chief administrative officer.

Regardless of who participates, the basic structure is typically the same. Together, they review the high-potential profile, as well as performance and potential grids on each future leader. Following the discussions, replacement charts are drawn up, reflecting each business critical position, potential successors, and their current state of preparedness. (See Figure 17-4.)

Review the Business-Critical Positions below. (Refer to the position description for each business critical role for a complete analysis of the qualifications for the job.) Next to each position, list those individuals (both from within and outside your business group) you consider to be key candidates for replacement. Indicate whether they are ready now or will be ready within 1-2 years. Note: if there are no viable candidates for a position, leave blank.

Business-Critical Position 1:	Ready Now	1-2 Years
Business-Critical Position 2:	Ready Now	1-2 Years
Business-Critical Position 3:	Ready Now	1-2 Years
Business-Critical Position 4:	Ready Now	1-2 Years
Business-Critical Position 5:	Ready Now	1-2 Years
Business-Critical Position 6:	Ready Now	1-2 Years

Figure 17-4. Replacement chart

Stage IV: Group Meetings

In order to further confirm that those who have been selected are, in fact, the right people to be developed as future leaders of the organization, group sessions are held in which business leaders meet with their boss and colleagues to review and debate the decisions that have been made up to this point. The goal is to bring business and people issues together and determine if there are any gaps, issues, or concerns.

Because nothing is set in stone, these meetings might result in the need to revise the profiles, grids, and charts that have been completed by the business leaders in the first three phases of the implementation process. With the assistance of an HR facilitator, such changes can be made quickly, however, thus keeping the process moving along.

Stage V: CEO Discussions

Now that everyone else is in agreement on the selection of the organization's future leaders, it's time to make the case to the CEO and obtain his or her input. Therefore, HR facilitates a series of discussions between individual business leaders and the chief executive during which the latter reviews the designated high-potentials and their development opportunities within the company.

The individual CEO's objectives will determine exactly which materials are reviewed. The CEO may limit himself/herself to the business critical replacement charts or may dig in and examine performance and potential grids, as well as individual profiles. Developmental opportunities are discussed and the CEO offers advice on how best to prepare the organization's future leaders.

Stage VI: Ongoing Review

By this point, a pool of successors has been chosen and is being developed. However, that doesn't mean the succession-planning process is over. On the contrary, the process remains very fluid, as leaders move into top positions and new talent joins the ranks, while others leave the organization for other opportunities.

Therefore, it's critical to conduct regularly scheduled reviews on a quarterly, biannual, or annual basis. Granted, change happens every day and replacement charts and development plans may need to be revisited fairly frequently. It is the constantly changing nature of leadership development, in fact, that helps build a culture that values succession and keeps it from becoming a once-a-year HR program. That being said, it's important for HR to partner with business leaders at least once a year to ensure that all data is up to date and to provide the CEO with a status report so he/she can report to the board of directors on the bench strength of the company.

Critical Success Factors

Over the past decade, catchphrases like "CEO buy-in" and "from the top" have been thrown about so much they've turned any mention of CEO involvement into a cliché. When it comes to leadership development, however, the role of the chief executive extends far beyond simply giving the stamp of approval to the distribution of resources. In fact, Hewitt's "Top 20 Companies for Leaders" study revealed that CEO involvement ranks as one of the most significant factors driving the success or failure of a leadership-development program. In top companies for leaders, senior management consistently demonstrates its commitment to the process of developing leadership talent in the form of tangible,

visible actions, not mere pronouncements. The CEOs actively review high-potential talent at fully 100% of the organizations identified by Hewitt and *Chief Executive* magazine as the “Top 20 Companies for Leaders.”

Of course, not every CEO is going to see the value of dedicating time to the hands-on selection and development of the organization’s future leaders. Sometimes it becomes necessary to build a business case for why such activities should rank among a CEO’s priorities. But how do you convince an already time-pressed chief executive that investing in the leadership abilities of his/her team is worth his/her while? One of the most effective ways is by understanding the priorities and concerns of the CEO, particularly when it comes to explaining the compelling financial case for his/her involvement.

Specifically, Hewitt’s analysis of the results of its “Top 20 Companies for Leaders” survey demonstrates a conclusive link between an organization’s leadership practices and enhanced financial returns. When a CEO is actively involved in talent management, the company’s average return to shareholders over a three-year period stands at 22%, compared with a negative 4% for those companies with no direct involvement from the top.

Getting the CEO involved and participating is a critical success factor, but so, too, is the commitment of senior leaders from the line organization. Oftentimes, a promising leadership development effort will fail in its execution because HR ends up designing and communicating the program by itself with little or no input from other key constituencies. Granted, HR professionals are well intended and they certainly possess the requisite knowledge, as well as an appreciation for the process, but there’s no ownership from the field.

Input from business unit leaders can be especially helpful to HR as it begins assessing the effectiveness of its current program and formulating the tools and processes that will enable the organization to better cultivate the leadership talent it needs to thrive in the future. They can provide valuable front-line feedback as to how well the company has been doing when it comes to developing leaders, as well as what they would like to see done differently. The resulting process will not only have greater relevance in the field, but it will also be something individual managers perceive as a business tool, rather than an HR program.

A recent Conference Board Research Report on the role of corporate headquarters (CHQ) asked the question: “What ways have you found to best minimize the problems associated with CHQ-led initiatives?” The respondents of the survey ordered the importance of their answers as follows:

- Obtain support for the initiative before proceeding.
- Use exploratory initiatives (pilot projects, task forces, etc.) to gather sufficient information before making a final decision.

- Ensure the initiative will not send the wrong messages to BU executives about the nature and role of CHQ and about corporate priorities.
- Estimate the advantages and disadvantages pertaining to each initiative.
- Demonstrate that CHQ will play a real and important role in leading the initiative.
- Demonstrate that CHQ managers have or can build the skills and resources to implement the initiative.

Companies with a reputation for developing great leaders also rely heavily on experiential training to help develop high-potentials into successors. Although traditional classroom learning certainly has its place in a leadership development program, studies have shown that on-the-job development is preferred because the application of learnings is immediate and the participant is better able to permanently change his/her behavior in the desired manner. Among Hewitt's study of the "Top 20 Companies for Leaders," 73% provide cross-functional experiences, 63% encourage job rotations, and 46% offer opportunities for global or regional assignments.

Such opportunities agree well with most top performers. In fact, studies have shown that high-potentials crave environments in which they'll develop quickly, get clear feedback, and be recognized for their performance. They expect to be placed on a fast track and given special assignments or opportunities beyond those that are granted to their colleagues. Therefore, it's critical to accelerate the leadership-development process for high-potentials. The faster you can provide them with development experiences, the faster these future leaders will get to where they want to be in the organization.

Of course, many organizations face the dilemma of whether or not to tell a person that he/she has been identified as a high-potential and a possible successor. If the program is relatively new, it may not be advisable to inform high-potentials of their status, as it could easily trigger a stream of questions you may not be prepared to answer, such as "What does that mean for my pay?" and "How am I going to be treated differently?" There's also the possibility that those who are not invited to participate in the program may feel disengaged or de-motivated by the knowledge that they are not considered high-potential employees.

Oftentimes, companies avoid telling employees they've been identified as potential successors because they want to avoid making an implied promise of continued employment or advancement. Once employees have been identified as successors, for example, they may believe their status is set in stone and cannot ever change, even if a more suitable high-potential comes up behind them. This may result in an uncomfortable conversation, should their

status change and they no longer be considered the top potential successor for a particular position. However, avoiding these conversations will not help to build the kind of leadership culture most organizations want to achieve.

In many instances, the benefits of telling potential successors of their new status greatly outweigh the negatives. If employees know they are being groomed for great things, they might be more likely to stay with the company, for example. They will feel encouraged the company has recognized their performance, as well as their potential, and they will be more eager to take advantage of key development opportunities. This finding has not escaped Hewitt's "Top 20 Companies for Leaders," 73% of which make high-potentials aware of their status.

As high-potential employees progress in the leadership-development program, it's critical that the organization closely track the progress, as well as the turnover of this key population. The process of measuring their performance and potential for advancement can take many different configurations. 80% of the "Top 20 Companies for Leaders" rely on managers' evaluations; 58% use peer or 360-degree feedback, while 40% use self-assessment programs. In order to manage this mountain of material, companies may choose to build their own system for tracking their high-potentials or they may implement a standard succession-planning software package, such as SoftScape's Achievement Plus, HRSoft's ExecuTrack, Nardoni's Succession Pulse, or Organization Metric's Executive Resource System.

When assessing the development progress of future leaders, it's also important to assess whether they are being rewarded in accordance with the value they bring to the companies. High-potentials should be granted substantially greater compensation opportunities, whether in the form of base pay, stock options, or other incentives. Fully 100% of the "Top 20 Companies for Leaders" pay high-potentials more than average performers in the same role, compared with 54% of other companies. In fact, 80% of the top 20 companies report that they significantly or noticeably differentiate pay between these two groups.

A total compensation audit should be undertaken to determine if top performers place at the 75th percentile or above. If the company's normal pay system cannot accommodate this kind of pay differential, a separately funded pool or program should be established. Otherwise, developing leaders may end up looking at the average performers down the hall and asking themselves, "Why am I working so much harder when we are being paid the same?"

It's important that those individuals who are being groomed for leadership positions see that the organization is putting its resources against those who have the highest potential to lead the company in the future. This sends a clear signal to the best talent that they are, in fact, being groomed

for bigger opportunities and will greatly aid the company in motivating and retaining quality leadership.

By developing and then rewarding high-potential individuals, organizations can build a reputation as the kind of place leaders want to work. At the same time, these efforts ultimately make them stronger competitors for leadership talent because few firms can match the strength of their leadership brand, which aids them not only in successfully identifying those who will fill the key positions of tomorrow, but also in upgrading the caliber of talent across the organization.

A strong leadership brand means:

- You are able to attract the best leadership talent—without paying a premium—because they recognize the developmental benefits of being with your company.
- You retain your best talents because they receive great opportunities to develop, see a performance-based environment with performance-based rewards, and respect the top leadership team.
- The retention of leaders lower in the organization improves, as they increasingly see your company as the leadership employer of choice.
- Your business results improve as leaders become more engaged by their jobs and the opportunities.

As organizations face a multitude of challenges related to succession planning, the ability to build talent quality and depth, and cultivate high-potential employees will help ensure the kind of bench strength necessary to sustain the company through any leadership crisis.

Chapter 18

Developing Superkeepers, Keepers, and Solid Citizens: Measurement Makes a Difference

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DEVELOPING SUPERKEEPERS IS A STRATEGIC DECISION WITH ORGANIZATIONS investing millions of dollars in training and development efforts. This very small group of individuals who have demonstrated superior accomplishments, who have inspired others to attain superior accomplishments, and who embody the core competencies and values of the organization should be optimally developed and should receive a larger proportion of the training budget. Other employees, who include the Keepers—those individuals who exceed organization expectations—and Solid Citizens—those people who meet organization expectations—should receive a lesser proportion of the budget but still be appropriately developed to continue to add value to the organization.

The training efforts often include organizing and staffing *corporate universities*. These corporate universities can make a substantial difference in preparing Superkeepers and other employees for future challenges. A score-

card can provide a quantitative and qualitative measurement of the contribution of a corporate university to the training and development of each employee group described above.

The concept of the corporate university has been around for decades. In the 1930s the IBM Schoolhouse at Endicott, New York was launched. With the IBM mantra, THINK, placed above the entrance, field, factory, and office workers would arrive to do just that—think and learn (Watson, 1934).

In comparison with the traditional university, which incorporates a large campus, tenured faculty, and various academic programs, the corporate counterpart is as much a process as a place. Through the corporate university, employees, and sometimes customers and suppliers, participate in learning experiences necessary to improve job performance and enhance business impact. As shown in Figure 18-1, a corporate university links employee learning to organizational strategy.

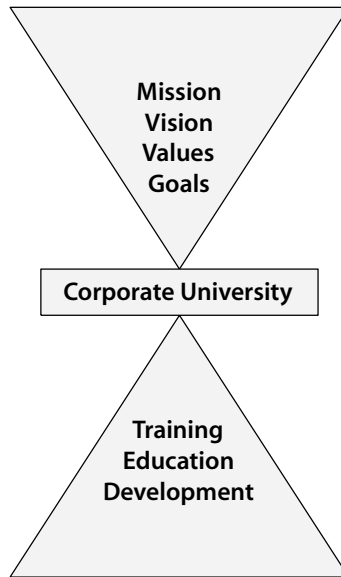


Figure 18-1. Corporate universities linking learning and strategy

While some corporate universities are flourishing and achieving desired results, others are perceived as being disconnected from business strategy and operating in a world unrelated to the work of the organization. They sometimes stray from the original charter and fail to demonstrate the actual contribution to the organization. They lack a process to show the management team the value the corporate university brings to the organization and how programs and solutions are linked to strategy, influencing important business measures. Still, in other situations the corporate university may be taking the

accountability issue quite seriously, however, in communicating the impact of programs, the message is not clear—often communicating activity rather than results.

Activity Versus Results

From the inception of the corporate university concept to the present, a shift to results-based processes has been evolving. In the past, training programs were assumed to work. Therefore, measurement and evaluation primarily entailed participant reaction and in some cases how much they learned. Reporting focused on the number of participants in attendance and the number of programs offered. Accountability and the processes needed to show the value of program contribution were for the most part nonexistent.

Today, things have changed. There is a need to develop the Superkeepers so that their performance is reflected in bottom-line outcomes as well as other intangible measures. Programs offered through the corporate university are linked to business strategy and there is a comprehensive approach to measurement and evaluation. A critical change is the way in which corporate universities report results. In comparison with traditional reporting of input measures (number of participants, number of programs, etc.), today organizations are developing output data—participant reaction, amount of learning, change in job performance, level of actual application of skills and knowledge, change in business measures, ROI, and intangible benefits (Phillips 1994; Phillips 1997; Phillips 2001; Phillips 2002). Reporting these data in a scorecard format provides evidence of overall program success from the participant, organization, and financial perspective.

Why a Scorecard?

A scorecard approach to reporting results provides critical information to the client group, including top executives. However, it also provides useful measures for the corporate university staff. Multiple customer demands are at the core of the development of the scorecard.

Although there are many stakeholders, two broad groups of customers are served by the corporate university: the consumers and the clients. The consumers are the participants involved in the process. The clients are those who fund, support, request, or approve programs.

Consumers

The corporate university staff needs immediate information from the consumers in the form of feedback about the processes and programs. The staff must know the extent to which participants are learning new skills and knowledge from the processes in which they participate. Additional data are

often needed to ensure that processes are effective. Improvements are often identified to enhance future results. Thus, process improvement is a key focus of the data needed by the corporate university staff. In addition, the corporate university staff needs data on application, impact, and ROI in order to:

1. Enhance the perception of the corporate university so that the key employee groups have positive impressions about the contribution and usefulness of corporate university programs.
2. Build credibility for the corporate university process with all stakeholders. Data must provide convincing evidence from a realistic, valid, and reliable approach to show that the comprehensive measurement and evaluation process is credible.
3. Justify future expenditures. Most of the corporate university growth is approved by executives who need to see that the contribution is significant and the payoff is appropriate. An absence of this type of data may result in budget decreases instead of increases.
4. Enhance management support. Evaluation data should convince management that their support is important, necessary, and a critical part of the corporate university's success.
5. Provide information for benchmarking with other corporate universities so that best practice comparisons are possible.

Clients

The client group is interested in application, impact, and ROI. This group is interested in obtaining significant behavior change from employees as they interact with customers, suppliers, and team members. They are also interested in the actual linkage to business impact, to have assurance that the programs are helping the operating units achieve their goals. Many managers want to see the actual return on investment, to ensure that corporate university programs represent an important payoff for the organization.

There are six major concerns about the accountability of corporate universities. These translate into specific types of information needed by senior managers.

1. The impact of the university at the macro level, reflecting the results of all programs, rather than the micro level, reflecting the results of an individual program.
2. Brief progress reports rather than detailed impact studies, at least for the majority of programs. They want information they can quickly understand and digest.
3. The connection to business objectives and assurance that the university is making a contribution and driving certain business improvement measures.

4. The overall contribution of the corporate university, but not necessarily the ROI for the entire university. Executives need some indication that the corporate university is adding value and that every program is evaluated at some level.
5. Different types of data, both tangible and intangible, taken at different time frames from different sources.
6. The alignment of the corporate university programs, strategic objectives, and operating goals.

These important needs of almost every senior executive group can be met by developing a corporate university scorecard.

Collectively, these drivers and needs from different target audiences create a demand for a measurement system that will collect, distribute, and interpret the necessary data on a routine basis.

Developing the Scorecard Data

The fundamental framework by which to categorize evaluation data is based on the work of Kirkpatrick (1975) and enhanced by Phillips (1995). Table 18-1 provides a brief description of this framework.

Level	Brief Description
1. Reaction and Satisfaction	Measures participants' reaction to the program and stakeholder satisfaction with the program and the planned implementation.
2. Learning	Measures skills, knowledge, or attitude changes related to the program and implementation.
3. Application and Implementation	Measures changes in behavior on the job and specific application and implementation of the program.
4. Business Impact	Measures business impact changes related to the program.
5. Return on Investment	Compares the monetary value of the business impact with the costs for the program.

Table 18-1. Phillips' five levels of evaluation

In most cases, 100% of all programs offered through the corporate university are evaluated at Level 1, reaction and satisfaction. This level of evaluation provides immediate feedback to facilitators and program designers as to changes that may need to be made to the design and delivery of the training. Level 1 data are easy to collect and in many cases participants anticipate an end-of-course questionnaire, so resistance to providing data is minimal.

Level 2, learning, data focus on the acquisition of knowledge and skills learned. Learning data can be captured a number of ways and presents only limited difficulty; however, not all programs are evaluated at this level. Many programs are meant to be informative only. Therefore, it is not unusual to find that only 60% of a corporate university's programs are evaluated at Level 2.

Level 3, application and implementation, data focus on behavior change and the application of skills and knowledge after the program. Level 3 follow-up is more comprehensive than Levels 1 and 2; therefore, fewer programs are evaluated at this level. In many cases only 30%-40% of a corporate university's programs are evaluated at Level 3.

Evaluating programs at Level 4, business impact, becomes more difficult. Evaluation at this level is attractive for only 10%-20% of all training programs. The focus of the data collection is on business impact data; these data are more difficult to capture. Further, in order to ensure that the results of the data collection represent the program's impact, a step to isolate the effects of the program is included, taking the evaluation to an even more comprehensive level. Level 4 is the minimal level that must be assessed if the full force of Superkeeper impact is to be realized.

Evaluation at Level 5, ROI, is reserved for specific programs—only 5%-10% of all corporate university programs are usually evaluated at the ROI level. This level of evaluation provides key stakeholders a measure by which they can compare the contribution of training with other operational functions in the organization. By converting the benefits of the program defined in the Level 4 evaluation to monetary value, the benefits can be compared with the fully loaded cost of the program, resulting in an ROI calculation. Those Level 4 measures not converted to monetary value are considered intangible benefits. Although quite important in presenting the overall success of a program, these benefits are not included in the ROI calculation. Highly successful organizations will ensure that Superkeepers' training and development is measured at Level 5. Table 18-2 summarizes the target percentages of programs to be evaluated at each level.

Along with a framework to categorize the data, a step-by-step process is necessary to ensure the collection of good data and a comprehensive approach to analysis. The process model is used to plan and implement the evaluation, following logical, sequential steps. Figure 18-2 shows the ROI model used by many corporate universities to develop impact studies on different types of programs. Through the application of the process, six types of measures are generated—participant reaction and satisfaction, learning, application and implementation, business impact, ROI, and intangible benefits. This balanced set of measures reflecting corporate university program success is then reported in a format that key stakeholders can quickly review and immediately understand.

Level of Evaluation	Percent Programs
Level 1: Reaction and Satisfaction	100%
Level 2: Learning	60%
Level 3: Application and Implementation	30% - 40%
Level 4: Business Impact	10% - 20%
Level 5: ROI	5% - 10%

Table 18-2. Target percent of programs evaluated at five levels

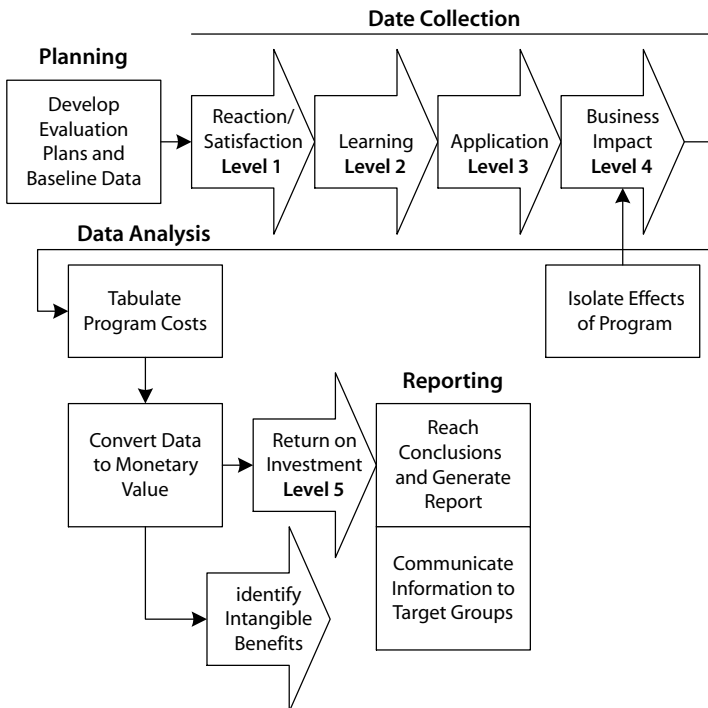


Figure 18-2. ROI Model

Source: Phillips, Jack J., *Return on Investment in Training and Performance Improvement Programs*, 2nd Edition. (Boston, MA: Butterworth-Heinemann, 2003)

Building the Scorecard

Most traditional evaluation reporting is focused on the actual investment in learning, the input side of the corporate university's statistics. Corporate universities use a variety of training and performance improvement statistics, such as number of hours of involvement in programs, number of people involved, number of programs, number of multiple enrollments, investment per associate, etc. While these statistics are useful to provide an indication of the level of organization support, activity, and investment, they do not reflect output, from a participant's, organizational, or financial perspective.

The challenge is to first determine how many programs will be evaluated at the various levels. The ideal situation is to measure as many programs as possible at the highest level (ROI) and integrate the data in a meaningful way with data from other programs to show the overall contribution of the corporate university. In essence, this process takes a micro-level activity (the evaluation of one program) and presents a macro-level view (evaluation of all programs) of the corporate university's impact. The final result will be a scorecard representing seven major categories.

Indicators—Necessary, but Not Results

The first category represents the traditional input data. These data are indicators of organization commitment and investment. These measures are important in that they reflect the level of commitment, volume, efficiencies, and trends in processes. However, the number of indicators reported can quickly get out of hand. So only those indicators critical to the organization should be included. Ideally, developing the most appropriate indicators to report will involve management input. At a minimum, indicators reported should at least stimulate interest with the entire management team. Typical indicators include:

1. The number of employees participating in learning programs.
2. The number of hours of learning activity per employee.
3. Various enrollment statistics, including demographics of participants, participation rates, completion rates, etc.
4. Investment in learning reported in a variety of ways. (Total cost, cost per employee, direct cost per participant, and cost as a percent of payroll are common ways.)
5. Cost recovery, if there is a charge-back system. (Some corporate universities operate in a charge back or profit center mode.)
6. Status of alternative delivery programs.

Several other statistics can be reported on issues such as use of technology, on-the-job training, trends, volume, and efficiencies. The indicators

show the degree of management's commitment to the learning process and provide a brief overview of the mix of programs offered.

Reaction, Satisfaction, and Planned Action (Level 1)

The first level in the five-level evaluation framework—reaction, satisfaction, and planned action—represents an important area of measurement, primarily for the corporate university staff. This is the most popular level of measurement, often used in measuring 100% of programs. The 100% coverage does not necessarily reflect importance as it does the ease of measuring and the cost-efficient way in which the data can be tabulated.

Some argue that 100% is not needed; a sampling is sufficient. However, other factors may drive the 100% coverage. If planned action is a part of the data collection at this level, it is important to capture planned action from all the participants. Also, some participants want to provide feedback data, particularly if they had an exceptionally satisfying or extremely disappointing learning event.

To compare one program with another, it is necessary to capture input on several specific Level 1 items. While specific items can vary with the corporate university, eight items are suggested:

- Relevance to job
- Usefulness of program
- Amount of new information
- Recommendation to others
- Importance of information
- Intention to use skills/knowledge
- Effectiveness of facilitator
- Effectiveness of delivery system

These items represent some of the most useful reaction and satisfaction data. Also, six of the eight have been found to be predictive of learning and application outcomes (Warr, Allan, and Birdi, 1999; Alliger and Tannenbaum, 1997; APQC, 2000). These items can be easily compared from one program to another thus, enabling the interaction of data across programs.

Another potential Level 1 measure is the percent of the participants with action plans. Because of the interest in participants applying what they learn, this has become an important measure. Also, because there is some concern that transfer will not take place, the presence of an action plan enhances the possibility of the actual application. This measure will usually correlate with the extent of actual application.

An additional set of measures focuses on the forecasting capability of some corporate universities. Data can be collected with the Level 1 instrument to forecast application, impact, and ROI. Additional questions can be

added to the standard Level 1 questionnaire to generate the information. Table 18-3 shows the core questions necessary to develop projections for Levels 3, 4, and 5. The form can vary and be expanded and is often included as a supplemental form. When a significant number of forecasted ROI calculations are developed, the average forecasted ROI with an additional adjustment is sometimes reported. This adjustment represents an additional reduction factor other than the confidence factor from the individuals providing input. This adjustment represents the unknown barriers that will inhibit the transfer of the skill to the work unit. Sometimes this factor can be as high as 60% and is usually based on experience within the organization.

<p>Planned Improvements</p> <p>As a result of this program, what specific actions will you attempt as you apply what you have learned?</p> <p>Please indicate what specific measures, outcomes, or projects will change as a result of your actions.</p> <p>As a result of the anticipated changes in the above, please estimate (in monetary values) the benefits to your organization over a period of one year.</p> <p>What is the basis of this estimate?</p> <p>What confidence, expressed as a percentage, can you put in your estimate? (0% = no confidence; 100% = certainty) _____%</p>

Table 8-3. Potential level 1 questions to forecast ROI

Learning (Level 2)

The measurement of learning presents a challenge for many corporate universities, as they attempt to determine the extent to which participants acquire skills and knowledge offered in the programs. A first step in this category is to report the percent of programs evaluated at this level. As previously mentioned, 60% is not uncommon.

Some learning measurements are very formal, such as objective tests, simulations, and structured skill demonstrations. Others are less structured and informal, such as self-assessment, facilitator assessment, and team assessments. Learning measurements should be defined in this context and reported appropriately. In some corporate universities, a learning measure is any type of measurement whether formal or informal. In others, a distinction is made between the types of measurement and is often reported as such.

To compare learning changes from one program to another and integrate the data into a macro view, it is essential to have only a few identical measures. Typical issues addressed in a self-assessment of learning change include:

- Understanding of the skills/knowledge
- Ability to use the skills/knowledge
- Confidence in the use of skills/knowledge

Two other possibilities sometimes surface that can be included in this section of the scorecard. When available, pre-test and post-test differences can be reported to show the percentage of improvement. Since this is a percentage improvement, an average measure for similar programs provides insight into the extent of learning change for all of those programs. Also, when some programs are designed to lead to a certification or qualification, the percent of participants actually meeting requirements is often reported.

Application and Implementation (Level 3)

To measure the actual change in behavior on the job and progress with application, measurements must be taken following program implementation and skill/knowledge application. The first measure in this category of measures is the percent of the programs evaluated at this level (Level 3). This percent often ranges in the 20%-50% category, depending on the resources available and the types of follow-up evaluations planned. Typical issues recommended as standard follow-up items when assessing changes in skills and knowledge include:

- The importance of the skill/knowledge in my work (after applied on the job)
- The frequency of use of new skill/knowledge (on the job)
- The effectiveness of the skill/knowledge (as applied on the job)

Essentially, these items can be collected on every program to show the extent to which the skills and knowledge are applied on the job. With this approach, exceptional performance has the same rating (e.g. a rating of 5 on a 5-point scale) across programs, although what constitutes exceptional performance will vary with the program. For example, for some programs, exceptional performance may be defined as using the skill several times every day. For other programs, exceptional performance may require the use of the skills once a month. The important point is that the scale is adjusted with the program so that ratings can be compared across programs.

The next four recommended measures can be very critical to the success of the corporate university. The first of the four measures is to capture the percent of the action plans completed by the desired follow-up time. This provides data on the extent to which participants apply and complete their assignments from the program. When compared with baseline data, this measure shows changes in transfer of learning to the job. The next measure captures the barriers to skill and knowledge application on the job. Forced-choice options for anticipated barriers are usually offered along with space for

additional barriers. Having forced choices of typical barriers allows for integration across programs and can be arranged as a “top 10” list. Table 18-4 lists typical barriers. The enablers are those processes that enhance the transfer of learned skills and knowledge. The enablers provide insight into the reasons for success and sometimes mirror the barriers. A similar forced-choice option can be utilized with the enablers. The same process can be used to capture, tabulate, and integrate data on enablers as used with data on barriers.

<p>Typical Barriers to Application</p> <p>Immediate manager does not support the skills/knowledge</p> <p>The culture in the work group does not support the skills/knowledge</p> <p>No opportunity to use the skills/knowledge</p> <p>No time to use the skills/knowledge</p> <p>Skills/knowledge could not be applied to the job</p> <p>The systems and processes did not support the use of the skills/knowledge</p> <p>Changed job and the skills/knowledge no longer apply</p> <p>Skills/knowledge taught are not appropriate in our work unit</p> <p>No need to apply what was learned</p> <p>Could not change old habits</p>

Table 8-4. Barriers to application

A management support profile reveals the extent to which immediate managers support the programs. A management support profile taken from both the manager and the participant provides interesting information about the quality of support. Table 18-5 shows a range of follow-up questions on management support. Participants and managers are asked to check the appropriate statement that best describes the level of management support provided. Managers have their statements worded slightly different. When data are collected across programs and ranked, much can be revealed about the level of management support. Disconnects can be quickly revealed and converted into actions for improvement.

<p>Options for Follow-Up Questions</p> <p>My manager asked me to forget these skills—we operate differently here.</p> <p>My manager questioned the appropriateness of the skills/knowledge.</p> <p>My manager complained about my absence and expressed concern about the program.</p>

Table 18-5. Management support response (continued on next page)

My manager made no comment about the program.
 My manager asked about my reaction to the program.
 My manager expressed optimism about my use of the skills/knowledge.
 My manager coached my use of the skills/knowledge.

Table 18-5. Management support response (continued)

By listing the top 10 barriers, enablers, and management support issues, useful indices and trends are provided for management to see what helps or hinders the application of knowledge and skills learned through training. Trends are monitored and the data are turned into action plans to reduce or remove impediments to success and to enhance the enablers of application.

The next measure in this category is the data collection technique. This item provides input into the different methods utilized to capture both application and business impact data. Objective versus subjective processes can be emphasized. Some organizations are moving from the subjective to the objective, where others are moving in the other direction. Either way, the tracking of techniques shows the data collection trends in the corporate university.

Business Impact (Level 4)

The connection to business measures can easily be tabulated when impact studies are conducted to show business impact or when follow-up questionnaires are utilized to capture application data. In this category of measures, the first measure is the percentage of programs evaluated at Level 4. The percentage is usually around 10 to 20 when all of the processes are in place to produce an impact study. However, this percentage can increase significantly if questionnaires, interviews, and focus groups are modified to capture business impact data, in addition to application data. When summarized and reported this becomes important data.

As shown in Table 18-6, the linkage of the program to business measures can be captured from a follow-up questionnaire. Only responses where there is a significant and very significant influence are tabulated. Impact study data, showing the movement of business impact measures, are reported in a different line on the report. Either way, the connection between the program and the business measure is reported. When presented as the top 10 list, it is possible to quickly examine disconnects or alignment issues. For example, if the most important business strategy is to improve customer satisfaction, then the program’s connection to customer satisfaction measures should surface to the top of the list. If it does not, disconnects may be occurring or there is misalignment.

Indicate the extent to which you think this program has influenced each of these measures in your work unit, department, or business unit:					
	No Influence	Some Influence	Moderate Influence	Significant Influence	Very Significant Influence
a. Productivity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Quality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Customer Response Time	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Cost Control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Employee Satisfaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Customer Satisfaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Other _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Table 18-6. Program linkage to business measures

It is sometimes useful to present the investment perception from the viewpoint of the participant. In this situation, the participant provides input into the expected return on investment with simple questions about their perception as to the quality of the program and its monetary contribution. These questions are included in the follow-up questionnaires and can be a simple question such as “Was this program a good investment for the organization?” The summary of responses is reported on the corporate university scorecard.

Another measure reported on the corporate university scorecard is the method used to isolate the effects of the program. A variety of ways are available. Some organizations use very analytical methods, while others are using subjective estimations to save time and costs. The important point is to take this step in the evaluation to better pinpoint to effects of the program on the Level 4 measures. Typical methods used to isolate the effects of a program include:

- Use of a control group arrangement
- Trend line analysis of performance data
- Use of forecasting methods of performance data
- Participant’s estimate of the program’s impact (percent)

- Supervisor's estimate of the program's impact (percent)
- Management's estimate of the program's impact (percent)
- Use of previous studies/experts
- Calculating/estimating the impact of other factors
- Use of customer input

Level 4 measures are significant for improving the performance of all employees. In particular, they are critical to help magnify the impact of Superkeepers.

Return on Investment (Level 5)

From many perspectives, the ultimate level of evaluation is the actual ROI, where the monetary benefits are compared with the cost of the program. The first measure in this category is the percent of programs evaluated at this level. This number is usually quite low, usually in the 5%-10% category. Not much additional information is needed on the corporate university scorecard for the ROI studies, since the number of studies is quite small. The results of ROI studies are typically reported to target audiences and only summary data are needed on the scorecard. A brief paragraph showing the nature of the study and the actual results, including the ROI percentage, is appropriate, along with the information on how to obtain additional details. This category includes two other measures: the method used to convert data to monetary values and the cost per participant. Because the data-conversion methods can vary, it is important to show the methods utilized so that trends can be tracked. Many organizations are moving toward the use of standard values and the use of estimates so that the cost to develop values can be minimized. Typical techniques for converting data to monetary value include:

- Converting output to contribution
- Converting the cost of quality
- Converting employees' time
- Using historical costs
- Using internal and external experts
- Using data from external databases
- Linking with other measures
- Using participants' estimates
- Using supervisors' and managers' estimates
- Using corporate university staff estimates

The cost per participant can be as important a measure for the corporate university scorecard as it is for the ROI studies. This value represents a fully loaded cost and is different from the cost per employee for training reported in the indicator category, which is usually a direct cost. Typical cost items include needs assessment cost, program development and delivery costs,

facilitator as well as participant costs, travel and facilities costs, administrative costs, and the cost of the evaluation. This total cost is then divided by the number of participants in the program. The program cost per participant is reported on the scorecard and tracked as a trend. Since the implementation of human resource plans is critical to satisfy organization needs, Level 5 presents a window into defining the cost of implementation.

Intangible Measures

An additional category of important data is intangible measures. These measures may be included in the business impact category or mentioned in a separate section, particularly if there are a significant number of impact studies. Intangible benefits are defined as the measures that are purposefully not converted to monetary values, even though they are very important to the organization and there is evidence of linkage to the corporate university programs. The top 10 intangibles are sometimes reported, providing an opportunity to check for alignment and disconnects with organizational strategy. It may be useful for a corporate university conducting several impact studies to show how the intangibles are captured. Sometimes the intangible measures are reported voluntarily by participants, while at other times they are tracked throughout the organization. Either way it may be important to capture the methodology separately.

Reporting Data

As shown in Table 18-7, the resulting report is simple and straightforward. However, the data outlined in the corporate university scorecard can be quite cumbersome when several hundred programs involving thousands of participants are conducted each quarter. An important issue is to use consistent rating scales and consistent questions and statements. Also, the only way that complete data can be accumulated and reported economically is through electronic reporting. If reaction and learning data are collected with a questionnaire during or at the end of a program, the data can be quickly integrated and available instantaneously. In addition, when a standard follow-up questionnaire is utilized to capture application and impact data, most of the data at these levels can be integrated. For higher levels of evaluation (3, 4, and 5), data volume may become smaller, since convenience sampling is utilized and the task should be reasonable. Ideally, if data are collected online, it can be rolled up into an online reporting format. In its early version, the report can be developed with the bare essentials, reporting only one or two measures for each of the seven categories. The complete scorecard can be developed over time as resources are available and data-collection instruments are revised. The frequency of reporting can be monthly, quarterly, or annually. The more

frequent, the better. Online reporting should be an ultimate goal for corporate universities.

Overall the scorecard provides a quantitative and qualitative method of determining the quality, timeliness, and cost-effectiveness of the developmental impact of the human resource.

Corporate University Scorecard

0. Indicators

1. Number of Employees Involved
2. Total Hours of Involvement
3. Hours per Employee
4. Training Investment as a Percent of Payroll
5. Cost per Participant

I. Reaction and Planned Action

1. Percent of Programs Evaluated at This Level
2. Ratings on 7 Items vs. Target
3. Percent with Action Plans
4. Percent with ROI Forecast

II. Learning

1. Percent of Programs Evaluated at This Level
2. Types of Measurements
3. Self-Assessment Ratings on 3 Items vs. Targets
4. Pre/Post Average Differences

III. Application

1. Percent of Programs Evaluated at This Level
2. Ratings on 3 Items vs. Targets
3. Percent of Action Plans Complete
4. Barriers (List of Top 10)
5. Enablers (List of Top 10)
6. Management Support Profile

IV. Business Impact

1. Percent of Programs Evaluated at This Level
2. Linkage with Measures (List of Top 10)
3. Types of Measurement Techniques
4. Types of Methods to Isolate the Effects of Programs
5. Investment Perception

V. ROI

1. Percent of Programs Evaluated at This Level
2. ROI Summary for Each Study
3. Methods of Converting Data to Monetary Values
4. Fully Loaded Cost per Participant

Table 8-7. Corporate university scorecard (continued on next page)

<p>VI. Intangibles</p> <ol style="list-style-type: none">1. List of Intangibles (Top 10)2. How Intangibles Were Captured
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Table 8-7. Corporate university scorecard (continued)

Challenges

Several challenges must be addressed as corporate universities move from the traditional activity-based reporting focused on input to a comprehensive scorecard of successes.

The first challenge is to allocate additional resources for measurement and evaluation. The scorecard can be developed, including all of the measurement processes, for less than 5% of the total corporate university budget. This is not an unreasonable amount when considering the value of the process. Also, this additional investment can pay off in cost savings to the corporate university by eliminating unsuccessful programs and focusing existing programs on achieving results at each level.

The second challenge is to approach the task in a disciplined, methodical manner. This is particularly difficult when it is not required (directly) by top management. However, the best time to pursue the scorecard process is when it is not mandated by management.

The third important challenge is the actual use of the data. Not only does this reporting reveal success in terms of the contribution, but it provides process improvement data that enable the corporate university staff to make adjustments throughout the learning cycle. All data should be collected with its ultimate use in mind. If data are generated only to fill up boxes in a chart or lines on a report, it will be viewed as worthless, undermining the intent of the reporting process. Because of the possible uses of data, it may be necessary for the management team and corporate university staff to develop guidelines outlining how data at each level will be used to improve processes within the organization.

The good news is that developing a scorecard of program success based on outcomes provides evidence that developmental opportunities for the Superkeepers are working within the organization.

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Chapter 19

Allocating Training and Development Resources Based on Contribution

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SEGMENTATION, THAT IS THE DIVISION OF THE WORKFORCE INTO PARTS that are treated differently, is fundamental to talent management. Without segmentation, managers would treat all employees as equally valuable—regardless of performance, competence, potential, or other characteristics that distinguish one employee from another. This has the potential to create unnecessarily high costs for recruiting, hiring, training, developing, and compensating employees. Segmentation is, in effect, a practical version of labor economics. It recognizes that organizational resources are scarce and need to be allocated most heavily in places that will have the greatest payoff. Superkeepers—individuals who have greatly demonstrated superior accomplishments, who have inspired others to attain superior accomplishments, and who embody the core competencies and values of the organization—are a segment of the workforce that should receive the proportionately higher dollar allotment. Other segments—Keepers (those who exceed organization expectations) and Solid Citizens (those who meet organization

expectations)—should be allotted a proportionately smaller share of the pot. However, there are many additional variables when considering segmentation. In this chapter, we will consider various organization criteria for segmentation, the purposes of segmentation, how different criteria are relevant to different purposes, and some case examples of how segmentation is applied as part of a talent management effort.

Although talent management is impractical without segmentation, there is relatively little attention to segmentation in the academic or practitioner literature. The most common approach is to distinguish between levels of performance and to emphasize increasing the number of “A players” while reducing the number of “C players.” For example, the focus on high versus low performers is the approach recommended by McKinsey (Michaels, Handfield-Jones, and Axelrod, 2001) and Towers Perrin (2001). This is helpful, but does not go far enough. It is probably not cost-effective to recruit, hire, train, pay, and develop top performers for *every* position in the organization. McKinsey avoids this problem by focusing only on leadership positions—even though the rhetoric of the *War for Talent* study often appears to apply to the management of all human capital. Our colleagues Don Ruse and Marc Knez, in their chapter elsewhere in this volume, take another approach. They distinguish among talent segments by their relevance to the business strategy and identify strategic, core, requisite, and non-core skills. This is helpful, but managers need a more complete approach to segmentation.

Purposes of Segmentation

The starting point for any segmentation work is gaining clarity about the talent management problem or problems that managers are trying to address. The nature of the problem dictates the type of segmentation that makes the most sense. The most important purposes of segmentation in talent management are to do the following:

- Increase the ratio of top performers to average or poor performers
- Increase bonuses for top performers to reward and create incentives for better performance overall
- Reduce unwanted turnover
- Close skill gaps or correcting skill mix
- Attract enough employees
- Reduce surplus employees

Each of these objectives requires segmentation of the workforce by one or more criteria.

Obviously, it is impossible to manage the mix of high and low perform-

ers or to differentially reward Superkeepers without in some way identifying these segments. Perhaps the most controversial rating system today is the GE method of forced ranking employees into A, B, or C players with set distributions, based on supervisor and management performance ratings. Where the organizational culture supports making hard calls about performance level and where organizational practices support such judgments, employees may accept such segmentation—as they appear to do at GE. However, the more tolerant cultures at Ford and Goodyear led both firms to abandon the GE system in recent years. Whether the GE system or another is used, however, increasing the ratio of high performers to others demands some way of identifying the level of employee performance.

Employee turnover is far more expensive than is commonly recognized, even among employee groups for which one would expect the cost to be low—such as low-wage occupations in which high turnover is endemic, including retail salespeople and call center employees (Rich, 2002). However, each specific incident of turnover is more expensive for high-wage employees who are difficult to recruit and train, such as executives and software engineers. An essential step in understanding the costs and causes of turnover is segmenting the workforce to understand the employee groups in which turnover is most costly.

Skill gaps obviously are highly specific to particular employee segments, especially if the concern is with technical skills (as opposed to general social skills or managerial skills). Education, training, and experience vary within and across segments. It is difficult to imagine how one would construct an effective program to close skill gaps without understanding the specific employee groups that need specific types of skill.

Attraction problems typically indicate a problem with the *employee value proposition* (EVP), the “deal” that employers offer employees in exchange for membership in the organization and effort. The EVP that is attractive to one employee segment often is not attractive to another. For example, some employee groups prefer a security-oriented EVP, emphasizing good benefits, steady employment, and stable employee relationships. Others prefer a growth-oriented EVP, emphasizing opportunities for career advancement and monetary gain. Segmentation is required to understand these differences.

Finally, employee surpluses tend to be highly segment-specific. Indeed, it is common for companies to lay off some types of employees because of excess numbers in some segments, while they are hiring employees in other segments. This is necessary because employees are not interchangeable across segments. For example, telecommunications companies went through a wrenching change during the past decade as they moved from analog to digital systems. Engineers capable of designing and maintaining ana-

log equipment were not necessarily able to apply their skills to the new digital technologies and many were unwilling to retool their skill set. Thus, telecommunications firms often were hiring for hot digital skills while they were laying off technical personnel with older analog skills.

Criteria for Segmentation

The preceding discussion implies some of the criteria that may be used to segment employees. So far, we have discussed segments that vary according to level of employee performance, occupation, job title, skills, and employee values. These are but some of the criteria that may be important in segmenting employees.

Category	Sample Components
Strategic Impact	<ul style="list-style-type: none"> • Strategic • Core • Requisite • Non-core
Performance and Behavior	<ul style="list-style-type: none"> • Performance ratings • "Hard" measures of performance (e.g. sales) • Pay distribution • Turnover
Organization Unit/ Job Family	<ul style="list-style-type: none"> • Job grade • Function (e.g., information technology, manufacturing, accounting) • Subunit (e.g., line of business, division)
Skill/Competence Profile	<ul style="list-style-type: none"> • Technical • Social (e.g., team skills) • Managerial • Generalist versus specialist
Demographics	<ul style="list-style-type: none"> • Education • Age, gender, race/ethnic differences • Location • Part time versus full time
Employee Values and Preferences	<ul style="list-style-type: none"> • Security versus growth orientation • Social versus individual orientation • Mobility

Figure 19-1. Potential criteria for employee segmentation

Figure 19-1 suggests some of the major categories and examples of their components that can be used to segment employees. The major categories are strategic impact, performance and behavior, organization unit/job family, skill/competence profile, demographics, and employee values and preference.

There are many subcategories. Some of these criteria for segmentation, such as differences in performance, have obvious relevance to talent management. Others are more problematic. In particular, certain demographic differences can be a source of legal concern if misapplied. However, the usual use of demographic segmentation is to find ways to increase diversity and to attract and retain segments that might otherwise reject the organization. For example, many professional service firms have been concerned about their ability to retain women and minorities, and segmentation allows the organization to understand the specific issues that affect attraction and retention for those groups. Examples include increased flexibility in work schedules for working mothers and efforts to recruit minority employees in colleges and universities outside of the elite few institutions.

Each of these dimensions can be represented in a dynamic as well as a static way. Trends over time may be essential in understanding talent issues for any given employee segment.

Which criteria should be used to segment employees? The problem is one of too many choices. The specific criteria that are relevant to any particular organizational situation require understanding and analysis of the particulars of the problem that is to be solved. Typically, more than one criterion will be relevant in a given situation.

Sometimes the combinations of criteria that are relevant to a particular talent problem are relatively simple. For example, companies interested in increasing the ratio of high- to medium- and low-performing managers can examine the mix of high versus medium and low performers in the management ranks and whether the ratio is changing over time. Diagnosis becomes a matter of understanding what differentially attracts high versus other performers. On the other hand, some issues are very complex and may require examining many employee population segments. Consider a major talent management issue facing most health care organizations today: attracting and retaining enough nurses to maintain a high quality of patient care. The choice of nurses as the target of analysis obviously implicates job family, but it may be necessary to go further and examine attraction and retention rates for different types of nurses (e.g., LPNs versus RNs). The health care provider would certainly look at how behavior (turnover) varied by segment, but also might be interested in whether the organization was losing high- or low-performing nurses. Certainly, issues of skill and competence are important; a particular concern in health care is that very experienced nurses are leaving the profession at a disproportionate rate. Demographic differences may help shed light on the causes and cures for attraction and retention problems for different subgroups of nurses. Finally, understanding the values and preferences of different nursing subgroups can be helpful in understanding what types of solutions will work for different segments of the nursing population.

In short, nurse attraction and retention is a complex problem that may require considerable analysis.

Determining Employee Segments That Require Analysis

With so many potential choices, how does an analyst choose the segments that require detailed analysis for purposes of talent management? There is no easy answer to this question. We do not believe that the day will ever arrive that a prepackaged, one-size-fits-all package will make it possible for managers to predetermine the talent segments that they should be examining. There are too many variables to consider.

However, we have several recommendations about how to begin. First, we believe that the specific talent management problem that one is trying to address will offer important clues about the specific employee segments to investigate. We consider how to do this in the next section. Second, the criticality of employee segments to the firm's business strategy always will suggest some key segments that should be part of any talent management analysis. The chapter by Ruse and Knez offers ideas on how to identify talent segments that are critical to the business. Regardless of the specific purpose of segmentation, management will always want to focus on those positions that are most critical to business success. Finally, new technology is changing the way that firms come to understand their employee segments and talent management issues. Talent management software, whether in standalone packages or as part of enterprise resource planning (ERP) packages such as PeopleSoft's workforce analytics module, is rapidly evolving. Such software greatly facilitates the kind of data mining in human resource data that simply was not possible in prior years and offers the hope of much more comprehensive and sophisticated analyses than is commonplace today.

Matching Segmentation Purposes and Criteria

Are some employee segments more important than others in addressing particular purposes for talent management? We believe that the answer is "yes," but it is difficult to provide hard-and-fast guidelines. An analysis for a specific purpose may involve a wide variety of criteria for dividing employees into segments, and to some degree these must be determined contextually. However, we think some rules of thumb can be helpful. Figure 19-2 suggests the degree to which we believe different criteria are relevant to different purposes.

Following from our earlier comments, we believe that strategic impact of a given individual or role is highly relevant for almost all purposes of segmentation. Clearly, it is important to find and reward Superkeepers who also

Criteria	Increasing Ratio of Top Employees	More Rewards for Top Performers	Decreasing Turnover	Closing Skill Gaps	Inability to Attract Employees	Reducing Employee Surpluses
Strategic Impact	High	High	High	High	High	High
Performance and Behavior	High	High	High	Medium	High	High
Organizational Unit/Job Family	Medium	Medium	High	High	High	High
Skill/Competence Profile	High	Medium	Medium	High	High	High
Demographics	Low	Low	High	Low	High	Medium
Employee Values and Preferences	Medium	Medium	High	Low	Medium	Low

Figure 19-2. Matching segmentation purposes and criteria

have the most important strategic impact, we should be more concerned about turnover or inability to recruit those whose strategic impact is high, we would like to divest these employees in the event of downsizing, and so on. Similarly, in most cases, the level of employee performance would be a highly relevant consideration in employee segmentation. Employee performance may be only moderately important in closing skill gaps, an objective that by its nature may be more concerned with future performance potential than current performance.

Organizational unit or job family may be only of moderate importance if the concern is increasing the ratio of Superkeepers or increasing the rewards for top performers system-wide. However, this criterion remains highly relevant to other purposes. Indeed, as the case study that follows will show, it often offers critical diagnostic guidance in understanding the nature of talent management issues.

Skill or competence profile is sometimes very important in increasing the ratio of Superkeepers, because it is important to increase the ratio of high performers with the right kind of skills for the needs of the business. Skill profile is less important to rewarding Superkeepers, since skill is less relevant to current performance. It may or may not be a relevant consideration in understanding turnover. Although it is helpful to know whether those with highly desirable skills are turning over at a higher rate than others, it is not necessarily important to look comprehensively at turnover rates for different skill profiles. It is obviously relevant to closing skill gaps, attracting the right kinds of employees, and reducing employee surpluses in a way that

does not hamper operational capability.

Demographics are perhaps the most troublesome category. Differences in age, sex, and ethnic groups, especially, are always interesting but are often not actionable. For example, if we find minorities do not have key skills in the same ratio as others, is this a call to action? What kind of action? Often, demographic differences are important to investigate primarily in verifying that changes in human resource systems such as compensation do not adversely protect legally protected minority groups. Demographics are most relevant to turnover and attraction. Members of certain groups may have different needs, for example, that affect the desirability of a given employer. For example, working mothers may highly value flexible work hours and child-care benefits that matter much less to other groups.

Employee values and preferences similarly are always interesting but not always relevant to a particular talent management exercise. They are most relevant to attraction and retention discussions. Different employees tend to value different kinds of rewards that the organization may offer as part of its employee value proposition (EVP). The Rewards of Work framework (Ledford, Mulvey, and LeBlanc, 2000) provides one way of looking at these differences. Figure 19-3 provides an example of an analysis of how different employee segments may respond differentially to the five major types of rewards that make up the Rewards of Work framework.

	Compensation	Benefits	The Work	Career Opportunities	Feeling of Affiliation
Segment A	High	High	Low	Low	Low
Segment B	High	High	Medium	Medium	High
Segment C	High	Medium	High	Medium	High
Segment D	Low	Low	High	High	Low
Segment E	High	Medium	Medium	High	Low
Segment F	Low	High	High	Medium	Medium

Figure 19-3. Segmenting by what employees value

Case Study: Managing Skill Mix

Sibson Consulting not only has helped clients with talent segmentation, but also has applied talent segmentation principles to its own business. The leadership of the organization recently conducted a talent management exercise

to investigate a suspected problem of skill mix. There appeared to be gaps in the ability of the firm to deliver all the work that it could sell because of skill shortages in certain topic areas. This exercise went well beyond previous calculations of revenue capacity based on the number of consultants and their billing rates. It investigated whether revenue capacity was constrained by the skill mix of the consultant workforce.

The employee segments in this analysis were practice area, consultant level, and competence by consulting offering. Practice area was the starting point because it is the primary structural unit in Sibson and skill mix needed to be considered in that context (as opposed to, say, geographic location, which is less important in the Sibson business model). The three major practices reflect the three major markets for Sibson's services: Leadership Performance and Rewards, Employee Effectiveness, and Sales and Marketing Effectiveness. There are four major consultant levels in the Sibson system: Associate, Consultant, Senior Consultant, and Principal. Consultants typically do not specialize in a practice area until they are at the advanced Consultant or Senior Consultant level, which makes it possible for them to support all practices and to learn about the range of business in the firm. Senior staff specialize in one or perhaps two practices and typically in one to three offerings within a practice. This reflects the staffing needs of client projects. Client projects vary considerably in size, scope, and complexity, but typically focus on one or two offerings within one practice. Client teams are assembled to obtain the right mix of consultant levels, consultant expertise, and, to a lesser degree, geographic proximity to the work.

Each Practice Leader identified the competencies needed to perform the work associated with the major offerings of the practice and estimated the revenue for the next fiscal year associated with each offering. For example, the major offerings for the Employee Effectiveness practice are compensation, performance management and measurement, talent management, organization design and process improvement, change management, and technology enablement. The Practice Leaders then collected data about the level of expertise of each consultant in the practice on each of the competency areas for the practice. Consultant self-ratings were the starting point; the scores were adjusted as appropriate by Practice Leaders with input from others as needed to provide calibration of skills across the practice. The four-point rating scale provided a behavioral description of the level of competence that would represent full subject matter competence at each level in the consulting hierarchy—from entry level to enough expertise to manage a large, complex project on the topic independently.

The analysis then used an Excel-based model to examine desired versus actual capacity. The model made several assumptions. First, it incorporated revenue targets for each practice and each offering within the practice. Next,

it incorporated assumptions based on the firm's ideal "leverage model"—that is, how billings are distributed across the four levels of consultants to balance cost to the client and level of expertise needed to perform the work. The leverage model is central to the management of a professional services firm. If the level of expertise in each topic area is not consistent with the leverage model, problems in managing projects are the result. Having too few experienced junior consultants increases the average billing rate for the project, either costing the client too much or reducing profitability. Having too few competent senior contributors, who manage major projects or work streams within projects, means that Principals will spend more time managing the project to ensure quality work and less time selling new projects. Using assumptions about average billing rate, the number of hours worked per year, and the typical mix of projects across practices and offerings for consultants over the course of a year, we calculated billing capacity at each level for each offering and each practice.

The results indicated the choke points for which there were not enough competent staff at each level to support the offerings. Revenue gaps and surpluses were translated into the number of new staff needed at each level or the number of surplus staff at each level.

The analysis was highly informative and indicated somewhat different issues in each practice. In one practice, the choke point in the work of the practice was at the Associate level—that is, finding enough Associates who could do routine project work under the direction of others. The solutions were to steer more new hires toward that practice and to train existing Associates in the work of the practice. The second practice had a shortage of Senior Consultants who could manage complex projects. This largely explained a reduction in sales revenue from the practice, because Principals were spending more time managing projects and less time selling new work. The primary solution for this practice was to hire new staff at the Senior Consultant level, with additional emphasis on identifying Consultant-level staff who might benefit from accelerated development in exchange for early specialization in the work of the practice. The final practice had an imbalance at the Senior Consultant level. There were too many who had competence to lead work on older offerings that were generating less project revenue and not enough to help with "hot" offerings. The solutions were limited hiring at the Senior Consultant level, retooling the skills of several Senior Consultants, and focused development of Consultants to help them attain Senior Consultant competency in the "hot" offering areas as quickly as possible.

This case offers several lessons. First, segmentation was critical to understanding the talent needs of the organization. Each of the three practices had adequate staffing at three of the four consulting levels, but had one level that acted as a choke point that was constraining revenues and profitability. The

firm's talent management model helped quantify the gaps and identify how many new people were needed to overcome the gaps. Second, each of the three practices had a different problem, and the analysis helped identify solutions that were targeted directly and cost-effectively at the real problems. Indeed, broad-brush solutions would have been wasteful or ineffective. Finally, the segmentation exercise both helped confirm some suspicions and helped identify problems that were not obvious before the exercise was conducted. For example, practice leaders in two practices believed that they had a shortage of Senior Consultants, but the segmentation exercise confirmed this and provided a useful quantitative indication of the seriousness of the problem. On the other hand, the surplus of competence on older offerings in one practice made sense in retrospect, but was not obvious initially. Recognizing the opportunities to retool skills helped provide a faster and more certain solution than closing all gaps by hiring experienced staff.

A Comprehensive Approach?

We do not know whether the day will arrive that human resource information systems will be good enough, when talent management issues will be considered important enough, and when methodologies will be robust enough to see organizations that continually monitor a wide variety of segments of their workforce for problems that need to be addressed. However, we can suggest what the results of such an analysis might look like. Figure 19-4 provides an illustration of a summary table of priorities that might result from a systematic analysis of the talent management issues that are relevant to different segments of the workforce of a large corporation.

Summary

Employee segmentation as a part of talent management has many purposes, and many different criteria can be the basis for segmentation. Analysis of employee segments is potentially highly complex, but very useful in identifying problems and in suggesting potential solutions for talent management problems. Our experience with clients and in our own firm verifies that segmentation is a critical step in talent management, one that helps turn the general concept of talent management into a set of concrete analyses and actionable priorities.

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Criteria	Increasing Ratio of Top Employees	More Rewards for Top Performers	Decreasing Turnover	Closing Skill Gaps	Inability to Attract Employees	Reducing Employee Surpluses
Segment A: Supervisors	Loose rating system; 29% of employees rated as high performers					
Segment B: Exempt Workforce		Top performers average only 2%-3% more compensation than others				
Segment C: Women and Minorities			Regretted turnover = 29% annually			
Segment D: Sales teams that sell core products of firm				Salespeople not adequately knowledgeable about financing services		
Segment E: College Graduates in the Southeast					Offer acceptance rate is 36%, versus 54% in other segments	
Segment F: Manufacturing in SBU 5						Post-reorganization, there will be 1200 extra employees in manufacturing

Figure 19-4. Identifying priority issues for different segments

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Chapter 20

Optimizing Your Investment in Your Employees

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THE BOOM YEARS OF THE 1990S WERE CHARACTERIZED BY COMPANIES struggling to have enough talent to support their aggressive growth objectives. While primarily a numbers game, the competition for talent that ensued also generated the so-called “War for Talent,” an aggressive competition to attract and retain the best people. In this context, the primary drivers of a company’s ROI on talent management was having enough employees to support aggressive growth targets and minimizing the amount of high-quality talent lost to the competition (or some Internet start-up).

This has all changed and we have now come back to earth. At the current time and for the foreseeable future, the ROI on talent management will be defined by productivity and profitable growth as determined by whether or not the company has the right number, type, and quality of talent to achieve competitively high levels of productivity and generate long-term profitable growth. As part of this process, the organization must consider the actual and potential contribution of each of its employees as to productivity and profitable growth.

The Focus on ROI

Much like the term “strategic human resource management,” it’s safe to say that the use of the term “return on investment” in the context of HR has been used loosely at best. But there is an important difference between the two. Efforts to make HR practices and practitioners more strategic were aimed primarily at improving the linkages between how the company competes in the marketplace (its strategy) and what it needs from its human resources to compete effectively. Note that in many contexts strategic HRM was mostly about making the HR department more “business savvy.”

The increasing emphasis on ROI is a manifestation of a much stronger force. Across most industries, companies are completing rethinking their operating models—the set of activities that a company performs within the overall industry value chain. The goal here is to increase the ROI on the activities that companies are engaged in and the implied ROI on the underlying assets required to perform those activities, including human capital. This is resulting in the increased outsourcing of both core activities, e.g., manufacturing and sales, and business process outsourcing such as IT services *and* many of the primary HR functions. Simply put, as companies aggressively pursue ways to increase their productivity and levels of profitable growth, the ROI is being evaluated on every major activity and their underlying assets—including the company’s human capital.

We define talent management as the identification, development, and management of the talent portfolio—i.e., the number, type, and quality of employees that will most effectively fulfill the company’s strategic and operating objectives. The strategic objectives are aimed at achieving profitable growth and the operating objectives describe what exactly the organization and its talent need to accomplish to make it happen. Our focus will be on the importance of identifying the optimal talent portfolio, which we will refer to as *talent portfolio management*. We will be focused on the ROI implications of identifying the optimal talent portfolio, as measured by the impact those investments have on the ability of the company to meet and exceed its strategic and operating objectives.

Talent Allocation Versus Talent Deployed

There are two major factors that determine the ROI a company achieves on its talent portfolio—first, where and how the company chooses to allocate its talent within its overall operating model and, second, the degree to which it has the appropriate talent deployed (i.e., the optimal talent portfolio).

The first factor is primarily a strategy issue. For example, large companies with diverse customer segments can run into the problem that a dispro-

portionate percentage of their revenue comes from a small percentage of their customers—the 80/20 problem. Suppose a company with annual sales of \$100 million has a 100-person sales force spread equally over 1000 clients. (Each salesperson covers 10 clients.) Revenue per salesperson is \$1 million. But suppose it has an 80/20 problem, so just 20 salespeople are generating \$80 million in sales. Within this group, revenue per sales person is \$4 million. While this company's 80/20 problem is most likely driven by a poor market strategy, it is generating a very low sales force ROI. We refer to this as a talent allocation problem. Even if the company has the optimal talent portfolio, the allocation of this talent in non-profitable sales activities is leading to a low overall ROI on its sales force talent portfolio.

Now consider a related example. A large industrial products company determines that, in order to become more customer-focused, it needs to switch from a transactional sales model to a consultative sales model, with the goal of increasing sales per customer across the company's product line. The critical success factors under the transactional sales model were market coverage and a clear focus on price and volume. Under a consultative model, an intensive focus on the customers' needs and relationship management skills are critical. The company chose to transition its existing sales force to the consultative sales model through an aggressive training program and an increase in base salary and lower commission percentage to account for the longer sales cycles. Unfortunately, this effort failed. Despite the training, the existing salespeople reverted to what they were good at, transactional selling. Sales per existing customer remained flat and, under the new reward structure, the salespeople were less motivated to bring in new customers. We refer to this as a talent deployment problem—a suboptimal talent base has been deployed to implement the new sales strategy.

In this chapter, we focus most of our attention on talent deployment—*identification* and *management* of the optimal talent portfolio to implement a company's strategy. Companies can increase the ROI on talent management investments by improving their ability to:

- Proactively identify the number, type, and quality of talent required to execute the business strategy and
- Effectively attract, retain, develop, and leverage this talent through its talent relationship and talent performance processes.

Our framework for making talent portfolio decisions is described in Figure 20-1.

The process begins with an understanding of the business strategy, the operating model of the business unit, and the identification of the critical operating objectives of each of the core operating activities. Next, these critical operating objectives are used to identify the critical success factors of

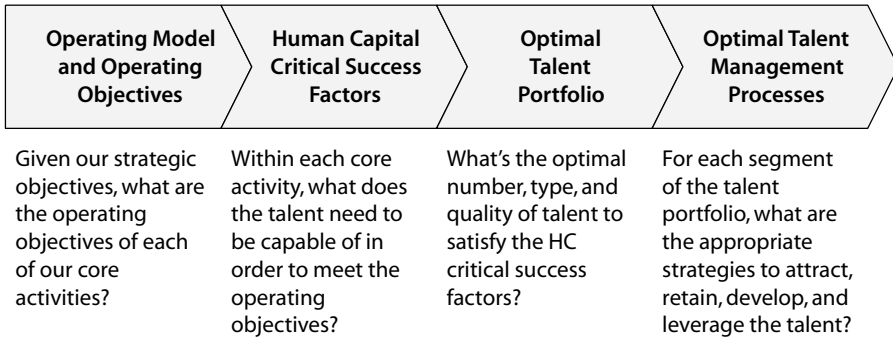


Figure 20-1. Framework for making talent portfolio decisions

your talent for each of the core activities. The combined understanding of the operating model, operating objectives, and human capital critical success factors allows for the identification of the optimal talent portfolio.

1. Defining the Optimal Talent Portfolio: Identifying the Types of Talent the Business Requires

Recently, a global electronics manufacturer undertook a detailed study to understand its current and anticipated future business environment to determine what changes, if any, to strategy, operating model, and operating objectives would be necessary to realize its profitable growth objectives. Changes in governmental regulations, increased competition, downward pricing pressures, and anticipated increases in raw material costs indicated the need to implement changes in strategy, operating model, and corresponding objectives in five key areas: new product development, operations, brand management, customer relationships, and existing product line extension. The CEO and his team recognized that to implement these changes would require a new and enhanced set of human capital critical success factors and corresponding portfolio of talent.

Senior leadership also recognized that for any relatively large company the talent portfolio is *not* optimized at the company level. While strategic objectives are defined at the company level, operating objectives are guided by the company's strategic objectives but are defined at the activity level. Hence, determining the optimal number, type, and quality of talent needed to occur on an activity-by-activity basis.

A detailed analysis was conducted to identify the talent portfolio implications of each objective. Specifically, the following questions were asked:

- What *types* of talent are required? (i.e., the combination of skill sets, competencies, and experiences necessary to perform the work)

- What types of talent are *no longer* required?
- What talent segments or “roles” compose the types of talent needed/not needed?

The following framework (Figure 20-2) was used to identify talent types because of its ability to provide direction to talent management decisions and actions that, when implemented, would result in an optimal talent portfolio.

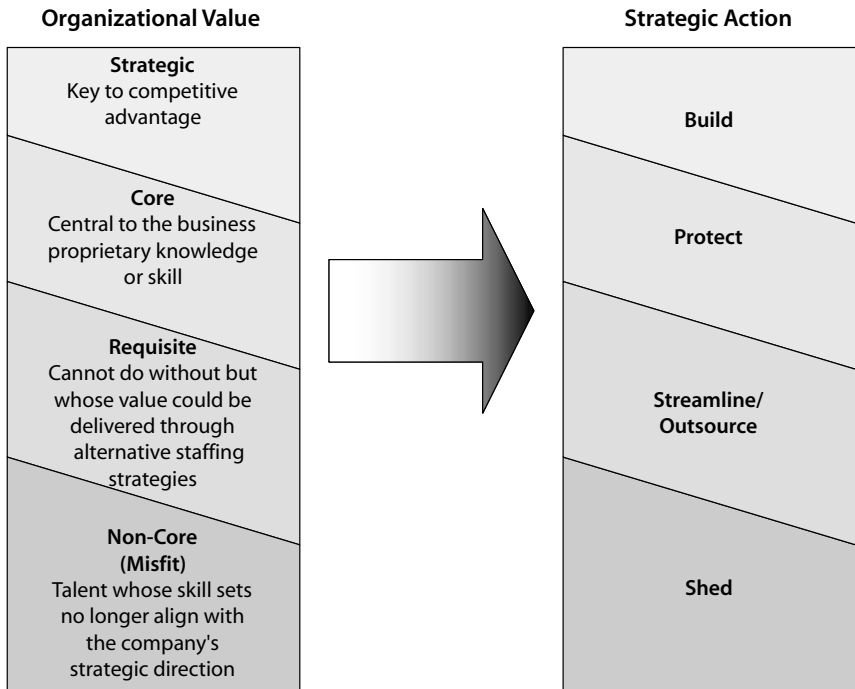


Figure 20-2. Framework for identifying talent types

Detailed discussions were conducted with executives, functional managers, and selected individual contributors to identify and segment talent portfolio requirements. A primary focus was placed on identifying core and requisite talent segments, given that these would have the most significant impact on company results. Through these discussions, the company was also able to ascertain the economic value each segment could deliver. This was relatively straightforward for segments directly related to revenue generation (e.g. sales) and a bit more difficult for those more distant from the customer (e.g., supply chain). For these segments, economic value was determined by the anticipated impact the segment (not individual) would have on the bottom line. For instance, improvements to the supply chain were anticipated to deliver \$40 million per year through increased manu-

facturing efficiency and better inventory management. *Failure to identify the right capabilities and corresponding talent type would place this profit at risk.*

To successfully manage its talent portfolio, an organization must have a clear understanding of:

1. The elements of the business strategy that will drive desired top- and bottom-line results
2. Critical operating objectives for each of the elements identified
3. The people portfolio implications of these objectives

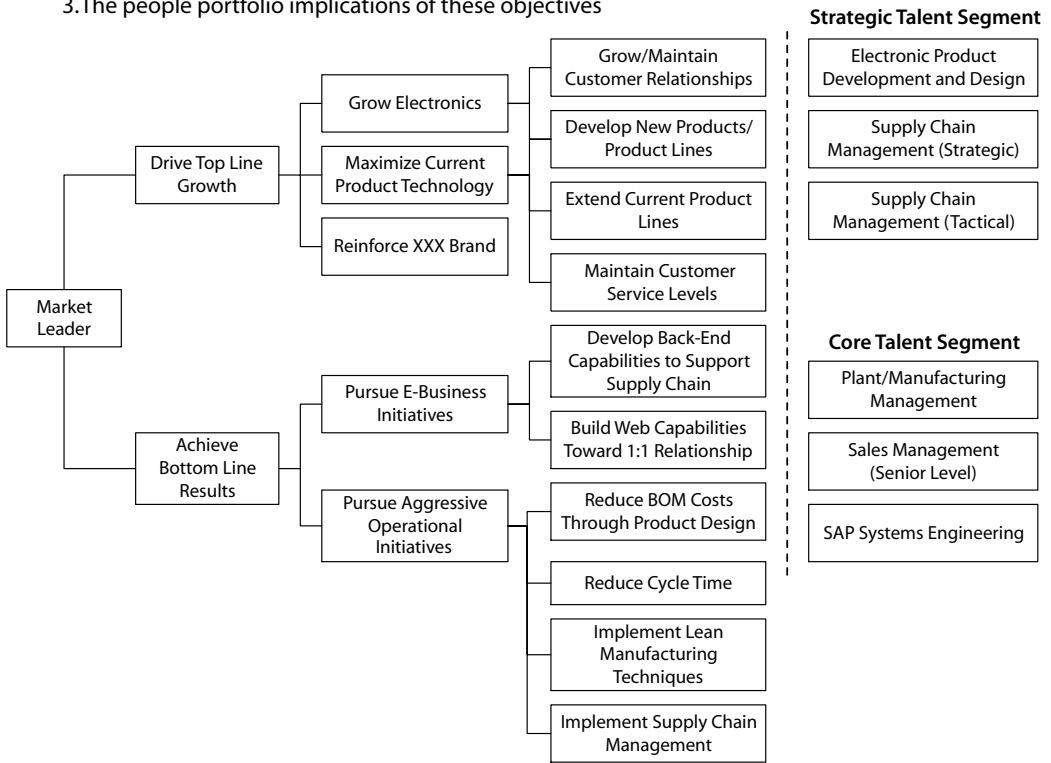


Figure 20-3. Framework for analysis, global electronics manufacturer example

Figure 20-3 summarizes the outcome of this analysis.

2. Defining the Optimal Talent Portfolio: Identifying the Number of Talent the Business Requires

Traditional workforce planning has historically enabled companies to identify and forecast the number of people required on an aggregate basis. Oftentimes, these “headcount” exercises are of limited value in that they are:

- a. Driven by budget requirements and annual operating plans (e.g., how

many people can we afford?) vs. the type of talent the business strategy requires over time.

- b. Calculated using a single view that looks only at current employee demographics but fails to take into consideration other critical views that together impact future talent supply and demand.
- c. Segmented along the talent lines of function or level vs. focused on what specific segments are most/least critical to enabling business strategy.

Most companies can easily recite the number of executives, vice presidents, managers, and so forth in their employ. But is that useful? Well, it is in the way that payback period is useful in finance, i.e., an undemanding measurement that is easy to calculate and disseminate. However, when building a portfolio around a business strategy, identifying the number of people required by level or function is nearly meaningless. Optimizing your talent portfolio as it pertains to the number of people needed requires a detailed understanding and analysis of current and anticipated workforce supply and demand dynamics. Failure to accurately define required numbers of people can have significant top- and bottom-line impact.

Sizing the Portfolio—A Different Approach

Sizing your portfolio begins with an understanding of talent segment implications. With this in mind, determining the future size of your portfolio requires a detailed analysis *by talent segment* around three critical portfolio views:

1. **Current View:** What are the characteristics and capabilities of my current portfolio?
2. **Dynamic View:** How is my current portfolio behaving?
3. **Strategic View:** What are the specific requirements of my future portfolio in terms of contribution, capability and allocation?

Targeted and robust data is required to conduct these analyses. Table 20-1 outlines the critical data requirements, by view.

Data should be analyzed first *within* each view to understand potential future portfolio number requirements. Table 20-2 outlines some of the key questions your analysis should try to answer.

Next, an analysis should be completed to understand the interrelationships between each view and the implications these may have for future portfolio size requirements. Focus *first* on determining to what degree your current portfolio view mirrors your strategic portfolio view. If there is alignment between views (i.e., your supply mirrors your demand), then number requirements will be driven primarily by the impact the dynamic view has on your current portfolio.

Current View Data Requirements	Dynamic View Data Requirements	Strategic View Data Requirements
<ul style="list-style-type: none"> • Experience, technical skill sets, and competencies inventory, by employee • Employee performance track record (e.g., performance assessment results over past 3-5 years) • Demographics (e.g., age, race, gender) • Progression (e.g., promotion/ assignment histories by employee) 	<ul style="list-style-type: none"> • Voluntary turnover • Vulnerability (e.g., turnover risk) • Retirement eligibility • Mobility preferences • Trajectory (e.g., historical promotion and transfer experience) 	<ul style="list-style-type: none"> • Future experience, technical skill sets, and competency requirements • Expected/desired contribution-individual (e.g., revenue per employee, earnings per employee) • Expected/desired contribution-business (e.g., product line, geography, function)

Table 20-1. Critical data requirements

Current View (What are the characteristics of my current portfolio?)	Dynamic View Data Requirements (How is my current portfolio behaving?)	Strategic View Data Requirements (What are my future requirements?)
<ul style="list-style-type: none"> • What is my current capacity? • How many employees with given experiences, technical skill sets and competencies do I have? • What is the quality of my current portfolio (Bench strength and pipeline)? • What is the current allocation of my portfolio across the business? 	<ul style="list-style-type: none"> • Is my portfolio growing or shrinking? In what segments? • Are there any bubbles coming along that may significantly change my portfolio e.g., retirements? • What is the fungibility of my portfolio? 	<ul style="list-style-type: none"> • What is my needed capacity by segment? • What talent profiles (e.g., experiences, technical skills and behavioral competencies) do I need by segment? • How should my talent be allocated (e.g., geographic, functional, demographic) based on business needs?

Table 20-2. Sample core competencies (continued)

Case Study One: Supply Mirrors Demand

Take, for example, a large pharmaceutical company whose top managers realized that they could have a significant retirement bubble within their top 250 leaders. This gave them cause for concern, given that a potential shortage in

leaders could seriously impede their ability to sustain an enviable track record of growth and profitability.

A *strategic* view analysis was completed and identified that the talent profile required to execute on future strategy was aligned with their current pool's capabilities and any losses from this pool would potentially hurt their ability to realize desired future business results. A *dynamic* view analysis was completed that looked at historical trends in voluntary turnover, leadership demographics, retirement eligibility and historical retirement experience, turnover vulnerability, and the relationship between company revenue size and number of leaders. What they found was that, while a significant chunk of their leader population was in fact eligible for retirement under a number of retirement program criteria, few leaders actually took their retirement option until late in their careers. Therefore, given the natural churn of the portfolio, not only was there little threat of a pandemic exodus, but there was also an opportunity to invest in strategic training for retirement eligible leaders. Given the results of these two analyses, the company was able to dispel the concern of an impending leadership crisis and more accurately forecast the future number of senior leaders required to run the business.

Cross-view analyses that indicate a "disconnect" between supply (i.e., current view) and demand (i.e., strategic view) require a more detailed analysis to accurately forecast future requirements. If this is the case, you should:

- a. Identify by segment where you are "long" or "short" on people. Oftentimes, companies find that they are "short" of talent in strategic and core segments and "long" in requisite and non-core segments.
- b. Conduct a *dynamic* view analysis to determine anticipated portfolio behavior. (e.g., Can I expect to shrink in a key strategic segment? Will my low level of turnover continue in requisite segments?)
- c. Calculate the impact of anticipated portfolio behavior and determine future size requirements by segment.

Case Study Two: Supply and Demand Disconnects

Take, for example, a global consumer products company undergoing a major shift in organization structure and supply chain management. A *strategic* view analysis identified specific talent profiles for two critical talent segments. It also identified a need for an increase in the number of incumbents for select roles within each segment, given the new structure. A *current* view analysis identified that the profile of today's incumbents was very different from what was needed, causing a significant gap between supply and demand. Additionally, the pipeline of potential talent to fill key roles within each segment was also weak. The disconnect between supply and demand was further exacerbated by the fact that over 20% of those incumbents who fit the future talent profile were either eligible for retirement or considered a turnover risk.

With this insight, the company was able to more precisely size future portfolio requirements within both segments and align its staffing and development efforts to meet future portfolio needs.

Traditional workforce planning techniques provide you with minimal insight into the number of people you will need to execute your strategy. More accurate portfolio forecasts result from expanding the aperture through which you view your portfolio. Moving beyond level and title and incorporating multiple views in your analyses enables you to better model future people portfolio needs in terms of number of people. Access to a robust spectrum of employee data points is critical to being able to conduct multiple view analyses. A rich database provides the organization with the firepower to add depth to its analyses and gives the organization the ability to measure what its portfolio can do, rather than just who is in it. It is with these data points that the important questions about future portfolio size can be answered.

1. Defining the Optimal Talent Portfolio: Identifying the Quality of Talent the Business Requires

Given a target skill mix for each activity, the next step in the talent portfolio optimization is to determine the optimal quality for each type and segment of employee—requisite, core, or strategic. The quality of skills required is dictated by the operating objectives along with the employee type. For example, a common question facing many professional and financial services companies is whether they should hire bright undergrads or good MBAs. The MBA, who is more expensive, will have a broader skill set and more experience, but may not be significantly superior (or may even be inferior) in raw intellectual skill to the bright undergrad. If the operating objectives dictate that a more core role is valuable, then you're likely to go with the MBA. Alternatively, if a strategic role is more appropriate, then the bright undergrad might be the better alternative.

Enterprise Rent-A-Car provides a more concrete example. Enterprise is not only the largest rental car company in the world, but it also dominates the market for car rentals when people are having their own cars serviced or repaired. Part of the company's operating strategy is to provide extremely high levels of service through a highly trained and motivated workforce. To this end, rather than hiring high school graduates (the traditional labor pool for rental car companies) to work in the outlets, it hires more expensive college graduates. These college grads are offered the potential for career advancement into the managerial ranks. And with Enterprise's incredible growth rate, there are ample opportunities to quickly advance to a supervisory role. However, when first hired, they perform all the tasks of the tradi-

tional rental car agent and worker, including cleaning the cars. Again, this example is about both type and quality. Rental car agents begin the career in traditional requisite role—following relatively standard operating procedures in the renting of cars. They then quickly progress into core roles as assistant managers.

2. Defining the Optimal Talent Portfolio: Talent Management Practices

To this point we have argued that maximizing the ROI on talent management requires identifying the talent portfolio required to achieve the company's strategic operating objectives. There are two more critical sets of HR practices required to realize the full potential ROI. First, the company must ensure that it is able to attract, retain, and develop its optimal talent portfolio—*talent relationship management*. Second, it must be able to fully leverage this talent through the appropriate rewards and performance management system—*talent performance management*.

While a detailed focus on either of these practices is beyond the scope of this chapter, in this section we will describe how a company's talent relationship and talent performance practices need to be customized around our three fundamental talent segments—requisite, core, and strategic. An overview of these customized practices is provided in Figure 20-4.

An obvious example, the optimal employee value proposition (EVP) for a requisite role (e.g., customer service reps and many blue collar positions) versus a core role (supervisory positions) will place much less emphasis on career development, because these roles have minimal room for advancement. On a relative basis, the optimal EVPs for requisite roles will place a greater emphasis on the quality of working conditions.

Enterprise Rent-A-Car provides an interesting illustration. While the customer service reps of most rental car companies would be characterized as requisite roles, Enterprise expanded both the depth and breadth of the skill requirements of its customer service reps. These skill requirements lead to hiring college graduates, who in turn are looking for rapid career advancement opportunities.

Now, consider the differences between core segments and strategic talent types. Where core talent types require a skill and knowledge base specific to the company, strategic talent types are oriented around skills and knowledge that are specialized and highly valuable to the company but not necessarily specific to it. Since these specialized skills can be transferred to other companies, the respective EVPs, and especially monetary compensation, need to be more closely pegged to the market. Moreover, the performance management system emphasizes objective performance outcomes first and subjective out-

	Requisite	Core	Strategic
Talent Portfolio Management	<ul style="list-style-type: none"> • Skills are relatively generic to industry • Relatively short learning curve • Orientation toward standard operating procedures 	<ul style="list-style-type: none"> • Skills are typically specific to the firm and industry • Skills continue to increase and expand with tenure long learning curve • Management of talent pipeline critical 	<ul style="list-style-type: none"> • Skills are high value-added within industry, either as specialized competency or high-end managerial/business capabilities
Talent Relationship Management	<ul style="list-style-type: none"> • EVP pegged to market • Efficient hiring to minimize turnover and ensure optimal staffing levels 	<ul style="list-style-type: none"> • Customized EVP design to ensure long-term relationship • Effective screening at port of entry critical 	<ul style="list-style-type: none"> • EVP combination of market and customized • Retention both difficult and critical and typically requires significant growth opportunities
Talent Performance Management	<ul style="list-style-type: none"> • Effective training to speed learning process • Optimal mix of base pay, performance pay, and loyalty programs 	<ul style="list-style-type: none"> • Internal career development programs are critical • Optimal mix of objective and subjective measurements and rewards 	<ul style="list-style-type: none"> • Career development combination of internal and external experience • High powered incentives along with clear lines of accountability

Figure 20-4. Customizing talent management processes around fundamental talent segments

comes second.

Summary: Focusing on ROI

We have defined talent management as the identification, development, and management of the talent portfolio—the number, type, and quality of employees that will most effectively fulfill the company’s strategic and operating objectives. From an ROI perspective, we placed emphasis on deploying the optimal portfolio of talent to the company’s activities, within its overall operating model. Of course, there are a number of design decisions that must be made in configuring a talent portfolio in terms of number, type, and quality. While each of these design decisions (number, type, and quality) has an

associated ROI, maximizing the ROI on a particular human capital investment (or practice) requires that this practice be aligned with the overall talent portfolio strategy and that the talent portfolio strategy be aligned with the operating model. Consider our example of the company that chose to retrain its transactional sales force to implement its new, consultative sales model. In this example, the training efforts failed as the “retrained” salespeople reverted back to their transactional sales habits. Hence, the ROI on the training expense was low. The low ROI on the training had nothing to do with the quality of the training, but was driven by a flawed talent portfolio strategy.

Finally, we noted earlier that the current emphasis placed on an ROI in the context of human resource management is part of a larger and more comprehensive focus on productivity and profitable growth. This was in contrast to “strategic human resource management” concepts that focus more broadly on creating a stronger linkage between a company’s strategy and its HRM practices. However, in our framework they are one and the same. That is, our approach to maximizing the ROI on talent management hinges directly on optimizing the company’s talent portfolio in order to meet its strategic and operating objectives. Since strategy is about strategic commitments in the marketplace concerning where and how to compete, there is no stronger link between human resource management and strategy than in the investments the company makes in the talent portfolio it deploys to implement that strategy.

Note

A more formal analysis would include the cost to serve each customer, including the cost attributable to the sales force. Our perspectives on sizing draw heavily from the ideas expressed in a series of articles written in 2002 by Sibson on the topic of People Portfolio Management for hr.com.

Chapter 21

CEO Succession Planning: Ensuring Leadership at the Top

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Dayton Ogden, Co-Chairman
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WITH A GROWING SEA CHANGE IN THE PREVAILING PERCEPTION OF appropriate corporate board involvement, it is perhaps not surprising that CEO succession is an area more in the spotlight than ever before. As guardians of the interests of shareholders, directors are naturally concerned with the ongoing health and success of the corporate enterprise. An uninterrupted flow of capable leadership is vital to the goal. Succession, then, must be considered primarily and fundamentally a responsibility of the board.

The concept of succession planning has evolved in recent years. Once viewed as a “process” that existed only in the mind of the CEO and defined as the designation of a successor if and when the CEO deemed necessary, succession planning today is viewed as a far more complex process with many levels and layers. The discretionary duties and timetables of CEOs and directors have given way to much more defined and structured corporate governance responsibilities. High expectations and vigilance from shareholders and the media have increased pressure on boards to ensure that all the bases are covered and that, no matter what the circumstances facing a

company, an effective leader will be ready to step in and take over, on a moment's notice if necessary.

What does “having all the bases covered” mean these days? It means that, working together, the CEO and board should have a contingency plan and successors ready to implement in response to all of the most common succession scenarios that may confront a company, including:

- Incapacitating illness or sudden demise of the CEO,
- Unsatisfactory performance by the CEO,
- Surprise departure of the CEO, and
- Normal retirement.

While it's the high-profile, dramatic succession cases that usually make the headlines—the CEO who is killed in a plane crash or dies suddenly after being hit by a health crisis—it is often those that play out quietly and steadily that other companies can best learn from. The succession scenarios that are a true tribute to the leader are not the cliffhangers but those that are anticipated and meticulously planned for and that create nary a ripple with employees or shareholders.

But pulling off such a seamless transition is no easy trick; in fact, it's no trick at all. Instead, it is the result of years of internal discipline: careful and systematic planning, planning that never stops, because while one leader is in place there is always the preparation for another who will take his or her place. And while succession planning is often viewed in terms of passing the baton at the top or similar metaphors, such as anointing the heir apparent, in reality, the organizations that develop leadership best are those that work continually at all levels of the organization, developing successors throughout the corporate matrix and thereby strengthening the entire entity. In these organizations, to put it succinctly, succession is not an event but an ongoing process—a way of life deeply embedded in the culture.

Of course, while this strategy may make sense, most companies do not work this way. Sudden departures of a CEO or other key executives who often have no immediately apparent successor are continually in the news. And while it is not unusual or necessarily a bad thing to look outside the organization and even the industry for leaders, it should be done as part of a reliable process, one that does not create havoc within the company or among investors. Considering how unpredictable the overall investment climate has been recently, the fewer surprises the better if the goal is to instill confidence in shareholders and prospective shareholders.

CEOs: Part of the Job from Day One

By definition, succession planning is a forward-looking process, but it starts with the here and now: with a CEO and board members who are committed

to planning for the future. And one of the primary assumptions is that the future will be different from the present. The best succession planning begins with a well-thought-out strategy of where the marketplace and the business are going. Only when there is a fix on a strategy can the serious consideration of appropriate replacement candidates begin.

It is critical that any succession strategy, if it is to be a success, be married to the business strategy. This requires a little crystal ball gazing but, as a number of companies demonstrate, it can and must be done.

Ray Smith, former Bell Atlantic CEO, knows a thing or two about succession planning. Prior to leaving Bell Atlantic in 1998, Smith had developed two inside candidates and through the acquisition of NYNEX a third emerged as the successor. Smith's choice—against the backdrop of the merger and turbulence in the industry—reflected his recognition of the need to link strategy and succession planning.

What was the mindset that led to the development of several excellent candidates and, ultimately, a smooth transition in leadership once Bell Atlantic merged with NYNEX? Smith explained it to us like this: "The trick is to formulate solutions that meet more than one scenario, can be changed quickly, and allow you to move fast when you have to, like Wayne Gretsky skating to where the puck is going to be, or a chess player seeing two or three moves ahead in the game. These scenarios require an infinite number of alternatives and require flexibility and agility."

One thing Smith left out of the equation, which is indispensable to success, is that the CEO who is helping to plan for his or her replacement must be not only realistic and oriented toward the future strategy of the enterprise, but secure and confident as well. An insecure CEO, or one who cannot imagine the organization without him or her, let alone plan for it, can easily sabotage the process—even unwittingly. On the other hand, a confident CEO who recognizes the business urgency of identifying and preparing replacements and the limits of his or her own mortality can do more than anyone to ensure the future success of the business and a positive legacy.

Identifying and then grooming and retaining top management candidates—particularly highly desirable candidates for CEO spots who may be coveted by competitors—requires careful planning and a great deal of balancing. Identifying potential successors is only the beginning of the process; they then need to be given opportunities to more fully develop their skills and add to the experience they will need should they become CEO. In addition, directors need to become familiar with them in a variety of work-related and social contexts if they are to become real contenders when a decision is finally made.

We recommend that, from the beginning of a CEO's term, he or she immediately begin planning for one or more appropriate successors. While exit plans are never top-of-mind when a new CEO starts, many events can

intervene to cut tenure short—sudden health concerns, accidents, even a sudden need to dismiss the CEO with little warning from a board. No matter what the circumstances, it is always a prudent idea to have someone waiting in the wings—even if he or she is not needed until a much later date. Appropriate successors will also likely to change over time, as the business context changes, so a drop-in candidate should be continually reevaluated and another chosen if necessary.

How Boards Must Lead the Way

The involvement of the board is critical to success at every phase and every level of succession planning. Aside from the fact that succession is rightly viewed as primarily a board responsibility, there is another reason for directors to be actively involved: to counteract the all-too-human reluctance of CEOs—like the rest of us—to plan for their own obsolescence. Why do we put off writing wills and dealing with related issues? For the very same reasons CEOs, if given their druthers, would push succession planning to the back burner: we do not wish to confront our own mortality.

But planning must be made a high and ongoing priority. If boards take charge, they can continually keep the CEOs' feet to the fire to ensure that it is done systematically and properly. This entails planning and executing a number of key responsibilities.

The succession process must be a transparent one, with ample room for the board's initiative and input. From the very beginning of a CEO's tenure, boards should set the tone with the CEO and make it clear that succession will be a high-profile issue. It should regularly be on the agenda for discussion at board meetings. Some boards drive home the importance of the message by making succession planning one of several critical responsibilities of the CEO and structuring incentive compensation to reflect the earnestness and depth of his or her efforts in this area.

If the board is ultimately to help make a decision on a successor, it must be provided exposure to all potential candidates. Because appropriate candidates will change over time, depending on required skills in the shifting business environment, all up-and-coming leaders should be exposed to the board on a regular basis. This should include not only presentations at board meetings but social occasions where the board will have a chance to evaluate the personal style of any potential successors. That way, no matter when the board has to make a decision on replacing the CEO, it will possess the required in-depth knowledge of all candidates to make an informed decision. Whether in a business or a social context, directors should be able to gather first-hand knowledge of any successor, rather than having all information funneled through the CEO.

Particularly in situations where there is a clear heir apparent, directors must closely monitor things. Is the Number Two deriving enough personal satisfaction and recognition from the position or is he or she merely waiting to be called into service? Have meaningful responsibilities been clearly spelled out or is the CEO unwilling to share? These are important areas for the board to evaluate and discuss with the CEO and the Number Two if it expects the successor to stick around. When the Number Two feels shut out and demeaned, he or she is ripe for the picking by a competitor looking for a capable CEO.

To help ensure that the right signals are being sent to the Number Two if a transition to a new CEO is to take place within a relatively short time-frame, a clear timetable should be established by the board and the CEO and communicated to the successor. If the board wishes to hold on to successors it has helped to groom and hopes to keep, it is only fair for the contenders to know the timing of shifts in responsibility and title changes, as they are determined by the CEO and the board. When the timing is unclear for any length of time and the future is uncertain, it is not uncommon for Number Twos to jump ship for other beckoning opportunities.

Assuming the board is taking an active role in getting to know succession candidates, helping them gain the valuable experience they need, and keeping them apprised of transition plans, it is also important to make sure they implement appropriate financial handcuff arrangements to encourage successors to remain with the company. Following are some tools to consider:

- If an heir apparent has been officially designated, consider linking his or her performance appraisal and compensation formula to the current CEO's and revising compensation to reflect changing responsibilities.
- When a strong Number Two has been turned down for the position of CEO, determine the priority of retaining him or her and adjust compensation accordingly.
- Devise handcuff packages tied to profitability and timed to ensure retaining the executive through an extended transition period, long enough to provide the new CEO with the support required and ensure leadership stability.
- Structure CEO and Number Two bonuses in such a way as to meet the "performance-based" criteria required under the revised tax code.

Building Strength at All Levels

The common conception of succession, and the one we have focused on so far, has to do with changing leadership at the top: one CEO moves out of the corner office and another moves in. Yet those of us who work closely with organizations developing leadership know that this scenario captures only a

fraction of the whole organizational development picture. The most important and telling aspects of the leadership-development process take place beneath the top level, often out of view of anyone outside the organization. What does become evident, often only when it is too late, is how ineffective this process is when leaders who have been brought up through the organization are actually needed.

While it may seem strange coming from executive search consultants who help companies identify and hire leaders, we believe there should be a much greater focus on developing talent from within, at all levels. Certainly there will always be a need to hire outside talent under certain circumstances—to infuse a fresh perspective into organizations as well as to bring in needed expertise that may be lacking. But companies that are constantly involved in the leadership-development process never have to worry about running out of talent or becoming too dependent on outside hires. Training their own leaders and bringing them up through the ranks helps to ensure a steady supply of talent that has been groomed to meet their needs and match their culture. Some even suggest that the entire organization runs better when there is an emphasis on development. As a former executive vice president at General Electric—renowned for its world-class leadership-development process—told us, “The act of creating a mentality of development within a company makes for more effective operations even before the change takes place. People function better in a developmental mode.”

Yet unlike General Electric, which has populated the business world with CEOs, most companies are not at all adept at operating in this mode. Think about it. When asked to list companies that are known for growing and developing leadership, the list is a short one indeed and most people will come up with the same companies—a half dozen, maybe a dozen at the most. Why is that? It’s because getting the result means putting in a great deal of work, systematically and continuously, and most companies are not geared to doing this. And it is because companies do not maintain the required internal discipline that they often turn to executive search firms to come up with an external solution.

The work can and should be done and the discipline maintained, but it must be made a priority. With other matters perceived as more pressing topping the CEO’s agenda—and because there can be complex, emotional issues tied to his or her own succession—the succession process is one best managed by the board. Companies that do succession right, and produce the best results, find practical ways to build succession into the board’s agenda to make sure it is handled properly and receives the attention and planning it deserves.

Implementing a Process

With so many other priorities clamoring for the attention of CEOs and directors, it's no wonder that establishing a systematic succession process often gets lost in the shuffle. But that is precisely why establishing the process is so important. Once the proper mechanisms are in place, the process may have to be fed, the machinery oiled, and responsibilities met, but the momentum is already under way and expectations established. With a tickler system—including quarterly management reviews, annual reviews, and regular board discussions with the CEO—that periodically raises succession issues to the fore, the topic will not be relegated to the bottom of the pile.

But the bottom of the organization is where succession planning actually starts if organizations really wish to develop their own talent. At the very heart of a comprehensive succession process is the notion of identifying high-potential executives—those whom the organization is placing bets on for success and will want to keep—and giving them ample opportunity and training to develop their talents. Homegrown talent doesn't happen consistently by accident; it takes years of nurturing and rewarding. The time and expense required are indisputable. The advantages, however, are also indisputable.

Adhering to this philosophy helps to increase the pool of talent in an organization and ensures fewer and less lengthy gaps in leadership. There is also less risk in appointments resulting from the homegrown method, as CEOs and directors have the opportunity over an extended period of time to see candidates in action. Moreover, it is likely less costly than hiring external candidates, especially when hidden benefits are factored in, such as improved employee morale as well as productivity from continuity and stability and possibly improved customer satisfaction and loyalty. There is also the potential for more stable, even improved market capitalization, because of confidence in leadership continuity and direction.

Those organizations that recognize the value of developing leadership will start the process with identifying those with potential but they certainly will not end there. These candidates in whom the organization is investing its future must be provided plenty of opportunity to grow and stretch their skills. They also need feedback and recognition of their accomplishments and the fact that they are moving up in the organization.

Companies that are really serious about developing leadership are willing to take risks with those they consider valuable up-and-comers by giving them significant responsibility early in their careers. By giving these individuals a chance to spread their wings and solve problems, they allow those with real leadership ability to prove their mettle and rise to the top. They can then move to another level, with increased levels of responsibility, while those who demonstrate less success as leaders are not rewarded, but rather weeded out of

the development process and perhaps ultimately out of the organization entirely—especially if they cannot see a promising future for themselves there.

Once an organization has made the significant investment and developed the talent, holding on to it also becomes a priority. The most talented and desirable leaders will certainly be on the radar screens of competitors who will undoubtedly attempt to lure them away. And those companies that are best known for developing a cadre of talent are carefully monitored by those that have been less successful in developing their own talent and prefer to reap the benefits of another organization's efforts.

There are a number of defensive measures companies can take to retain valuable talent they may have spent years training and cultivating, but they fall into three general categories. First there are *financial* incentives, which include some of the handcuffs and other arrangements we have already discussed. Also important to highly regarded future leaders are *psychological* incentives, where companies work to increase the personal job satisfaction of top managers. Finally there are *organizational* incentives, where companies make structural changes to allow top executives greater latitude in exercising their leadership skills, effectively giving them authority over their own "company," a discrete unit.

The importance of psychological rewards that satisfy the ego of the senior most executives and encourage them to remain with a company should not be underestimated. We've observed a change in the titles that designate top corporate executives in recent years, from general manager to president, for example. Not only are there great psychological rewards for managers who are able to run their own show, but companies often find that such arrangements provide great returns for them, as well. Larger companies have discovered that, by finding ways to inject some entrepreneurial vigor—previously more characteristic of smaller ventures—and allowing managing executives greater control over their destiny and that of the company, they can produce impressive results, both for the individual and the company.

Developing a Succession Culture

Companies that have the greatest success at succession planning share a number of common best practices. Certainly very few companies would encompass every one of these recommended practices, but drawing from the best of the best, each of the following 10 practices makes a statement about how succession is viewed and planned at companies that are serious about implementing and maintaining an effective succession planning process.

1. **They have strong involved boards.** Companies that are effective in succession planning have boards that are deeply involved in the process with the CEO on an ongoing basis.

2. **They continually expose their top managers to the board.** Companies that are effective in succession have CEOs who provide regular and meaningful business and social exposure of potential inside candidates to members of the board.
3. **They encourage “next-generation CEOs” to gain exposure to outside board service, to the media, and to the investment community.** Companies that are effective in succession provide opportunities to the top-tier executives to serve on a few outside boards and to be exposed to investment analysts and other opinion makers on the Street and in the media. This helps to shape their understanding of the proper relationship between board and management and the forces at work outside the company.
4. **They form executive committees or “offices of the chairman” to facilitate the development of several executives who are aware of challenges, business plans, and strategies across the entire organization.** Companies that are effective in succession have CEOs who develop small teams of insiders who become “interchangeable” through cross training and continuous exposure to the entire business.
5. **They view succession planning as an ongoing and “real-time” process.** Companies that are effective in succession planning have boards and CEOs that communicate regularly (at least once or twice a year) on a formal basis to determine who would likely be in line to take over in the event of a crisis. These discussions are linked to the strategic planning process to ensure a fit between where the business is going and the skills of the “next of kin.”
6. **They take as much of the human drama out of the succession process as possible.** Companies that are effective in the succession process try to build in as much predictability concerning the outcome as possible. By encouraging a team approach to the leadership of a corporation and reducing “horse races” among top contenders, there is less risk of losing valuable top executives when the successor is named. It is also common to aggressively handcuff the top team to discourage defections when emotions run high before this critical period.
7. **They link the CEO’s compensation to the development of succession plans.** Companies that are effective in succession have boards that require CEOs to report regularly on succession-planning activities with various contingency plans and formally link this to their bonus opportunity. Some corporations are beginning to attach a specific formula (up to one-third of total bonus opportunity) based on their success in this area.
8. **They pay their directors increasingly in stock and require directors to make a personal investment in the company.** Some companies that are effective in succession are guided by a philosophy that directors take

succession more seriously when their own economic interests are at stake. This is achieved, they argue, by requiring directors to purchase “significant” equity in the company.

9. **They periodically calibrate likely internal candidates for CEO against comparable outside leaders.** Companies that are successful in succession planning have systems in place to develop “market intelligence” on outside candidate possibilities on an ongoing basis, to ensure that the best possible leader is tapped from the broadest possible universe. This process is especially important in those companies undergoing substantial change, where outside experience may be critical to execute a new strategy or to change the momentum or direction of the business.
10. **They develop a “succession culture.”** Companies that are effective in succession not only take CEO succession seriously, but also have boards and CEOs that require all levels of the organization to plan for the inevitability of change. Some of these organizations have developed matrices for succession involving dozens of top executives and “high-potentials” to ensure that they are given the proper tools, exposure, and training to develop into contenders for advancement.

Boards will continue to be under scrutiny to assess whether they are properly discharging their responsibilities on behalf of shareholders. In this new climate, succession planning and ensuring capable ongoing leadership will assume even greater importance in the spectrum of directors’ duties. Although it is not always carefully planned and attended to, succession planning can and must be done systematically and effectively. Nothing less than the future of every organization depends on it.

Chapter 22

Talent Management in a Global Firm

Richard J. Pinola, Chairman and CEO
Right Management Consultants

IN REVIEWING THE SUCCESS OUR FIRM HAS EXPERIENCED OVER THE PAST decade—growing from 90 offices in a handful of countries to more than 300 offices in 35 countries and from \$40 million in annual revenues to close to \$500 million—a few principles of talent management stand out to me as having been critical to these achievements.

In the long term, the effective management of people has to take place within the context of an organization's strategic vision. It is the careful planning and implementation of strategy that lays the foundation for an organization to which talented people will be attracted and in which they will thrive and contribute to the organization's continued growth. This applies across the boundaries of culture and geography. Here are a few principles that have worked well for us in managing the human side of being global.

Don't Be Afraid to Impart American Culture

Just because an idea is American doesn't necessarily mean it's a bad one. We have found that it can be beneficial to bring ideas that have worked well in the United States into our working relationships in other cultures—even

when the ideas are initially not well received. In particular, compensation issues, such as pay-for-performance and work ethic issues, to name two, have, in the end, been embraced by our colleagues around the world, once they have seen the advantages. Naturally, we don't want to be the "ugly Americans" throwing our weight around everywhere, but I believe many good ideas can be successfully transplanted into a wide number of cultures. In the end, it is the quality of the idea that matters, and we work hard to adapt and integrate true best practices, regardless of where they originate.

If you pursue global expansion to achieve growth with these issues in mind—in other words, if you pursue cross-border acquisitions with a keen awareness of culture and environment, with a practical assessment of culture, strategy, and local economic factors that could impact the viability of your investment, and with the courage to bring along best practices that can work well in other cultures—you have laid much of a solid foundation for successful global operations.

Of course, strategic, cultural, and financial considerations are not the whole story. Successful global business involves people—identifying, acquiring, and effectively managing the key talent that brings the strategic vision to life in terms of capabilities, teamwork, client engagements, and customer satisfaction.

Hire Local, Hire Global

Wherever you are establishing operations or acquiring existing operations, you need to have the right people in the key positions. We have generally found it best not to have the "American in Paris" syndrome. We hire local nationals with local expertise, but with as much global, multinational experience as possible. You can't have someone who only wants to play on a local stage; the person has to want to play on a broad platform, regionally and internationally. We look for people who mirror our own strategic view on this issue. No matter how expert someone is, if he or she does not have a global vision of the organization, that person is not going to fit into your plans, if you are trying to be truly global. Nearly all our clients are global and they are looking for consistent, cost-effective solutions to their problems, across geographic areas—and we need to reflect that orientation in our organization.

Recruit for Fit and Chemistry

You can't really do international hiring through search firms. They can get you candidates, but you really have to be there on the ground to know if you are doing the right thing. Often, you have to sell them on the idea as much as the other way around. You have to be open and honest about what your culture is

and manage their expectations. Any individual or potential acquisition considering becoming a part of our organization has to know what we are about. For instance, they have to understand that, as a public company, we have to raise the bar every year. Some private firms might have two good years in a row and be really happy. But we have to be better every year. If they don't want to come into a growth environment and the responsibilities that it entails, it's better for them to think about this early on, rather than joining the firm and having conflict over these issues later. Careful due diligence saves a lot of trouble down the road. We tend to hire entrepreneurs, not caretakers.

Don't Just Manage Long Distance

One obvious challenge of building a global team with cohesiveness, loyalty, and enthusiasm is the physical distances that separate us. Naturally, telecommunications makes an enormous difference in our ability to manage far-flung relationships and to get information out to large numbers of locations quickly and simultaneously. But I have found that, if you really want to be a leader, you have to have a physical presence. You need to spend enough time in each community that forms a critical part of your global organization to be seen as present, concerned, and involved.

A key word here is *inclusion*. We have found that our people in other geographies are more worried about feeling like a foreign outpost than about being overmanaged by the Americans. Almost without exception, they would rather have us show up than just be left alone. If they had wanted to be left alone, they wouldn't have wanted to join our company. No phone conference, e-mail, or interactive video can take the place of being there.

As Chairman and CEO, I have a special responsibility in this regard and dedicate an enormous percentage of my time to visiting all of the regions in which we do business. But this is not just a CEO issue; anyone we recruit onto our senior team at corporate, whether in finance, marketing, or IT, must accept his or her role as a global leader. If you can't be there and hear about and experience first-hand what is happening in each location, how can you provide leadership or service to support what they are doing? It's the only way to have real credibility in the field—be there.

Unify People Through Policy and Practice

For people around the world to feel a part of one organization, they have to be connected to it in tangible ways. We try to do this through involving a broad cross-section of representation in the development and standardization of best practices, marketing plans, and other similar processes. But we also do it financially, by having worldwide participation in the corporate bonus pro-

gram, tied to company performance. This way, people in all locations really care about what happens to every client engagement. Even though pay-for-performance is less well known and accepted in a lot of areas, once our people understand it, they embrace it because it makes a lot of sense and provides a strong incentive for top performance. All of these efforts contribute to worldwide teambuilding.

Bring People Together

One practice we find especially powerful in strengthening our people is simply getting them together whenever possible—to create venues for office-to-office interaction, partnering on projects, and sharing of information and current issues and to promote good interpersonal relationships with fellow employees. We do this on a regional basis, such as bringing together people from all over Europe to discuss marketing strategy or the integration of a newly acquired firm. But we also work hard to bring people together on a global scale, at various corporate training events and, especially, at our annual Worldwide Meeting. While we can't bring all our employees to headquarters every year, we always bring the key players from every region where we operate, plus a number of other selected individuals who will benefit from personal contact with the scope of the companywide effort they are a part of. Then, they go back to their own countries and talk about what they have experienced, and this has a ripple effect, building enthusiasm, morale, and teamwork—and supporting global productivity. Then, the next year, a few different individuals come from that area, and it keeps building over time. Similarly, the senior management team regularly takes a “road show” presentation into the field to reach a maximum number of company employees with a report on all aspects of our strategic plan. This cross-pollination process is absolutely critical to creating a worldwide operation that can act as one firm and continue to attract talented professionals to join the team.

Approach Every Corporate Initiative as a Global Initiative

My senior team will say I beat this theme to death. We recently did one of our proprietary surveys in the United States. My first reaction was “Great! When are we doing it in Europe and Asia?” The same goes for everything else: marketing materials, branding initiatives, internal communications—it's all got to be done with equal force for all the cultures within the organization or you are working against yourself. If we pilot initiatives only in the U.S., the overseas offices don't even know about it or they hear about it and get turned off by the fact that we're experimenting with these things only in America.

Obviously, you always have the challenges of multiple languages and cultures, but this is just part of the price of doing business globally.

Invest in Global Succession Planning

There is no question that managing succession planning across a global operation is not easy. Recently, we were looking to fill a position in another country. After a long process, we found someone who fit our culture, had multinational experience, and had managed operations in several countries, and he was perfect—but people like that are not necessarily plentiful and they are not inexpensive. You definitely have to spend more money to fill key positions and to have strong backup in place when you add the demands of global orientation and experience to the mix.

Another thought on succession planning is this: because of the nature of our business, we are geographically more broad than deep, in terms of concentration of employees in various locations—and I think this is true for a lot of companies. So we have to be selective in where we invest in succession planning, because you can't afford to have backups in place in every part of the world. You have to pick and choose where it's going to do you the most good or where not doing it could cause you the most harm. But, if you spend more time on the front end—hiring—you have better results on the back end in terms of loyalty, fit, and a stable team. Pick the best people for the job.

Finally, if you're filling or backing up positions in the context of an acquisition, don't let yourself get involved with the "who bought whom" issues. Look instead at who is best going to serve the corporation and its strategic goals. If you don't stick by that and you get sidetracked on the personal or political issues around an acquisition, you'll have some happy people in an ineffective company.

Conclusion

Over the past 10 years, we have clearly witnessed in our firm the critical synergies that exist between business strategy and talent management. As we have progressed through several three-year strategic plans, we have also seen a steady building, expanding, and strengthening of our leadership team, both domestically and globally. As the strategy has been implemented, whether in support of growth, technological depth, diversity of services, or geographic expansion, it has reliably and predictably improved our company's overall performance. This consistent success over time has attracted good people who want to be part of a winning team with a future. Even people who have left us for a time have often come back, in new and elevated positions of responsibility.

I like to point out that, if you lay our three last strategic plan booklets side by side, they look very different; each one is a little slicker than the one before, with a little more color, more professional design. But when you examine their contents, you will find that the strategy itself has only changed incrementally, mostly in degree of emphasis, from year to year. It has been this seamless consistency of plan and execution, the carefully managed, evolutionary improvement of everything we do, that has produced our successes and prevented any one mistake from having undue impact.

This approach has built the platform upon which we have been able to reinvent our original business, establish a substantial new business, and take both into 35 countries around the world, supported by first-class technology for internal and external communication needs alike. Such a formidable infrastructure, coupled with superior financial performance and progressive incentive programs, provides an unbeatable foundation for being an employer of choice. It not only attracts potential acquisitions; it also attracts top talent from competitors and from the job market at large—because people see a future, they see opportunities for international experience, and they see that employees are valued, developed, promoted, and rewarded.

Chapter 23

How Boards Can Shape Talent Planning and Development

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THE EXCESSES OF ENRON, WORLD COM, AND TYCO AT THE END OF THE 20TH century caused the United States' regulatory and legislative bodies to focus their corrective-action lasers on corporate governance processes and accountabilities. The mandates of Congress, the Securities and Exchange Commission, and New York Stock Exchange, while well intended, do not go deep enough in root-cause reform actions, because the success and failures of corporations do not reside in documents, filings, disclosures, financial statements, or incentive plans. The success or failure of a corporation or any institution resides in the quality of its values, the strength of its competencies, and the capacity of its leaders to be role models for appropriate employee behavior.

Boards of directors of public corporations have not sufficiently accounted for any mismatch between a company's values and competencies and human capital. Yet, we know that this misalignment is the formula for shattering market value and the dreams of all the corporation's stakeholders.

There is a whisper in boardrooms that sounds something like "We are spending more time at even more committee meetings with increasingly

greater liability for what we should know. How do we get more assurance that we have the right people doing the right things for the right reasons in the right way?" This whisper has grown into a roar that is being echoed on both Main Street and Wall Street. There is an increasingly heightened interest in and demand for systems and processes that enable directors, market analysts, and investors alike to determine the reliability of the alignment of a corporation's values and its organizational competencies with its human capital.

Values: Statements and Actions

Corporate value statements must go beyond the fine-tuning of committee grammarians. They need to go beyond platitudes of intent. They must be the touchstones of learned, shared beliefs. Value statements should be a mirror into the soul of the corporation and the collective behaviors of its individual employees. Value statements should be treated as an organizational competency and a strategic advantage.

Other than codes of conduct or ethics violation reporting guidelines, there is no current or pending legislation or regulation that holds the board accountable for overseeing the alignment of the corporation's values, its organizational competencies, and the degree to which its human capital is aligned with its values and competencies. Misalignment is the root cause of corporate failings. Therefore, corporate boards must demand corrective reform systems, policies, and processes to ensure that institutional competencies and values are defined, understood, and managed as the only expected, acceptable, and rewarded behaviors. The institutional competencies (skills, values, expected behaviors) drive real value for all stakeholders and should preclude the need for external legislative actions.

Values: People and Culture

In most glossy annual reports, analysts' presentations, and investors' conferences, the CEO assures the audience that the company has outstanding people who embrace the corporation's strategic vision, live its values, and drive its corporate performance. To honestly make this claim, the CEO must have a system in place to assure that employees are selected, promoted, and rewarded based on their embodiment of the organization's core competencies and values.

Unless a major executive defection or executive reorganization takes place, few questions are asked about the way human capital is acquired, invested, grown, or retained. There appears to be insufficient emphasis on auditing human capital, yet it supersedes all other capital in its value to current and future operations, bottom-line growth, and shareholder return. To

address this weakness, corporate directors should require that the CEO document and demonstrate the systems, infrastructure methods, policies and practices that the corporation uses to size, evaluate, and ensure the value-creating capacity of its human capital. The board should demand periodic outcome measurement reports on the effectiveness of the human capital investment process.

The data received by the board should minimally include:

- information on the size, growth, and turnover of high-potential individuals throughout the organization;
- the classification and backup status of key positions;
- the assessment of the entire workforce in terms of performance against institutional core competencies; and
- the current and projected levels of diversity within the employee population.

The board should also review this type of human capital alignment data prior to the approval of any new or changed strategic direction, merger or acquisition, or major technology initiative. Further, the board should use the data to determine executive succession adequacy and to establish management performance goals.

The systems, infrastructure, methods, policies, and practices that the corporation uses and reports to the board must clearly include the ways that management communicates and holds people accountable for their impact on the corporation's institutional competencies. There should be specific examples of expected behaviors that fit and don't fit with the targeted corporate culture—the sum of values, skills, and behaviors documented as institutionalized competencies. The culture must be observable in the way the corporation conducts itself with its employees and how it presents itself externally to all stakeholders.

There is a subset of institutional competencies covered in the code of conduct and ethics statements that all employees are required to read and sign annually. The board can take some comfort in this exercise, but it neither attests to nor ensures that the values are being lived in the way employees do their jobs, individually and collectively. Nor can words on a corporate document reflect employees' level of empowerment, their demonstrated commitment to quality and integrity of outcomes, or their productivity, creativity, and the way they understand and manage operational risk.

Promoting Ethical Behavior

A better way to ensure that ethical behavior is a part of day to day organizational life is to incorporate the desired behaviors into employee selection cri-

teria and make them part of the performance appraisal, promotion, and reward systems. This is the only way the board could reasonably conclude that the corporation's values and organizational competencies are being maximized to create real value. It will result in a motivated cadre of leaders and employees who are capable of and focused on driving the operating performance, fiscal stability, and financial goals of the corporation. By ethical, legal, and sound business principles, the CEO is accountable for this activity and must be able to demonstrate that all systems of skill and talent assessment, placement, acquisition, development retooling, replacing, and rewarding are aligned with operating performance goals and strategic initiatives and that they enable sustainable competitive advantage. Holding the CEO accountable for making this happen is a board responsibility. It is too late when it becomes the purview of regulators and legislators.

Chapter 24

Succession Planning in Family Businesses

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SUCCESSION PLANNING AND ESTATE PLANNING ARE OFTEN THOUGHT OF AS the same thing in family businesses, but they are vastly different. Estate planning is often an individual activity; succession planning is always a group process. In the former, an owner meets with the attorney to decide how to distribute assets upon his or her death, documents are drafted and signed by the owner, and that's it. For succession planning to succeed, there must be cooperation and support by the three constituent groups that exist in every family business: family members, managers in the business, and owners. The greatest challenge lies in the fact that each of these groups has its own set of divergent needs and interests. When unattended in the succession planning process, these divergent needs and interests become significant sources of conflict. This is at the core of why succession planning in family businesses is vastly different than it is in any other type of management or ownership succession. This is the "readiness factor," measured as the willingness, desire, and commitment of all those involved to support the transition process. Without readiness, all the planning in the world will fail.

Successful family business succession is thus tied directly to how

aligned the needs and interests are among family members, company managers, and owners. Family members arguing over who will get the most financial benefit from the business, company managers undermining the next generation of family leadership, and ownership transfer running into conflict because of troubled family relationships are frequent causes of failed family business succession planning. In addition to divergent needs and interests, family businesses must also find ways to deal with the protracted history of relationships in which key players have grown up with each other and respond to each other as much out of their relationship history as they do out of the current reality. The key to making succession planning work is to start early in nurturing the right attitudes and implementing the necessary structures to support them. The right attitudes start with the owning family members viewing themselves as stewards more than as proprietors.

Successful multigenerational family businesses live by a profound sense that their business is not a personal possession, but trusts that have been given to them for safekeeping and for which they have deep caring and respect. The owners of these firms, among the longest-lasting and most prominent companies worldwide, view the businesses more as a responsibility of stewardship than as the privilege of proprietorship. It always seems that, in spite of differences, conflict, and even divisions, their stewardship responsibility brings them back to center, back to unity of focus and effort. It tempers proprietary interests that typically revolve around the old viewpoints of "What's in it for me?" or "It's mine and I can do what I want with it."

For these owners, there was a sense of almost sacred trust akin to that of a parent ... one who co-creates life but does not own the child, rather nurtures him or her into an independent and healthy person. For the family members, there is a sense of having received a gift, not one they deserved or to which they were entitled, but one that they accept and treasure with respect and gratitude as a family heirloom and legacy. For the businesses and their managers, there is a clear sense of attachment and personal investment in the company's purpose and values to the extent that their allegiance and loyalty accrue to the business more than to the founder or owning family. In other words, these people have an answer as to *why* all of the trouble is worth it and their answers are bigger than the individual proprietary interests.

Research supports the key role stewardship plays in family business succession. Barbara Dunn determined in her study of 10 Scottish family businesses in 1994 that "stewardship of wealth and employees' well-being" and "caring and loyalty to staff and customers" were two of the 14 "philosophies" these families identified as underlying success.¹ A study by Ivan Lansberg and Joe Astrachan of 109 family businesses on the influences of family relationships on succession found that "highly committed families viewed the firm as a continuing legacy in which the family's traditions, iden-

tity, and culture are embodied. A distinctive feature of families that are highly committed to their businesses is that the parents convey to their children a sense of excitement about the business and its future. Ensuring the long-term viability of the firm is a central concern for these families."²

Based on the research, Dunn, Lansberg, and Astrachan concluded that it is the principles and practices of stewardship that are central to the long-term success of family enterprise.

An Owner's Responsibility

The development of a core ideology of stewardship in a family business begins with the owner. It is an ownership responsibility. It is through the owner's initiative that it becomes the core ideology of the company. It is through the owner's leadership that stewardship becomes the benchmark for family members, especially successors, against which to measure their relationship with the business. An owner can develop these characteristics by adhering to a list of principles of stewardship. The principles are intended to provide benchmarks for identifying, evaluating, and building stewardship.

- Business ownership is not my right but my privilege.
- My business depends on my looking after its best interest, and that means acknowledging when I am part of a problem.
- Every day is a new opportunity for me to do something good for my business; it's up to me whether or not it happens.
- I cannot let discomfort and fear, my own or others', cause me to avoid facing and resolving difficult family and business problems.
- To keep my business healthy, I must remain healthy, too, through ongoing personal development of mind, body, and spirit.
- As both an owner and an employee, I will not knowingly abuse the privilege of business ownership, nor jeopardize the well-being of the whole for the benefit of any one individual, myself or someone else.

The Tools of Stewardship

The orientation of stewardship is built each day by how you think, make decisions, treat others, and recommit to the principles of stewardship. However, there are some tangible and objective tools that can be used to foster the core ideology of stewardship in your family business. Clearly a thoroughgoing adoption of stewardship as a company's core ideology begins with the owner and the owner's commitment. There is certainly more than enough evidence to convince any family business owner of the importance of stewardship principles to success, especially success in succession.

However, you cannot wait until the day before you've decided to step out of the business to begin working on stewardship. In the best of all worlds, it

started years ago, even from the beginning of your business or your role as leader of your business. In reality, though, awareness of the importance of values and purpose, especially stewardship of what we have been given, comes from our maturing. Nevertheless, it is never too early—or too late—to begin laying into place structures and approaches that encourage the growth of this essential ingredient to multigenerational family business success.

The tools described below are designed to strengthen alignment among the family, business, and ownership constituencies, foster readiness to move forward, and exemplify the principles of stewardship in ownership and management transition structures.

Family Participation Plan

One of the most powerful tools is the family participation plan. It spells out the family's values and vision for the business, the family mission statement, and resulting guidelines for family involvement in the business. This is the place where family members engage in discussion about the core values and the core purpose they want to reflect the family and direct the business. It may involve questions like the following:

- What values and principles do we as a business-owning family want to guide our relationships and activities?
- How do we want these values and principles of stewardship to be put into action in our family and business relationships?
- What guidelines should be established to inform present and future generations regarding possibilities for involvement in the business in management and ownership?

When completed, the family participation plan contains a statement of values and purpose and includes guidelines regarding entry and exit requirements, ownership expectations, family employee performance measurement, progression planning, compensation, supervision, and other provisions. The plan is a valuable tool for building family cohesiveness through commitment to stewardship principles, arriving at shared expectations, and fostering ongoing open communication.

The following steps will help you develop a family participation plan:

- Bring all family members who have an interest in the family business together for a one- or two-day family meeting to develop the plan.
- Prior to the meeting, distribute to all participants a letter explaining the purpose of the meeting and the importance of developing a family participation plan and what it will accomplish.
- Along with the letter, attach a questionnaire for participants to do some preparatory thinking as family members about their vision and

values regarding the business, how they would like to see the family and business interact, what guidelines (such as hiring of family members, compensation, the role of in-laws, previous experience, and behavior) they think should apply to family interested or active in the business, and what they personally would like to gain from the preparation of the family participation plan.

- Conduct the family meeting, with the assistance of a trained facilitator, for the purpose of encouraging discussion, exchanging ideas, arriving at a common understanding, developing the written document, and deciding how it will be communicated to employees, managers, and other family members not in the meeting.

Broadly speaking, any family member who is considered for promotional opportunity, and ultimately for the top position, must demonstrate and embrace the principles of stewardship. Throughout the development process, the family member must be coached and mentored on how to embody these principles and transmit them to others. In addition to embodying the principles of stewardship, the family member (hopefully a Superkeeper) must demonstrate adherence to the family participation plan. Over the course of time, it is essential that he or she lead the development of such plans. In particular, high potential family members must accept and achieve high standards of performance.

Successor Development Plan

The successor development plan is a future leadership plan for the business, incorporating the values, principles, and provisions of the family participation plan and spelling out the requirements and expectations for aspiring successors. It is the plan standing behind the grooming and supporting of Superkeepers in the family business.

It is also based on the needs of the business, as reflected in the business continuity plan (to be discussed shortly). It identifies the specific skills and qualities required of the successor. While focused on the needs of the business and aspirations of the family, on the one hand, the plan is also tailored to the individual successor aspirants. The plan lays out the specific skill and ability growth areas for the successor, outlines a timetable for acquiring those skills and qualities, indicates how they will be measured, and specifies points of progression based on performance.

The successor development plan is a fantastic tool for making the principles of stewardship tangible at the very heart of the transition process, successor development. It also does wonders for reducing ownership fears and anxieties of change and transition by providing objective and measurable criteria. The formative and supportive benefits for the successor are obvious.

Based on the family participation plan and the future leadership and management needs of the business, the plan determines the qualities and attributes that the future CEO must possess. Without the successor development plan, you risk an unintended yet debilitating mediocrity in leadership and management and possibly depriving the business of the Superkeeper talent it needs.

The following steps will help formulate a successor development plan.

- Solicit the interest of family members in connection with career opportunities in the business.
- Identify the specific knowledge and skills that will be needed in fulfilling the needs of the business, such as technical skills, management skills, communication skills, planning skills, sales and marketing skills, problem-solving and analytical skills, international business skills, and so on.
- Determine the educational requirements for the key position for which the family members can be considered.
- Determine what experience in the industry and outside the industry will be required.
- Identify the points of career progression, when they will occur, and how candidates will be evaluated.
- Assess all family members against job requirements and career interests.
- Determine whether a family member can progress in the organization. (Use many evaluations, including board members.)
- Once successor candidates are identified, work out a specific career development plan that specifies how they can meet requirements.
- Coach, mentor, and sponsor candidates in the correct skills, values, and behaviors needed to perform well on the job.
- Create a formal continuity plan and advise stakeholders of the plan.

Shareholders' Agreement

The shareholders' agreement is normally thought of only as a document that indicates how shareholders will handle stock transfers. However, it provides a rich opportunity for making tangible the owners' and family members' commitment to the long-term success of the business and safekeeping of their trust.

For example, the shareholders' agreement can include provisions for resolving conflicts, protecting the company from shareholder stalemates, and ensuring that self-interest will be held in check through supermajority or "Texas Shootout" clauses.

The following steps will help you prepare a shareholders' agreement:

- Determine what the agreement is to achieve based on the family participation plan and the best combination of interests of the business and the shareholders.
- Articulate provisions regarding who can own stock; what happens to a shareholder's stock upon the shareholder's death, disability, divorce, marriage, retirement, or termination of employment; restrictive covenants; valuation clause; provisions for windfall profits and resolving deadlock; supermajority provisions to protect minority owner interests; and provisions for majority and minority owner responsibilities to each other and the business.
- Engage an attorney who is an expert in family business shareholder agreements and will work with you to draft an agreement that specifically meets your needs.

Business Continuity Plan

This entire presentation has been based on the notion that the key element in successful succession is in viewing the business as a responsibility of stewardship rather than as a privilege of proprietorship. In the majority of succession planning situations, which of the three constituencies—family, business, or ownership— would you guess has its needs most frequently overlooked? If you said, “The business,” you are correct. With the needs and interests of family members, shareholders, and even advisors clamoring for attention, the business can get lost in the shuffle. This runs 180 degrees contrary to what we know needs to happen. What can be done?

The business continuity plan gives the business a voice too. Successor development is based on the needs of the business interfacing with the values and priorities of the family. The business continuity plan provides a connecting point for aligning the needs and interests of the business with those of the family, through interface with the family participation plan, and with those of ownership, through interface with the successor development plan. The business continuity plan does wonders for reducing the anxieties of managers by clearly spelling out the direction for the future and how they, owners, family members, and successors will help get there.

- Establish the business continuity planning team composed of family members and non-family managers.
- Educate the team as to the family's commitment to the principles of stewardship and family aspirations as represented in the family mission statement.
- Facilitate the team's development of the following planning components:
 - Five-year vision for the company.

- Competitor analysis.
- Evaluation of company capabilities and environmental threats.
- Creating, revising, or reaffirming the company's mission statement.
- Determination of three-year priorities to achieve the mission.
- Establishment of 12-month goals for accomplishing priorities.
- Input from key managers or employees not on the planning team regarding the vision, mission, priorities, and goals.
- Conduct an analysis of goals to analyze all the forces that will positively and negatively impact goal attainment.
- Develop detailed action plans that delineate specific tasks in achieving goals, persons involved, resources required, and anticipated start and completion dates.
- Make sure action plans are coordinated and not unrealistic.
- Determine management coordination mechanisms for evaluating progress toward goals and establish guidelines for accountability of persons responsible.

There is one more difference between succession planning and street gang fights—at least when succession planning is infused with the principles of stewardship. *When you draw the circle big enough so that everyone fits inside, you don't have to worry about keeping anyone out.* Nurturing a core ideology of stewardship based on the principles of stewardship is the means to drawing the circle big enough not only to encompass the needs and interests of ownership, family and business but also to transcend those interests and to encircle the past and the future in a continuous progression of multi-generational family business success. Successfully achieving business continuity requires family business executives (Superkeepers) who embrace the principles of stewardship, lead family participation plans, create business continuity plans, and inspire all involved in the business.

Notes

1. Dunn, Barbara. "Success Themes in Scottish Family Enterprises: Philosophies and Practices Through the Generations." *Family Business Review*, Vol. 8, No. 1, 1995, 21-22.
2. Lansberg, Ivan, and Joseph Astrachan. "Influence of Family Relationships on Succession Planning and Training: The Importance of Mediating Factors." *Family Business Review*, Vol. 7, No. 1, 1995, 43.

Part IV

Building Diversity into Your Succession Plan

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Chapter 25

Building a Reservoir of High-Potential Women and Diverse Groups

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The Winters Group

IN TODAY'S COMPETITIVE ENVIRONMENT, DIVERSITY IS A KEY ELEMENT IN A successful succession planning process. When properly acknowledged, diversity provides realistic and achievable goals that are competitively advantageous and beneficial to both the individual and the organization. Diversity, integrated within the succession planning process, forms the strategic alliance between management and the diverse workforce to ensure the retention and development of future leaders who represent a variety of backgrounds.

Succession planning strategies must recognize each employee regardless of race, color, religion, gender, or disability as a valued individual contributor, promote the existence of a fair system of workplace equality, and reflect a diversity philosophy whose intent is easily understood by employees. It is then easier for the "best and brightest" to commit to the company for the long term, knowing that their commitment to the company is shared by the company's commitment to them.

Succession planning approaches that incorporate diversity strategies add a significant level of complexity to a process that may be very vague. The

more clearly delineated the succession process, the easier it will be to create a more diverse workforce. This chapter will explore ways to build diversity into your succession plan.

Diversity-Focused Succession Planning Risks

The succession planning process is fraught with potential risks if it has not been carefully designed and communicated. When a diversity focus becomes part of the process, the necessity for clear communication and thoughtful creation is even greater. Several potential risks follow:

- Often leadership development and promotion of key performers is highly subjective, based on a favoritism of who knows whom, instead of an objective approach with a systematic, formal selection process. This subjectivity, if questioned by an employee, may ignite personal threats to one's job security and future survival in the workplace.
- There is always the risk that current leaders can sabotage the development of any candidate they think is undeserving of promotional opportunities designated in the succession plan, chosen only for minority representation.
- Succession planning candidates' inexperience with organizational climate issues may impede their leadership development. Minority candidates need adequate time to develop and align with corporate values as well as time to understand the cultural dimensions of senior management.
- Corporate leaders may assume that minority people will not adopt the cultural values of the company or the organization and foster culture change over time.
- The organization may be "unconsciously" resistant to upsetting the status quo. In order to succeed, everyone—through introspection—must acknowledge that a diverse workforce led by diverse top management will benefit all stakeholders.

Diversity as a Component of the Succession Plan

Here are six reasons for including diversity in the succession plan:

- It is the appropriate thing to do. Diversity means encouraging and enabling all employees to draw fully on their talents and skills for the benefit of the business.
- By 2005 native white males (both well and poorly educated) will make up only 38% of the American workforce, a continuous decrease. Competitive advantage will come to those companies that best adapt to incorporating diverse groups into their leadership development.
- It better reflects the customer/client mix.

- It enhances organization decision-making by offering alternative opinions and perspectives.
- It shows the public that the company is fair in its practices.
- It minimizes disillusionment in diverse groups, ensuring greater participation in business procedures and practices.

Considerations for Succession Planning

This book was intended to help organizations achieve excellence through proactively managing their people. Integrating diversity considerations into succession planning must therefore consider the three key success factors inherent in achieving organization excellence.

1. Find, assess, develop, reward, and retain Superkeepers—those employees who greatly exceed organization expectations and are the backbone for current and future organization success.
2. Identify and have backups for key positions with the best candidates. Key positions are critical to organization success.
3. Invest resources in employees based on current and potential contribution to organization success.

Three potential strategies for diversity and succession planning emerge from the preceding success factors.

Scenario I

Every organization seeks to increase its pool of Superkeepers, since these individuals represent a major driving force to excellence. Since diverse talent can enhance the collective impact of this group by providing alternative perspectives, an organization must be prepared to grow its Superkeeper potential pool from the entry level and therefore must accelerate its efforts to recruit members of diverse groups. Once an individual is identified as a Superkeeper, career paths, rewards, and training and development must be accelerated. Since the Superkeeper pool is inherently small, care must be taken to properly develop sufficient numbers within the critical talent cadre to generate “diversity” candidates for future assignments. When organizations have a void (positions with no replacement), they should seek to recruit candidates with diverse backgrounds at the Superkeeper level. Although the pay-level requirements to attract and retain this group will be higher, the move is justified to increase the Superkeeper pool. Ultimately, no significant impact on the payroll will be felt by providing incentives for this small number of must-have individuals.

Scenario II

Key positions must be backed up by the best-qualified candidates. The suc-

cession planning system must ensure that there are no barriers to members of diverse groups from competing for those key positions. Again, building a pool of highly talented people at the bottom levels provides ample opportunity to assist, develop, and position diversity talent.

Scenario III

An organization must invest in individual employees based on their actual and/or potential contribution to creating value for the organization: Superkeeper—greatly exceeding organization expectations, Keeper—exceeding organization expectations, and Solid Citizen—meets organization expectations. “Diversity” can be included as a key organization competency. This competency brings multicultural enrichment for all employees. Perhaps the qualification is based on an ability to recruit other candidates with diverse backgrounds by contributing to the image of the organization as a fair employer. Perhaps the qualification is based on an ability to put ideas into play that might not otherwise be considered. Nevertheless, people possessing the “diversity” competency must be at least a Solid Citizens (hopefully Superkeepers or Keepers) to be considered for such a role. An organization should rationalize clearly the benefit of establishing such a qualification and, once it is established, the organization can proceed to select suitable candidates possessing this desirable competency. Everyone in the organization must be fairly assessed in terms of performance, potential, and competencies and these must be projected into career paths, training and development, and other enrichment opportunities.

Monitoring Diversity in Succession Planning

The best ways to monitor diversity is through “bench strength” summary reviews where reports on replacements for specific positions, including voids, are periodically reviewed. Also Superkeeper reports (lists of highest-talent diversity human resources) are analyzed. A review of these two reports provides detailed information of the diversity talent flow at each level and should include proactive development plans for all candidates listed.

Reflecting Diversity into the Succession Plan

There are four broad options for reflecting diversity into your succession plan:

1. Voids. Ensure diversity in recruitment plans.
2. No void. Use existing replacement/override with diversity candidates. (This option is rarely used.)
3. Introduce diversity into entry-level recruitment processes.
4. Introduce competencies and a performance management system that

produce awareness and accountability at all levels of the organization for diversity strategies.

Organizations with a specific competency or behavioral competency component that addresses diversity considerations ensure that supervisors and managers are measured by the quality of their decisions regarding the selection, development, and retention of women and diverse groups. The link becomes stronger when it is part of a manager's performance review and connected to salary considerations. The best companies have orientation and training programs based on the "diversity" competencies to ensure ownership in the process of all organization levels.

Addressing these four options appropriately should lead to the development of a large diverse pool of employees through:

- Active selection, development, positioning, and retention of women and diverse groups.
- Identifying and eliminating barriers to promotion.
- Ensuring that women and diverse groups receive suitable consideration.

Benefits of Diversity-Focused Succession Planning

Diversity-focused succession planning benefits an organization by:

- Identifying individuals from diverse groups for leadership roles in advance of need.
- Assisting the decision-makers in developing, training, coaching, and mentoring multicultural people for future achievement, thereby ensuring continuity of diverse leadership and continuity of a culture based on minority sensitivity.
- Providing an interactive process to continually assess and retain the organization's key performers and make the organization more attractive to multicultural job seekers from outside.
- Assisting with translating corporate goals and objectives into concrete organizational actions by bringing diverse viewpoints into the decision-making process.
- Facilitating a perception of a congenial workplace that in turn makes for a more productive environment. By creating an environment where employees feel content knowing that they are valued and that advancement opportunities are available to them regardless of their religion, race, or gender, an organization reaps the benefits. Happy employees require less human resource intervention, thereby adding to the bottom line.

Challenges for Every Company

Identifying intelligent and gifted people within the organization is very competitive in today's market—resources are scarce and companies are vying to attract and retain these valuable resources. Companies are aligning themselves as mentors to universities and colleges to help identify the brightest and most talented students so they can attract people from all cultural backgrounds that can be integrated into the company's culture and value system. Once these people are hired and trained, companies must make a compelling statement for them to stay. All people seek an environment that values individual contributions and acknowledges cultural differences. In particular, people from diverse groups are very sensitive to their environment. They must feel that their contributions are recognized and that they are fairly included in the company's vision, goals, leadership, values, and future strategies. Their satisfaction will be reflected in increased work performance and long-term loyalty to their employer.

A successful diversity-focused succession planning process will contribute to a strong, integrated culture that reinforces an organization's vision, strategy, and goals. A creative diversity-based succession planning process attracts and keeps the most talented employees, provides outstanding returns to shareholders and stakeholders, and has a guiding purpose that inspires loyalty and long-term commitment to the organization.

Chapter 26

Building a Reservoir of Women Superkeepers

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FEMALE EXECUTIVES ARE LEAVING ORGANIZATIONS AT A SIGNIFICANTLY higher rate than their male counterparts and, because of this, a number of challenges exist for corporations concerned with attracting and retaining them. Research discussed in this chapter addresses the reasons that senior women are abandoning their big companies, big jobs, and big money. Why should this trend be both important and alarming to corporations? There are clear reasons for companies to direct attention to their women executives. With women constituting half of society and half of the workforce, it is impossible to tap into the existing talent and the future labor pool without including women. In addition, the inclusion of women creates a diversity of viewpoints, perspectives, and management styles, which in turn produces better business decisions, which can generate additional profits. The benefits offered through the addition of women are vital and cannot be overlooked by business.

Loss of Senior Talent

Growing numbers of women in the senior ranks are leaving corporate America.

In fact, *Fortune* 500 companies are experiencing departures of their female executives at a rate twice that of males. Why are these women leaving and where are they going? Research shows that many of the women cite frustration with their work environment, specifically that they feel out of sync with the corporate culture and see few opportunities for advancement. This leads them to pursue entrepreneurial endeavors and positions with corporate competitors. In fact, women are now opening 77% of new businesses in this country and the number of firms owned by women is growing twice as fast as all businesses. Indeed, in light of the cultural obstacles many women face, their decision to leave and start a company of their own where they can establish values, policies, and style of management is logical.

The Business Case

This loss of a large percentage of the talent pool constitutes a unique challenge to corporations' ability to retain, develop, and advance their women employees. The associated business issues can have a significant impact on corporate productivity and profitability.

According to an article in *Harvard Management Update* (Donahue), "In today's knowledge based economy the loss of high-level women in corporations is a loss in intellectual capital, knowledge, and connections. The loss of good people also precipitates low morale and uncertainty among the staff and incurs the cost of recruiting, hiring, and training replacements."

Recent national studies show a correlation between the number of women executives and profitability. According to a study conducted by Pepperdine University in California among *Fortune* 500 companies and cited by the *Harvard Business Review* (Adler), organizations with higher percentages of female executives produced earnings far in excess of the median for other large firms in their industries.

Another study, conducted by University of Michigan Business School professor Theresa Welbourne, analyzed over 1,400 companies and found that women in top management positions make for a healthier and wealthier company. Her research found that, for rapidly growing companies, the initial stock price, stock price growth, and growth in earnings over three years was higher for companies with women executives. Welbourne commented on her study, "I don't think it's the women per se that's causing the positive effect. I think it's the diversity of the management team." Welbourne believes that different ideas and perspectives on management teams can lead to better business decisions.

There are a number of potentially costly business issues to be faced by companies, either as a direct expense or in terms of potential revenue lost:

- The need for women, as a key market segment, to be represented in

leadership positions: With women making over 80% of the buying decisions in the \$3 trillion consumer product market, there is significant potential revenue to be lost by eliminating even a portion of the market. If a company's human resources are not matched to the needs of the market segment, opportunities will be lost. The woman consumer clearly responds to marketing and makes buying decisions in a different way than a man. Therefore, the optimal business decision is to have women actively involved in creating and implementing strategies and in designing and marketing products and services that appeal to the woman's market.

- **Creating diversity in senior positions within the corporation:** The unique perspective of female executives has been documented as leading to better business decisions, which translate to greater revenue and can produce better operating decisions that save the company money. Conversely, a homogeneous group may generate decisions with limited scope. With its narrow point of view, it is more likely to miss an option or a creative solution to a problem. Further, if a company exhibits a pattern of exclusionary behavior, it risks the threat of costly litigation that can affect shareholder value and generate negative publicity. This type of behavior will ultimately affect the cost of recruitment, because it will be harder to persuade women and minorities to join a company without a demonstrated commitment to diversity.
- **Retention of female talent, which constitutes nearly half of the available workforce:** The cost of replacing an executive is generally calculated at one and one half times current salary, which includes recruitment costs, replacement salary, and possible severance and litigation costs. There are a number of soft costs as well, including loss of knowledge, client relationships, and morale of the other women in the company. Businesses that are serious about retaining women leaders should first determine the extent and cause of the problem and then become active in making necessary changes within the culture of the organization.
- **Integrity within the organization and the authenticity of its leadership:** Companies must articulate a cogent set of values and act on them in a consistent manner. For example, a leader who believes in diversity must ensure that the message is being reflected in the structure and composition of the organization and that there is consistency in the company's words, policies, and practices. When a company is perceived as inconsistent, sending confusing messages or not being open and honest with employees, commitment is lessened. Untold dollars are lost in time wasted by employees speculating at the water cooler or coffee pot, discussing rumors and complaining to others, and time spent looking

for other jobs. Additionally, there is a lowering of morale, a rise in performance issues, and, finally, an increase in attrition. Lack of authenticity, the consistent alignment between action and values, is a frequently cited reason for women leaving an organization.

- **Accountability** throughout the company, from the top down: It is critical to the integrity of the organization that its leadership team be held accountable for carrying out the company's vision and meeting its goals. All members of the organization should get appropriate, ongoing feedback in order to determine if policies are being practiced at all levels. If leaders are viewed as exempt from accountability, it becomes clear to employees that the policy is not truly valued because there are no repercussions for failing to follow it. This behavioral gap between practice and policy is a key issue and one where many companies fall short. Whether it involves diversity goals, a respectful environment, or work/life balance, once employees, particularly women, no longer believe that the company is behaving authentically, there will be substantial costs involving commitment, retention, motivation, and recruitment of female talent.

What the Research Shows

The 2002 Leader's Edge Research™ study surveyed 100 high-level women who recently left their companies voluntarily; the stories they tell are compelling. The focus of the research was to determine why high-level executive women leave companies, what companies could have done to retain them, and what advice these women would give to corporate America.

When asked about the reasons for leaving their organizations, a majority of respondents gave answers that fell into the following three categories:

- **Culture:** The women felt that their "style" was criticized and that it was difficult to get their ideas recognized. They discussed integrity issues and some said that it bothered them that the company philosophy had become more about profitability than client needs. Others cited a "closed" management style and felt a lack of trust. "Corporate America needs to know, accept, and respect the fact that completely different work styles from people, including women, are not only OK, they are valuable and productive," according to a former healthcare industry executive interviewed.
- **Communication:** They felt that they were excluded from important meetings and pipelines of information, company information was not openly shared, and they were often "out of the loop." One consultant put it this way: "Key information was being held by just a few individuals, even if others needed it to do their job right."

- **Career Development:** Respondents voiced concerns that no one took an interest in their careers and that they did not have a course charted. A number of women surveyed mentioned the lack of a career plan and strategy. As a partner in an international accounting firm said, "There was no real attention paid to my career path once I made partner—I was the only one who thought about it. There is no institutional path for career development."

Lifestyle issues were also mentioned as important in the decision to leave:

- **Flexibility:** Many women discussed the inflexibility of the work environment, that they were not given the ability to work off-site or adapt hours to family obligations. "With all my travel, there was no official flexibility to allow me to work from home. I was finally told that the company would allow me to work from home, but that it couldn't be official because they didn't want to set a precedent," according to a former human resources director.
- **Life/Family Balance:** To some women it seemed the message was that it was unacceptable to have a life apart from work and that time needed for family reasons was not seen as valid or important. A woman executive in the medical industry said, "We were expected to work 24/7. No one in management had a home life. After a while that gets old."

Respondents were asked what changes their most recent employer could have made to encourage continued employment. They said:

- **Inclusion:** A more open, less secretive culture and a respectful environment were mentioned as positive elements of change. "Corporate America needs to hire more diverse employees to get a critical mass of females, not just at the bottom, but all the way up the line," stated a woman in the financial services sector.
- **Flexible Environment:** Suggestions in this area included allowing options such as telecommuting, job sharing, and more flexible hours that would provide a more family-friendly atmosphere. A marketing executive offered this suggestion: "Be extremely open and aggressive in allowing woman much more balance in their lives. Allow more time for working from home.... I'm much more productive working at home than I ever was in the office."
- **Feedback and Career Planning:** Respondents want their contributions to be valued and feel that the company should encourage and support their efforts. They want to feel that there is a system in place for career planning based on honest evaluations and feedback. "Human Resources needs to be much better at developing career paths and

plans for all employees. Proper career development is a powerful retention tool," said a woman who was in banking.

The survey asked women to recommend a global change that corporate America could make to help retain senior executive women. They said the following:

- **Invite Diversity:** They want to have their business style respected and the company to have an appreciation of the benefits of diverse thinking.
- **Create Critical Mass:** Respondents want to see enough women in all areas of the organization, specifically senior and board positions.
- **Level the Playing Field:** Instead of being restricted in one area or position, those surveyed recommend that women be exposed to more job areas and opportunities. They want to be certain that they are being given equal access to assignments, clients, and new business. It is also important to them that there are no assumptions being made about their interest in or qualification for new positions.
- **Flexibility Within the Corporate Culture:** The women stressed the significance of an atmosphere of trust so that people can do their jobs within a more flexible and accommodating culture. This includes more flexibility in hours, ways of working, and amount of travel scheduled.
- **Offer Mentoring Opportunities:** Mentoring is seen as important, and it is emphasized that programs should be started at the early stages of women's careers and must be encouraged by the company.
- **Provide Ongoing Career Development:** Companies should not make the assumption that all employees are motivated by the same things; compensation and incentives should be set on an individual basis. The women want to know where they stand in terms of the organization and what are their opportunities for advancement.

The study underscores several issues of interest to corporate America.

- Women feel underutilized, due in part to the fact that they do not feel they are assigned strategic and important work assignments. One respondent said, "(I am) not able to contribute my knowledge and skills to solve problems and improve the organization."
- Recognition of differences in the styles of men and women and appreciation of that diversity are beneficial to an organization. One woman stated, "Men and women are hardwired differently, have different points of view, and both are valuable."
- Flexibility can enhance productivity and is plainly on the minds of senior women executives. One respondent said it this way: "Clearly

some flexibility around time is a must to take the pressure off females, who still carry the brunt of family arrangements.”

- Providing new challenges in positions and assignments is seen as motivational and can provide additional productivity to the company. It is also a key component to retention. One woman said, “I need to learn and grow—that’s who I am.... So, the prospect of a new area with new challenges (is) very appealing.”
- Consistency in words, policies, and practices is vital to the senior women surveyed. If they sense a behavioral gap, there is a breakdown in the level of trust. A senior executive said, “Companies give lip service to diversity, but they ignore it in practice. Just look around; how diverse are companies, especially at the senior levels?”

Diversity in Practice

Creating diversity within an organization changes its corporate culture. According to Public Broadcasting System President and CEO Pat Mitchell, “When women are at the top, we can and do change the culture. As women have come into corporations at critical mass levels, things have changed.” However, the majority of companies do not find that diversity comes to them without a concerted effort.

In some industries, there is a more female-friendly culture, which makes gender diversity easier to achieve. Examples of these industries cited by the National Association for Female Executives include insurance, consumer goods, and educational publishing. In other companies and industries, however, attracting female executives has required a significant endeavor. These companies have taken different approaches to changing the culture. Some have created top-down programs, using precise tools to measure the results. This can be a positive indicator of change to an organization if well thought out by those who understand the company’s existing cultural barriers. However, according to Myrna Marofsky, a consultant on diversity topics, “such programs can exemplify the worst kind of window dressing if they’re adopted with no understanding of the specific barriers to women’s advancement thrown up by that company’s culture” (Clever).

Others promote programs that appeal to women, such as flexible hours and professional development, thereby taking a more long-term growth tactic in changing their companies’ cultures. “The beauty of a steady, inside-out transformation is that the expectations of nearly everyone in the company start to realign, creating an entirely different culture,” says Barbara Waugh, author of *The Soul in the Computer: The Story of a Corporate Revolutionary*. It has also been noted that in companies where a top male executive leads the initiative for change, he has often been influenced by a situation where he can

observe work/family challenges faced by a female close to him, such as a wife or daughter.

A number of different approaches and initiatives have been used by companies, according to a study by *Working Woman* magazine. Deloitte & Touche, selected by the magazine as one of the Top 25 Companies for Executive Women, launched a Women's Initiative in 1993 that has shown a great increase in the number of women in key leadership roles. The Initiative includes networking sessions, a flexible work program, senior management goals and accountability, and mentoring programs. Marriott launched its Women's Leadership Development initiative in 2001 and tied senior managers' year-end bonuses to measurable increases in the advancement of women leaders. Another Top 25 company, American Express, has increased the number of senior-level women by conducting a talent review to retain high performers. Principal Financial Group's discovery of Hispanic women business owners as a new market segment led to several changes in its culture, including efforts to recruit and develop Hispanic women, alliances with national women business owners, associations, and event sponsorships targeted to this market.

Health Magazine honors companies for supporting women as they balance their duties at work and at home. "The 10 Best Companies for Women" 2002 list consists of both large and small companies who help women "win at the work-life challenge." Some of their "winning traits" include flexible hours and working from home, work time allocated for community projects, family-friendly offices allowing visits with children, and a monthly women's networking group. These companies have invested in women and have documented rewards such as low staff turnover, enhanced productivity, and company loyalty.

Strategies and Guidelines

In order to create a more effective workplace and one that attracts, develops, and retains talented females, the company and its women employees should enter into an agreement on what steps each will take to improve the work environment. This new "employment contract" requires an acknowledgment that cultural improvement is necessary and recognition that it is a corporate priority. The accomplishment of this initiative involves a commitment from both sides of the equation, corporate management and female employees, confirming that each is responsible for contributing to its success. The "contract" entered into by the company is that it will take the necessary steps to address the needs of its female employees and support women throughout the organization. The women's portion of the "contract" is that they will be responsible for their own development and take advantage of the opportunities provided by

their employer in order to be more effective business contributors. Following are some guidelines for the organization and its women.

Organizational Guidelines Checklist

Management:

- Create a vision of the company as a diverse organization and share it with all employees.
- Conduct an assessment of the current situation, if not already completed.
- Create a “respectful work environment” and have senior management participate in education for managers and employees around diversity. Management should lead this effort through their behavior.
- Identify opportunities for women to serve on outside boards and committees in representing the company.

Human Resources

- Establish business unit-specific diversity performance guidelines to attract and retain a diverse workforce at all levels of the organization and hold managers accountable.
- Link talent management reviews with diversity goals for identifying women and minority candidate pools.
- Monitor EEO/AA and other employment-related data to identify and address diversity issues.
- Support flexible work options in situations where individual and department objectives can be met.
- Have the words from the top connect to policies that lead to practices that reinforce the goals of senior leadership to have a community of employees that mirror as best as possible the communities in which you live and work.

Development

- Create role models for identified leadership behaviors.
- Create information networks, supports, and resources for women to learn about leadership capabilities and opportunities.
- Identify and encourage mentoring opportunities that support the enhancement of critical leadership skills.
- Support networking groups.
- Create opportunities for visibility (taskforce leadership, presentations, etc.) for high-potential women.
- In the performance review process, give appropriate training to managers so that career development is truly discussed, as well as opportunities for lateral transfers, rotations, and new assignments, to give an individual the opportunity to increase and enhance skills so that

women are not siloed in one area.

Women's Guidelines Checklist

- Build open and more effective networks in order to become better known, make important contacts internally and externally, and gather competitive and/or helpful information for the company.
- Identify and communicate strengths by having a clear, realistic picture of your talents.
- Study and refine communication skills, with the understanding that men and women communicate differently, in order to more effectively communicate ideas and strategies and be heard.
- Endeavor to be more risk-taking and strategic in terms of career growth.
- Use mentoring effectively, choosing the right mentor for a particular situation.
- Enhance personal presence and understand your leadership style.
- Learn to be political savvy, to "play the game" and navigate the political arena.
- Become known internally and externally in order to gain credibility and clout.

Summary

The case is strong for businesses to rethink their approaches for attracting women and incorporating them into the workplace culture. Indeed, it is well beyond merely accepting the addition of a few token women in order to improve internal and public perception, but is of vital importance to the health of the organization. A diverse workforce is the face of the future and, from a practical point of view, with half of the available talent being female and the market demographics increasingly diverse, it will be a necessity in order for businesses to be competitive. Diversity brings new viewpoints, styles of work and management, solutions to problems, and links with the marketplace, adding positively to the company's bottom line. Responsibility is twofold: the company must acknowledge the importance of cultural improvement and the women in the company need to take responsibility for their leadership growth and career development. Once the behavioral gap is closed and senior management is committed, diversity on all levels within the corporation should become a matter of course.

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Part V

Coaching, Training, and Development

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Chapter 27

Integrating Coaching, Training, and Development with Talent Management

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SKILLS GROW THROUGH MANY KINDS OF EXPERIENCES, BOTH INSIDE AND outside of work, from classroom-based learning with peers to individual assignments designed to test, expand, and strengthen critical thinking and problem solving. Skill development comes in a variety of strategies and approaches, some crafted with intent, such as job rotation and task force assignments, and others evolving through business crisis or personal hardship to greater self-understanding and confidence.

One of the most difficult challenges an organization faces with developing and retaining high-potential talent is stringing together a range of meaningful experiences in a systematic way that will appropriately build character and skill while at the same time providing productive value to business outcomes. In order to produce a “win-win,” the needs of even Superkeepers—a small cadre of individuals who have demonstrated superior accomplishments, who have inspired others to attain superior accomplishments, and who embody the core competencies and values of the organization—must be matched to the goals of the organization.

The development of human capital requires a significant investment of

time and resources. The thinking and direction for this investment needs to be part of the business planning process at the highest level of an organization. This is necessary to ensure that the pull on task accomplishment and higher potential for mistakes and failures resulting from the learning curves of a development pool is factored into bottom-line projections. Without this kind of planning, talented professionals may encounter obstacles and possibly even a hostile learning environment, due to the lack of support from peers or potential coaches and mentors more concerned with their own goals.

Along with planning, the timing, location, and context of specific developmental efforts must also be considered. A task force assignment made early in the career of an eager young professional new to an organization and its industry will likely have a different result than what might occur with someone promoted into the same role from within the organization. It takes time to learn organization culture and practice. Every candidate for development needs to have current knowledge, skill, and character traits matched to a carefully thought out sequence of developmental experiences. These experiences should occur with clear direction, in an optimal learning environment, with timely feedback and support in ways that complement individual learning style, and at a pace that stretches without overwhelming the learner. So, timing, structure, location, resource support, and even cultural context are critical factors for assessment against individual readiness for a particular experience.

Developmental Training Within a Banking Environment

With the growth and consolidation of community banks during the 1980s came a driving need for sales and relationship-building skills. Banks raced to develop a different breed of retail branch manager and savvy, proactive lender to ensure stronger loyalties among customers while building the resource base for regional acquisition and expansion. As Vice President of Training and Development for the retail sector of Fidelity Bank of Philadelphia, I remember the strategy we employed to secure a place as a major player in the financial services arena. Hiring bright, high-energy junior professionals already working in a sales or service capacity in other industries promised a short turnaround to creation of a talent pool. A carefully targeted selection system helped to identify those with the appropriate attributes and a track record for accomplishment internally and in another field. Then came a structured orientation and training program spread out over a period of one to three years. Formal classes, both internal and external, covered financial, human resource management, and operational skills. Rotational assignments through branch

and commercial lending environments served to develop skill and an understanding of the banking business, as well as aid individuals and the organization in choosing the career track that best fit demonstrated skills. Top performers were assessed quarterly and moved quickly, assuming greater responsibility and independence for sales territories, branch deposit base and staffing complement, and portfolio complexity.

The glue that held this structured system together and produced a strong bench of new leaders in a variety of areas was a carefully crafted performance management system. Structured learning was combined with goal setting and assessment. Feedback occurred at frequent intervals and rotations occurred according to readiness. A rewards system tied to specific business outcomes provided the fuel to keep pushing the boundaries of knowledge and skill with each new assignment. Coaching and mentoring support was provided throughout. Sometimes mentoring happened by design and at other times was the result of outreach from higher levels prompted by the outstanding work exhibited by a special few. The rate of development for the entire pool was evaluated twice a year by regional leadership. Each candidate's progress was tracked and new assignments were planned according to identified strategies for expanding sales, building staff, and/or improving overall branch operations.

The success of this system was based on the understanding that knowledge may be acquired over the short term. Skills and behavioral development take longer and require oversight and thoughtful support. A well-designed talent management program plans for both short- and long-term learning needs and defines individual learning goals that integrate those of the business. To be effective, the range of experiences needs to cover knowledge, skill, and behavioral learning that is connected to the business, presented within the cultural context of the organization, and fully supported by all leadership.

Structured Orientation to the Organization and Role

Where do you start? Let's look at some of the key learning elements necessary for fast-track learners. Entry into a new role sets expectations not only for job responsibilities and goals but also for ethics, values, and acceptable behavior. This is especially the case with those who are highly intelligent, ambitious, and new to the organization and unfamiliar with organization culture and key stakeholders. According to Winifred Lanoix, Senior Vice President of Manchester, Inc., 40% of high-potential hires will fail during their first year due to missteps with relationship building, lack of clear goals, inability to identify and adapt to expected cultural practices, and insufficient

support and feedback around emerging skill gaps.

The desire to be accepted into the best circles and be perceived as an up-and-comer has the potential to motivate even very bright people to act in ways that go against the grain of their own inherent values. It is critical in the early stages of development that companies make goals, expectations, and ethical practices crystal clear.

Orientation to service, whether to an organization or a new role, is a critical stage of development for all professionals. This phase should consist not only of a well-designed and competently delivered picture of the organization's mission, vision, and business direction but also a thoughtful introduction to the values that drive decision making, areas of legal compliance, and practices that are deemed acceptable and unacceptable.

Too often there is a rush to put highly skilled people into service as soon as possible. "They're certainly smart enough to pick this stuff up along the way, and we've needed someone really sharp in this job for a long time, so assign him or her a coach and let's go!" Putting high-potentials to work the third day on the job, following only the requisite payroll and benefits introduction, may seem like the most expedient way to get someone up to speed. However, this practice invariably leads to gaps in understanding that may prove embarrassing or disastrous for the individual.

"The initial orientation experience needs to be both broad and deep," states Rosemarie Greco of GRECOventures, Ltd., "supported by the human resource function and senior business leaders and designed to ensure a full picture of corporate practice, roles of other key stakeholders, and expectations for risk taking and collaboration. Here's where we are now. Here's where we want to go as a business. This is how we see the path to get there. Now let's talk about the competencies and the behaviors that will be expected of all people in this company in order for individuals and the business to succeed."

Orientations may be structured or informal, as long as there is consistency with the message delivered. In order for these messages to have strength and meaning, they need to be delivered by or with the involvement of the organization's most senior leadership. The CEO's role must extend beyond a cameo and whoever has responsibility for corporate compliance—whether the chief counsel or a compliance officer—should have a prime time opportunity to explain his or her role and governing policies.

Coaching

Once an informal process in business environments, coaching and mentoring have taken on a mystique. But, what's it all about? Is it for everyone? Does a good coach have to have more than a successful career to be drafted as the sounding board and cheerleader for a young star?

Coaching as a developmental strategy is not a “once-and-done.” High-potential leaders will need a succession of counselors, teachers, coaches, and guides during the course of a successful career. The role may be filled by a variety of people over time in different job roles inside and outside of the organization at levels equal to as well as above that of the individual in focus. Someone new to the organization may need an equally skilled peer in a similar job to show him or her how to overcome routine hurdles and get things done with a minimum of noise. Peer coaching is also helpful to bring an individual up to speed in a particular technical skill or the elements of a business plan in process.

Research is beginning to show that minorities on a fast track need not only a good business coach but also opportunities to share their experiences with peers of similar racial and ethnic backgrounds. Companies like GE have instituted “networking groups” for African Americans, Hispanics, and women. These groups provide a forum for discussion along common cultural lines that helps translate confusing messages around competency and performance from predominantly white senior leaders who may not have the sensitivity to recognize the unusual obstacles to growth a minority typically encounters. These groups often take on a specific mission or project involving community outreach that further serves to build the organization’s reputation and the leadership skills of the participants.

Group coaching generally serves to build relationships within a cadre and strengthen confidence by providing less risky sounding boards for the pain of mistakes or missteps. However, the one-to-one relationship still stands out as the strategy of choice with high-potential talent. The focused attention, the ability to provide directional guidance, and constructive feedback in a confidential relationship all serve to accelerate growth and appropriate risk-taking. As a support to task force and rotational assignments, coaching provides exposure to the thinking and perspectives of more senior managers.

Ideally, formal one-to-one assignments are linked to other leadership development activities, business strategy, and human resource practice (Kram and Bragar, 1992). Matching at the time of need is intentional and is best done outside of reporting hierarchy. Those identified as coaches or mentors agree to a specific time commitment; in some organizations this may be four to six hours per week. Designated coaches should be recommended for the role as a result of demonstrated success, not just personality traits and need to receive specialized training to ensure that coaching practice adheres to an institutional standard. Not all senior leaders are able to provide the time and have the motivation or feedback skill to serve as an effective coach or mentor.

Again, coaching is an ongoing development strategy. Its focus grows from orientation to the business and task at the beginning of a relationship

to feedback and counseling around behavioral practice that builds self-awareness.

Issue Development Meetings

While routine staff meetings rarely hold the interest of a top performer, problem-solving meetings may serve as a development arena when there is a pattern to the session that expands beyond routine operational reporting. In the company of peers, an individual has the opportunity to observe the styles and thought processes of those whose support may one day be needed on a key project or who may provide formal feedback to the individual through a 360 assessment process. The discipline of facilitating productive discussion and conflict resolution around ideas may be learned in this arena when meeting leadership responsibilities are rotated. Care should be taken to ensure that new meeting leaders are familiar with expected meeting protocol, so a meeting leadership assignment would not occur until after a suitable introductory period to the group.

It is in problem-solving groups that more junior professionals come to understand the strategies and tactics of skilled leaders. Here member roles are often less clear. Participants are selected for functional or experiential expertise. Who is in the room often provides a snapshot of those holding power within the organization, regardless of level or title.

With the evolution of technology, new forums for discussion and problem solving are gaining acceptance. Video conferencing and satellite connections allow for virtual conversation among team members across the globe and offer yet another source of learning and fascination for fast-track professionals.

Job Rotation

Long the mainstay of management development programs, job rotation continues to provide breadth and depth of experience that serves to build solid knowledge of an operation or business segment. The rate of learning and assimilation of new tasks is usually more rapid among high-potential types, so it's important to match the competency level of the individual to the challenges of new knowledge and skill.

Successful rotational assignments include several carefully planned elements. Specific learning objectives are identified up front, performance expectations are clearly conveyed, and there is a fixed start and end time for each phase. A site mentor is identified and this individual works in partnership with a human resource or corporate leadership representative to provide direction and periodic feedback on performance.

The most common complaint with job rotation is the resource support necessary to underwrite the effort. While development is an investment in future productivity returns, care needs to be taken to ensure that the training process does not negatively affect unit business goals or customer service levels. When a site manager's budget performance is dependent on the person doing the job, the experience has the potential to become a "lose-lose" unless the impact of the new recruit's learning curve on the bottom line is factored into the plan.

What makes a rotation developmental is the way it pushes and stretches performers and moves them out of their comfort zones, requiring them to behave in new and different ways. At higher levels and across business entities, rotational assignments take on a different significance. With solid knowledge of financial, human resource, and operations functions within a given business, an individual on a fast career track enters a new proving ground. Performance goals for the business entity become the individual's goals. Often, there is less direction and competencies such as strategic planning take on additional weight. The stakes and visibility are higher, as are the expectations. Rotations at this level are most effective when there is timely assessment and feedback on the strengths and developmental needs revealed during the assignment. Without this feedback, patterns of ineffective performance may continue unchecked until they become dysfunctional, plateauing or derailing a once top performer.

Global companies are also finding that international rotations present a special set of challenges. Individuals with strong values may come face to face with cultural practices in the country of assignment that go against the grain, forcing them to examine company practices and decisions within the context of what will create discomfort or even upheaval with native workforces. One example of this may be seen in the promotion and development of women in Islamic countries where male heads of households have the final word on what women are permitted to do outside of the home.

Over the years I have seen various time frames applied to rotational assignments. It takes time for learning to produce both behavioral change and confidence in performance. Rotational assignments require more time to produce growth according to the level of responsibility involved in the role. Moving even top performers into another assignment in less than 18 months will not produce depth of learning. (Van Velsor, McCauley, Moxley, 1998)

Interim and Emergency Assignments

Every organization has experienced unexpected leadership voids as a result of turnover, major change, or crisis. Sports teams have a second string in readiness for such an event and have the capability of putting another trained

player into the game. However, businesses may be faced with how to plug a hole or provide leadership continuity during an emergency without a trained bench in readiness. High-potential performers provide one option and “readiness” is the operative term for deciding who goes into the fray and when.

While taking on a greater leadership role or stepping in to complete a critical project can provide a once-in-a-life-time opportunity to a fast-track professional, it also represents a potential minefield. Someone new to leadership, no matter how talented, may find himself or herself in the position of having to make decisions and take action well beyond his or her current knowledge or level of skill.

When an interim assignment is identified, it should be carefully profiled for the job responsibilities, skills, and behavioral attributes needed for the role to be appropriately staffed. This analysis should be matched against the track record of potential candidates for taking risks and delivering under pressure and careful thought given to “readiness.” Job components known to be beyond current capabilities should be transferred to more seasoned leaders and a strong support system put in place. The “interim” may also face resentment from new peers and others who feel the assignment is inappropriate or undeserved even though temporary. More senior leaders carry the responsibility for anticipating barriers and providing help and assistance.

Emergencies create circumstances for testing innate skills that might not be drawn out in any other situation. The experience here is quite different because it is *unplanned*. Three conditions must be present to ensure success even when the overall outcome may be perceived as a failure (McCall, Lombardo, Morrison, 1988):

1. There is a clear understanding of how the individual’s own actions caused a mistake to occur.
2. There is willingness to own and discuss what caused problems openly and honestly.
3. The individual has an understanding of how the organization typically reacts to mistakes and failures.

An emergency or interim assignment is not recommended as good developmental strategy for top performers new to the organization, especially if the assignment is short term and leadership performance will be a critical success factor for the business. “You want to stretch people, but not snap them,” states Charles Corace, Director of Management Education and Development at Johnson & Johnson. Reinforcing this view, Rosemarie Greco believes, “The growth process needs to allow for some failures, but make sure that the role will not be so visible as to ruin a career.”

Task Force Assignment

Participation on a focused problem-solving team or project task force assignment has proven to be an excellent developmental experience for new and career track leaders alike. These assignments appeal strongly to the action orientation, need for visibility, and involvement of high-potential people. They also serve to get new programs and projects up and running with the best idea generation available.

Task force teams are typically constructed of knowledgeable technicians, thought leaders, and critical thinkers from across the organization. Participation serves to broaden an individual's understanding of the business, as members share perspectives and debate what will and won't work with a particular idea or solution. The opportunity to observe team dynamics and develop facilitation, negotiation, and conflict-resolution skills may be an individual's first opportunity for leadership. If successfully managed, this type of an assignment lays the foundation for greater responsibility. At the corporate level within Johnson and Johnson, visibility on a high-level task force facilitates business leader acceptance of transferred talent. Executives get to know these people and remember them when an opening occurs in their business division.

Task force assignment can have a downside. Spirited debate, supporting ideas, and taking sides in a discussion forge not only good relationships to rely on in future situations, but also adversarial ones that may serve as barriers to getting things done later.

The first-time task force participant should have a reasonable understanding of the business in order to be a productive member and have some familiarity with the project methods and tools used going into the assignment. This means that participants need to have at least a year of service, preferably two years, depending upon maturity and skill level. Coaching or training in meeting facilitation and conflict resolution or mediation is recommended as prerequisites to support establishment of credibility despite what may be perceived as junior status.

Internal Education and Training

More and more companies are beginning to create internal "corporate universities" through development of customized curriculum, often in partnership with a local college or other educational institution. The curriculum available through this vehicle has typically been created as a result of a thorough review of business competency requirements, so it offers a readily available cache of formal learning opportunities.

Internal learning, especially in a baseline leadership development program, delivers three key benefits:

1. Content knowledge on a variety of subjects such as budgeting, human resource practice, compliance issues, project management, and current hot topics imported to support change delivered in a focused environment
2. A forum for building relationships among peers
3. Expanded understanding of self and business through case study discussion, team games, and customized simulations

The debriefing discussion around an activity designed to reveal strengths and weaknesses in decision making and team participation offers a rich learning arena that may be tied to current cultural and business challenges. Behavioral simulations in a safe environment can help those who are gifted, but unconfident, try out new things they might not attempt on the job.

With the technology available today, many routine informational programs may be made available in CD-ROM and audiotape formats. This learning mode is portable, it may be employed at any stage of development, and it is a good way to get and keep people up to speed with business changes.

Executive Programs and External Course Work

When formal internal development programs are unavailable or a learning environment is desired that allows the maximum opportunity for trying out new things away from the leadership microscope, then an executive program may be the answer. I recall a hospital that initiated a nationwide search for a new nurse executive. After an exhaustive screening process, the search committee came to the conclusion that no one from outside the organization fit the requisite profile. In turning the search inward again, a well-regarded unit director was identified who had many of the requisite leadership skills but lacked an MBA or graduate credentials with a business focus. The answer to getting this individual up to speed on hospital administration and business knowledge came in the form of a 12-month executive program at a local college.

The five- or 10-day intensive program has also proven to be a great way to fill in credential gaps and bring those with business degrees that are decades old or in another discipline current on business issues and skill. Many universities now offer year-long certificate programs on weekends that offer core concentration in organization dynamics, leadership, and a host of other subjects designed to support those moving up quickly or crossing over into another field.

Another venue for external learning is the professional association conference or short (two- to five-day) subject program sponsored through a college or university. Many of these programs feature noted authors and theorists and are useful when concentrated learning in skills such as project management or “accounting for the nonfinancial manager” are needed for a specific assignment. If these topics are needed for groups or an annual group developmental program, they are more effective and less expensive if brought on site.

Guided Reading

Some companies have made a practice of assigning periodicals and recent business books as part of a development plan. However, I have seen more of a trend away from this practice, particularly since the new generation of young talent has a strong focus on work-life balance and they frown upon further demands on their time. Certainly there is the expectation that all professionals will stay abreast of the latest concepts and practices within an industry or discipline. Physicians and technical people are usually self-motivated to keep up with the latest developments as an ongoing learning requirement for their fields. If guided reading is to be meaningful, it needs to be customized for individual competency development or project or strategy-specific. It can also be beneficial if the opportunity is available to compare notes on an assigned reading during a facilitated discussion. Guided reading can also help an organization about to embrace a particular concept get the key points across to its leadership.

Individual learning style must be considered. Some people learn well from reading anything from a financial report to a business text, while others struggle with gaining insight from reading and learn better through conversation and applied activity. Furthermore, a busy professional’s life is too stressful to add yet another requirement. Charles Corace states, “We just don’t do it; our culture does not mandate things.”

Teaching as Learning

Stephen Covey has lectured widely about the value of third-party teaching. In order to teach a subject, one must learn the material well enough to turn it around to another audience in a meaningful way. Learning to teach or deliver concise, well-developed presentations is a whole skill in itself. Teaching builds confidence and presence in front of groups, can improve oral communication, and pushes individuals to think creatively about how to convey subject matter.

At The Children’s Hospital of Philadelphia, the internal corporate university has been the vehicle for others to contribute as faculty to the overall

roster of programs offered every semester and develop new skills. CHOP has had a number of high-potential people take on teaching assignments more as a way of sharing their growing expertise in a particular topic than as a planned developmental activity. The outcome of this experience usually demonstrates greater ease with public speaking and increased discipline with the design and preparation of supporting materials. This skill carries over to enhance meeting preparation and facilitation.

As a developmental strategy, teaching assignments need to yield a defined outcome and the goal should be made clear at the beginning. Follow-up and coaching by a trained facilitator on the effectiveness of this effort is necessary for lasting effect. Post-course evaluation sheets can offer some candid commentary from the participants, but it's rare for this tool to yield much in the way of constructive recommendations.

As professionals become more confident and established within a career path, external teaching offers the opportunity to increase depth of knowledge and supports a Superkeeper's continued development. No organization, regardless of how dynamic, can keep every high-performing individual stretching and growing at the rate of his or her capacity all of the time. People also tend to fall off a high-growth track for a variety of reasons. Some may do so purposefully as a result of some personal challenge or a change in thinking about career priorities. Others outstrip the organization's ability to keep them stretched due to timing of available growth opportunities or changes in business direction. The feeling of being "stuck" leads to restlessness and the potential for moving on to another company. Serving as an adjunct at a local college or university brings new visibility to the individual as well as the sponsoring organization, offers a whole new arena of learning, and it is a way of giving back to the next crop of new leaders.

Extracurricular Activity

From improving public speaking to moving through the chairs of a professional organization's leadership structure, extracurricular activities offer a wide range of developmental opportunities. External activities free a professional from the scrutiny imposed by organizational leadership, allow for more creativity and risk taking, and can support an individual's need to have something to call his or her own. Chairing an arts group board, contributing volunteer hours to a community center, or coordinating a charitable project can have the effect of building confidence with communications and leadership skills. As an added value, these experiences provide a sense of satisfaction with helping out where needed and an opportunity to give back something to a community or local professional group. And, they build a reservoir of good will for the organization in the community.

My personal experience with an external arts group's development project allowed me to go back to my musical roots. Having turned away from music as a career path early in life, I often longed for the chance to do something meaningful within the arts world. Paired with a struggling dance group through Philadelphia's Business Volunteers for the Arts program, I encountered the need to sell my way into vendors' offices to secure writing and graphics help for a much needed publicity brochure. Coordinating multiple facets of a publicity campaign, obtaining financial support, and managing the contributions of many otherwise disconnected entities to achieve design and production of this publicity tool left me with a deep sense of personal satisfaction. The result also gave me greater confidence in abilities I did not get to exercise routinely in my primary business role, yet I came to rely on in later years. This assignment also filled in a fallow period in my development path, as my employer was then engaged in another merger that took all of the company's energy and resources.

E-Learning

Organizations that have the resources to invest in Web-based learning are plumbing a whole new well of opportunity for learning and information delivery. While the literature surrounding studies of its effectiveness has yet to prove value in behavioral skill development, e-learning is taking hold across business communities large and small. For fast-growth talent, Web learning provides a rich resource that can be accessed from any location at any time and has the added benefit of being "free." Obviously there is a cost to putting up the material on a Web site or buying programming from a host, but this cost typically does not come from a business division's budget, so it is seen as an added resource.

People with developmental needs will gravitate to Web-based programs when they are designed in short modules that parallel a leadership group's learning pathway or support a performance management program that has online mentoring and dialogue capacity.

Johnson & Johnson E-Learning Example

There needs to be a practical reason for going to the Web for information and support. Charles Corace points out, "When people see this as a performance support, they use e-learning tools." The leadership development program at Johnson & Johnson has a front-end component that is Web-based covering mission, business framework, company financials, and a host of other topics considered prerequisite learning before entering a corporate classroom. Prior to entering formal leadership study, individuals must complete all assigned e-modules. Completion tracking is done from corporate headquarters and lead-

ers cannot continue with classroom sessions until the e-learning is finished. The next step in developing this medium will be creation of the E-Johnson & Johnson University with connections to a number of leading colleges and business schools.

Summary

Whether arriving from the outside with a change mandate or moving into a fast-track leadership pathway as a junior professional, effective development occurs when there is a plan for learning and development. This plan should match the interests, learning needs, and style of the individual with the developmental strategy selected and be timed so that the strategy stretches the individual without damaging confidence. Every learning methodology does not work with every individual on a growth track. It is imperative that there be a “go-to” person outside of the business division who can serve as a coach and sounding board. Consistent, ongoing feedback and reinforcement is what leads to lasting behavior change.

Early attention to understanding of culture, norms, ethics, and business practice is as important as being able to read the company’s balance sheet. So, when the highly sought-after talent walks in the door, resist the temptation to assign him or her a challenging project before acculturation takes place. Instead, craft a transition and development plan that includes designated coaches and mentors that will ensure success from the start.

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Chapter 28

Leadership Coaching

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Overview of Leadership Coaching

What Coaching Is and Does

WE DEFINE LEADERSHIP COACHING AS A PERSONAL DEVELOPMENT PROCESS designed to enhance a leader's success in achieving his or her professional objectives within the context of an organization's values and business goals. While coaching focuses on the individual, its successful implementation brings significant benefits to both the individual and the organization. These benefits include retention of valued talent, increases in productivity, development of high-potential performers, greater job satisfaction for the participant, and achievement of organization objectives. Superkeepers—those individuals who have demonstrated superior accomplishments, have inspired others to attain superior accomplishments, and embody the core competencies and values of the organization—are key candidates for leadership coaching. Organizations must invest in maximizing the potential contributions of these crucial people.

To borrow a metaphor from agriculture, coaching is about selecting the seed, understanding the environment in which it is planted, assessing its

early growth, providing the nutrients needed for further development, measuring progress, pruning or grafting where necessary, addressing obstacles and challenges in the environment, and harvesting the fruits. Superkeepers represent the seeds that must be carefully selected and nurtured.

Coaching in Its Cultural Context

High-potential talent does not reach full development in a vacuum; rather, leaders are always part of and influenced by a corporate culture. If coaching is to be effective, it must be embraced by the organization's culture and supported by its infrastructure.

Malcolm Gladwell addressed what he calls the "talent myth" in an article in *The New Yorker* ("The Talent Myth," July 22, 2002). Using Enron as an example, Gladwell points out the fatal flaw of putting all of an organization's resources into hiring only the "stars," rewarding them disproportionately, and pushing them into greater and greater positions of authority. We know where that ended. Gladwell reverses the polarity of this model when he observes, "The talent myth assumes that people make organizations smart. More often than not, it's the other way around."

Smart organizations often employ leadership development both in succession planning and for building internal "bench strength." In this context, leadership coaching assists an organization in using its resources optimally to ensure that the group has the right number of people, possessing the right kind of talent, at the right skill levels, in the right positions, at the right time, and in the right geographic locations. Gaining bench superiority means nourishing inherent strengths and correcting weaknesses, where possible. Done right, coaching accomplishes both.

Speaking at a seminar hosted by the Professional Coaches and Mentors Association in 2002, Coach Julio Olalla described how coaching works. He drew these distinctions: teaching addresses information, training addresses action, and coaching addresses observations. Transformational learning takes place in organizations when we have a conversation that causes us to look at things differently. In Olalla's model, we observe, we take action, and we get results. However, when our results aren't what we wish, we go back and change our actions. A coach will cause the leader to reflect on the original observations and thereby produce a change in action. The evaluation of observations or review of actions takes place in coaching conversations—a vital concept explored in this chapter.

The culture and infrastructure of an organization must allow and support this conversation if transformational learning is to happen. Laurence Lyons, in a chapter in the book he co-edited with Marshall Goldsmith and Alyssa Freas, *Coaching for Leadership*, calls these conversations a structured dialogue. As he writes, "Dialogue is at the heart of coaching.... The coach

has no corporate authority whatever. But through dialogue alone, the external coach exercises considerable influence. With neither formal authority nor direct accountability, the coach's greatest ambition is to profoundly affect the way that the executive thinks and behaves."

In this coaching equation, it is important to note two operational characteristics of the relationship:

1. The outside coach should have no personal agenda. The coach's job is to objectively manage the delicate balance of addressing effective business outcomes alongside the leader's desired outcomes. (For consistency and clarity, throughout this chapter, we will use the term "leader" to refer to the individual being coached.)

2. The outside coach should strive always for a relationship as partner, colleague, ally, or equal—never as a "superior" or "authority."

Coaching is an action-oriented partnership that, unlike psychotherapy which delves into patterns of the past, concentrates on where you are today and how you can reach your goals.

—Wendy Cole, "The (Un)Therapists"
Time, Oct. 16, 2000

The Case for Coaching

Coaching Catches On

In recent years, interest in executive coaching has exploded. More organizations are using coaches, and coaching has attained widespread acceptance as a powerful and legitimate intervention. Why this popularity? We asked participants in a series of executive briefings on leadership coaching, and they noted these primary reasons:

- Jobs are more complex.
- Leadership challenges are more complex.
- Feedback is needed, yet rarely received.
- Organizations have a flatter structure, so "people issues" are even more important.
- During periods of rapid change, effective leadership is more important than ever.
- People are more open to outside help; some even welcome it.
- It is a sound investment.

The last one rings a loud bell for most organizations. Hiring a coach means an investment of an organization's time and resources. Since so many leaders are using a coach, there must be a convincing case for coaching. There is: quite simply, coaching works. And when it works well, it raises

both individual performance outcomes and their implied operational efficiencies and bottom-line reflections for the organization.

The ROI with executive coaching is often very high—especially if you calculate the value of high-level executive salary and the return-on-improvement in skill level and decision making.

—Liz Thach and Tom Heinselman

“Executive Coaching Defined”

Training & Development, March 1, 1999

Coaching Works: Reaping Returns on Investment

Effective professional coaching enhances leadership performance and, ultimately, profitability. Here’s why.

1. *A synergistic and focused relationship leads to growth and change.* The relationship between the coach and the leader is a powerful tool—there is accountability, candid conversation, and trust (embedded in the confidential nature of the relationship) that facilitate personal growth.
2. *Clear goals and a focused endeavor lead to better outcomes.* The old saying goes, “When you don’t know where you’re going, any road will do.” The same applies to coaching. The focused nature of coaching facilitates learning that readily impacts leadership behavior and the bottom line.
3. *Coaching is contextual.* Because coaching occurs in the context of work, it is tied to real-world issues and is relevant to the business and to the culture/competencies of the organization. Accordingly, it affords opportunities for growth that are inherently tied to the goals and objectives of the organization.
4. *Coaching is a systemic intervention with multiplier results.* Effective coaches include the perspectives of the leader’s boss and those of important colleagues, so that development occurs systemwide. When one leader improves her performance, benefits ripple out to her team, her peers, and other departments. The return on investment grows.
5. *Coaching focuses on using new skills and more effective behaviors.* A coaching relationship allows for behavioral change in a “safe” nurturing environment that provides a real opportunity to practice new skills. Successes are rewarded and feedback is provided for ongoing corrections. Because most development is incremental rather than revolutionary, a coach can reinforce successful growth and continue to move the performance targets forward.
6. *Executive development occurs through insight and with practice*—not theoretically, but applied on the job under real-world conditions.
7. *Coaching helps leaders develop emotional intelligence.* Recent research

strongly suggests that emotional intelligence forms the base of effective leadership. Emotional intelligence differs from conventional analytic and technical ability, and it is apparently best served by an individualized approach that incorporates extended practice and feedback. Coaching provides a framework for recognizing and working with the drives and feelings in oneself and in others.

8. *Coaching impacts the bottom line.* Leaders whose work is satisfying are more effective and more productive. While measurable data may be in short supply, most of us have witnessed this “expansion effect” in the workplace when coaching does its job.

Seven Key Elements of Coaching

Effective coaching is not amorphous. It is grounded in certain basic understandings, which we call “The Seven C’s of Successful Coaching.”

Context. The coach is able to provide appropriate and meaningful support by understanding the issues within the context of the organization’s business environment, culture, and competitive demands.

Clarity. The participating leaders are able to clarify objectives, expectations for change, and how the coaching process will be conducted.

Commitment. The organization is committed to supporting the leader and the leader is committed to working for change.

Coachability. The presenting issue and the people it affects are amenable to coaching, and the situation can best be addressed through one-on-one coaching. In reality, there are some situations where coaching would not be productive, and a responsible coach knows when to turn down an engagement on the basis of the coachability issue.

Courses of Action. The coach and the leader establish a development plan with clearly stated objectives and realistic strategies to help the leader become more effective.

Confidentiality. A “must” of trust-building.

Chemistry. Leader/coach rapport and compatibility characterize interactions and secure the relationship.

When leadership coaching meets these “7 C’s” criteria, transformational learning is not only possible but probable. Some of the results are subtle; some are dramatic, including:

- Incremental improvements, such as upgraded skills, new practices and behaviors, doing things better, and relating to others with greater self-awareness.

- Reshaped patterns of thinking, such as a revised frame of reference, a change in assumptions about how things work or how one sees the world.
- Personal transformation, such as a shift in one’s point of view about “who I am” and “how I am.”

The Coaching Process

The goal of coaching is to increase the effectiveness of the organization’s leadership talent through interactive guidance and learning. This achievement, in turn, helps ensure greater success for the organization as a whole. Coaching methodology can be used to develop the leadership skills of executives, managers, professionals, and other promising leaders at all levels. While details vary to suit characteristic levels, our coaching process assumes the basic format shown in Figure 28-1.

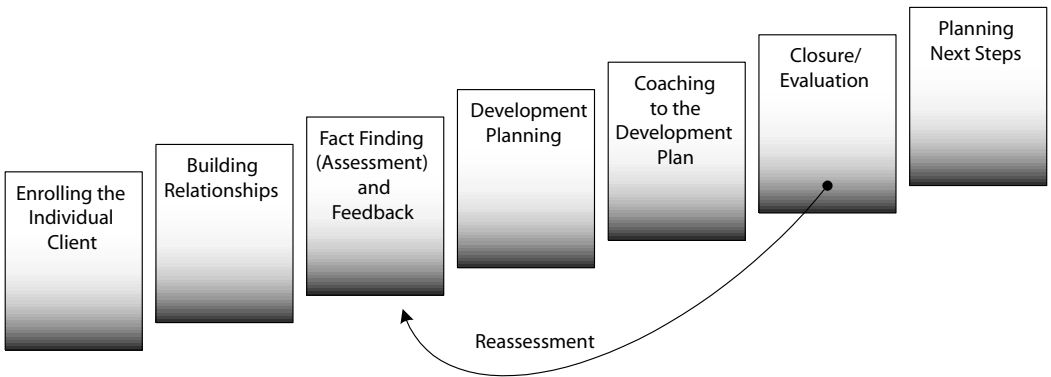


Figure 28-1. The right coaching process

The coaching process at our organization begins by *enrolling the individual leader* who is to be coached. The client organization usually selects these leaders in consultation with the coaching consultant, based on factors such as corporate goals, affected levels of leadership influence, needs of specific individuals and their direct reports, and other salient considerations.

The coach and the leader then meet and begin *building a relationship* of trust by examining their respective roles and mutual goals. The coach explains the process, sets and fine-tunes expectations, addresses confidentiality, and gains the leader’s commitment. To further build trust, the coach openly discusses his or her experience and background and, through one-on-one meetings, discusses the leader’s context, issues, misgivings, and ques-

tions while exchanging organizational information and getting well acquainted.

In *fact-finding and feedback* sessions, the coach and the leader review various assessment data and select leadership tools, techniques, and exercises to use in the coaching process. During this phase, the coach may “shadow” the leader to see leadership principles applied in everyday situations, such as meetings with bosses, peers, and subordinates.

Together, the coach and the leader create a *development plan* that guides their progress. They identify areas of strength and those that require additional development. They also prepare to review their plan with the organization’s decision maker.

Then, after agreeing on basic approaches, the main work begins: *coaching to the development plan*. The coach mentors the leader, tracks behaviors and behavioral changes, and gives constructive feedback in a way that supports positive change. The coach also verifies methods to measure the leader’s progress.

As the coaching experience produces the desired results, it’s time for *closure and evaluation* of the process. The coach and the well-coached leader review joint accomplishments relative to stated objectives and develop long-term goals for the client’s continued growth. The coach then confirms results with the organization’s decision maker, explains their *plan for next steps*, and gets commitment for ongoing support of the leader.

Common Conditions for Coaching

Inside every successful business person is an even more ambitious one trying to get out. He or she just needs a little help.

—Mark Chipperfield

“Someone to Watch Over You”

Australian Financial Review, Oct. 9, 2000

Many events and situations merit the constructive intervention of coaching. Consider these scenarios:

- The organization has hired a new chief operating officer to engineer a turnaround of a significant operating loss. Coaching can help the new COO align quickly with the organization and work with many levels of personnel to achieve business objectives.
- Chafing under a new boss, a valued member of executive management appears to be taking his difficulty out on subordinates. Coaching can help the executive understand what’s happening, why, and how to get his career back on track and rebuild relationships.
- The company wants to promote a seasoned manager to direct a large

and complex line of business. Coaching and assessment processes can be offered to help ensure her successful transition into deeper waters and to use her strengths to navigate uncharted territory.

- A longtime CEO with a history of success is two years away from retirement. Now's the time for succession planning, beginning with the CEO's favorite candidate. Through assessment and coaching, this leader can gain competencies and confidence to step into large shoes while cultivating supportive relationships with staff.
- A superior analyst and technician, the CFO is a demanding boss who alienates subordinates, sending turnover rates through the roof. Coaching can help rehabilitate and "save" this valuable resource through a sensitive program of behavioral change and accommodation to the needs and feelings of others.

Categories of Leaders and Attributes of Coaching

Because there are different kinds of leaders who are at various levels of development or potential, it is important to attempt to define each case accurately before beginning the process. Other sections of this book set forth and define a useful framework of categories based on degree of perceived leadership effectiveness, ranging from Misfit to Solid Citizen, to Keeper, to Superkeeper. Another metric, which we find essential in our work, is the degree of impact the leader is having on the organization—which might be said to be a combination of level or position in the organization and his or her stage of professional development. The categories of this metric are Emerging, Developing, and Strategic. The diagram (Figure 28-2) illustrates how these concepts interrelate.

Obviously, there are many possible permutations in the way one would approach coaching various types of individuals, and that approach would be influenced by their positioning in the organization. The sections that follow, however, focus on describing the rationale, coaching actions, and outcomes typically represented at each of the three broad levels of business impact and give real examples from our practice of how the coaching process has played out with individuals falling within each category.

Emerging Leader

The *business case* for engaging a coach at this level might be to meet succession needs, to groom a high-potential leader, or to help drive the organization to a different plane. Expected *outcomes* might include retention, readiness for upward mobility, and improved chances for success in the next position. Here the *coaching conversation* might include:

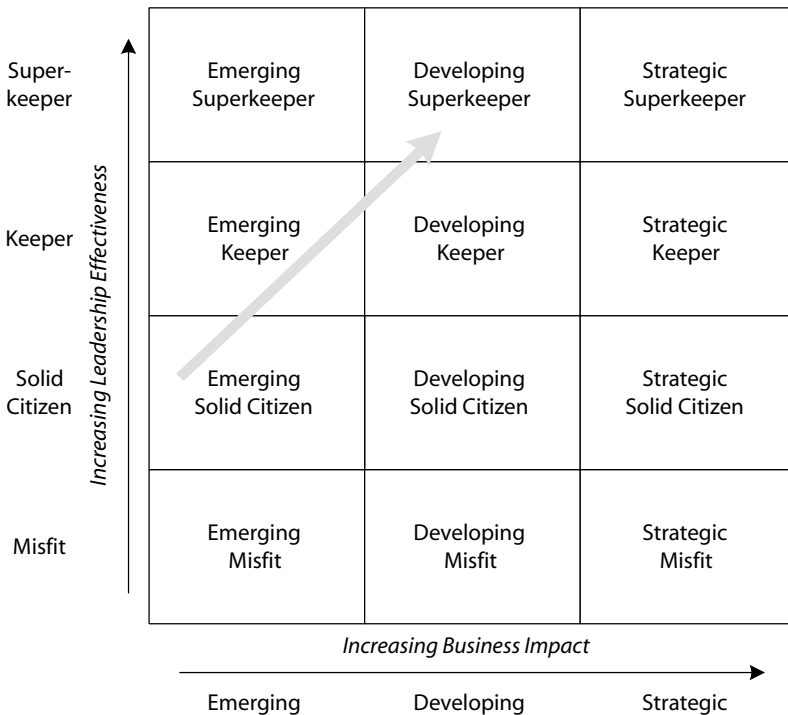


Figure 28-2. Interrelationship of emerging, developing, and strategic metrics

- Self-understanding and insight through feedback
- Exposure to new behavioral concepts and broader organizational awareness
- Exposure to how the business world works at the top
- Learning organizational and individual tolerance to change
- Learning to share the spotlight

Example: A large manufacturing firm had identified 30 high-potential executives, one of whom was a young engineer who embodied many of the qualities the company needed to become more lean, nimble, and innovative. It initiated a coaching relationship to prepare him for greater responsibility and the opportunity to make a significant contribution. The coach implemented a thorough program of assessments of the executive and those around him.

This process confirmed strengths and highlighted limitations to be addressed. The leader in question was shown to be not tough enough and not consistent in the messages he communicated to his people. He would get good ideas but did not follow them through or convey them effectively over time. The coaching process brought new focus and direction to his work. He

was given more opportunity to be exposed to senior management and to organizational strategy and, more importantly, to see his own work in the context of that strategy. He mapped out a clear career path to take him where he needed to go, which resulted in his becoming the first person to make a cross-functional move in his company. Since the coaching experience, he has been promoted twice and has developed a personal working relationship with the CEO.

Developing Leader

In a typical scenario, this valuable leader is a great thinker but may not be adept at mobilizing others or addressing practical consequences. This leader might be a nonconformist or a loner. The *business case* for coaching intervention is obvious: to address performance issues that are impacting the business. The desired *outcomes* are improved performance, retention, and strengthened relationships with key stakeholders, such as the board. Here the *coaching conversation* and activities might tap into many components:

- Gaining self-understanding and insight
- Changing specific behaviors, notably addressing derailment behaviors
- Addressing the immediate concerns of the leader within the context of organizational issues
- Facilitating stronger bonds with the boss, peers, directors, and others
- Offering sounding-board opportunities to air frustrations, successes, and challenges to the corporate culture

Example: A finance executive at the director level of a public company wanted to become a vice president but was at a standstill. He was an MBA in a blue-collar environment, and those at the VP level perceived him to be an empire builder. He badly wanted to keep from derailing his career, but aspects of his behavior were causing serious relationship problems with the VPs. The company wanted to help him succeed and to become more effective and productive in his job.

The coaching process had to be done confidentially, involving only the executive, HR, his boss, and the CEO. Because this constraint prevented using the normal 360-degree assessment, the coach devised an “introspective 360” process involving journaling to examine a number of key events to see who was thinking what, how people reacted to each other, what alternative strategies might be employed, and what the actual outcomes might be. This technique enabled the leader to see how he was being perceived and what he had to do to change this perception, most notably his communication style. He was assigned a major project that provided him with a key opportunity to prove himself to his colleagues. He was highly successful in this role and able to demonstrate company-wide coordinating capabilities in a highly visible arena, through which he gained the respect of those who had

previously not liked or trusted him. As a result, he was promoted to vice president.

Strategic Leader

The *business case* for engaging a coach at this point might be to assimilate new leaders or to build a more united executive team. The expected *outcomes* might be to generate more incisive strategic thinking, to improve senior-level bench strength, and to retain valued talent. Here the *coaching conversation* focuses on:

- Thinking more strategically
- Building specific skills, such as constructive confrontation
- Developing leadership skills
- Providing a sounding board

Example: A CEO of a large organization was floundering. Key issues included poor stakeholder relations and organizational alignment. A vision was in place, but the alignment was lacking because the CEO was unclear about the expectations of his board and therefore could not communicate these to other stakeholders.

A coach was engaged to address the situation on multiple fronts. Assessments and interviews took place, not only with the leader but also with multiple board members and eight staff members, to achieve common understanding and agreement of what should be expected of the CEO. The process confronted interpersonal skills but also, to a large degree, systemic organizational and cultural issues that were preventing the CEO from functioning more effectively.

The result was that the CEO improved dramatically in his ability to be a leader to both the board and the rest of the organization. They achieved increased clarity regarding the board's needs and expectations, permitting him to convey these and act upon them confidently with the full range of stakeholders with whom he worked. Four years later, he was still CEO and the organization had experienced impressive growth.

Issues Surrounding Coaching

The consideration of coaching, or the initiation of a coaching relationship, sometimes raises a variety of issues. Here are some, with our thoughts on each.

Will it work? When considering the use of coaching, some organizations are concerned that the process may not work. To handle doubts, we generally ask questions—coaching questions—to probe the resistance or problem. For instance, we ask, “Why do you think it might not work?” or “Are you prepared for it not to work?” At this point in the conversation, we can usually

address the real reason for concern and move forward with a constructive coaching program.

What's the return on my investment? One natural question pertains to whether anyone can prove that coaching provides a value to the organization at least equal to the investment required. Here we typically stimulate dialogue by encouraging an analysis of several factors:

- What is the issue you are addressing?
- What is the current situation relative to this issue?
- What do you envision as the desired outcome?
- What is preventing this desired outcome?

We then discuss the estimated *financial impact of not addressing* the above issues, in very concrete terms. In other words, what would be the dollars lost in each of the following areas?

Revenues	\$ _____
Profitability	\$ _____
Turnover of key people (total salaries X 2 =)	\$ _____
New product development	\$ _____
Missed market opportunities	\$ _____
Customer satisfaction	\$ _____
Other	\$ _____
Total estimated impact	\$ _____

While there is no guarantee of a literal return on investment, an organization can often pinpoint with surprising specificity what the costs could be of *not* trying to address the problems at hand.

What about confidentiality? Confidentiality is fundamental to a successful working relationship between the coach and the leader. To make the kinds of progress toward personal growth and self-awareness that are central to coaching, the leader must be able to view the coach as a trusted confidant, with communications between them protected by the ethics of the relationship. We make the ground rules clear in advance—that a boss should not ask a coach to break this confidence to provide information to the organization, as any perceived gain to the organization would usually be more than offset by the subversive effect this would have on the coaching relationship.

What is the boss's role? The coach is in the center of a complex relationship that includes the individual being coached, his or her manager, human resources, other superiors, peers, or subordinates who may be involved in the feedback/assessment process. In this mix, the participation, commitment, and support of the individual's boss will make a huge difference in the success of the coaching. If the boss is unengaged or questions the value of the

process, we take special pains to help the boss understand his key role both in providing important input to the assessment phase and in delivering feedback critical to the client's self-awareness and progress. In truth, often a key goal of the coaching process is to improve the relationship between the boss and the leader being coached, as a leader's ability to be effective in a particular job is most often closely tied to the quality of this relationship.

What are the merits of external versus internal coaches? Everyone in an organization has a personal agenda. Most people are genuine in their concern for their own best interests and the organization's. Nevertheless, it is challenging for most of us when dealing with those with whom we work regularly not to let personal or political dynamics color the interaction. A coach coming from outside the organization will be less likely to have a personal agenda that would negatively impact the relationship. The coach's primary agenda in this relationship must be consciously to balance the business concerns motivating the organization to initiate the coaching with the leadership and career objectives of the individual being coached. When the coach is positioned as a partner or equal—not as a “superior”—these critical organizational and individual priorities can take precedence and the process can proceed unimpeded.

Conclusion

Careful, responsible leadership coaching works. It works on several levels of learning. The first gain comes in the leader's incremental improvement in skills and practices. Then paradigms and patterns of thinking are reshaped to include broader perspectives, different assumptions, and an altered frame of reference. During the last phase of successful coaching, the leader will see and sense a transformation, a rewarding personal shift in point of view.

The coaching process is designed to bring out the best in people, with a focus on business results. The organization benefits in definite recognizable ways from its investment in coaching, whether that success is assessed as an improved bottom line, higher employee morale, better employee relations, or progress in other business indicators. At its best, coaching produces lasting value-added results for individuals and for their organizations while reinforcing and enriching the climate for continued success.

As a result of coaching, clients set better goals, take more action, make better decisions, and more fully use their natural strengths.

—“Are You Playing on the Field
Without a Coach?”
Sausalito.net, August 2000

Chapter 29

Coaching the Superkeepers

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We need to go inside out.

—Mark X. Feck

THIS CHAPTER FOCUSES ON ONE SEGMENT OF THE BURGEONING EXECUTIVE coachee population referred to by Lance Berger as the *Superkeepers*. Coaching Superkeepers is different from coaching other employees. There are aspects of managing these engagements that warrant special consideration if coaching resources are to be spent well and if coached Superkeepers are to receive maximum value from the experience. With an eye toward ensuring the value and quality of Superkeeper coaching, this chapter will focus on:

- A definition of Superkeeper coaching
- Methodological factors that distinguish Superkeeper work from other coaching
- *Meta themes* that enrich a conceptual understanding of Superkeeper coaching

Definition

Superkeeper coaching is defined as a company-sponsored “perk” for top high-potential employees, a customized development process intended to accelerate effectiveness at work. This coaching is based on a collaborative relationship among the employee, his/her boss, his/her human resources manager, and an executive coach.

There are a number of nuances embedded in this definition, beginning with the important point that coaching for Superkeepers must be positioned in the company as an essential “perk.” Given the historical context of coaching as a remedial tool, care must be taken to ensure that Superkeepers, as well as others in the company, understand the positive, proactive intention of such coaching. According to Peterson (2002): “Before 1990, a suggestion that a manager needed a coach was invariably perceived as a personal indictment...most people referred to coaching were, in fact, viewed as talented but flawed.”

Increasingly, it will be the Superkeepers in companies like pharmaceutical giant GlaxoSmithKline who have the opportunity to work with an executive coach, especially at important transition points in their careers. These transition points include *assimilation* upon first joining a company, *stretch* inherent in roles with considerable increase in scope, *acceleration* for speeding up their evolution as top leaders, and *introspection* when they indicate the need to contemplate what they really want to do next career-wise. Tom Kaney, Senior Vice President of Human Resources at GlaxoSmithKline, highlights this use of coaching: “We are reserving executive coaching for just top high-potential individuals—our ‘Olympians’—who are the future of the company and who fundamentally understand the more they know about themselves, the more effective they’re going to be.”

Customization and *collaboration* are two additional nuances with key implications for the successful coaching of Superkeepers. These will be discussed below, under *meta themes*.

Factors That Distinguish the Coaching of Superkeepers from the Coaching of Other Employees

Based on my experience coaching hundreds of Superkeepers from every global sector, as well as on empirical findings (Wasylyshyn, 2003), there are four methodological factors that distinguish the coaching of Superkeepers from that of other employees. The careful orchestration of and commitment to these factors ensure the value and quality of Superkeeper coaching.

These factors are (1) a holistic approach, (2) deep behavioral insight, (3) the active involvement of top corporate executives, and (4) sustained relationships with the coach and/or trusted internal collaborator (usually a senior human resources professional).

In 1985, Mark X. Feck, head of corporate human resources for Rohm and Haas, a *Fortune* 200 company, was asked to create a leader development process for their top high-potential employees. During our discussion of possible designs, methodologies, and tools, he expressed the essence of what it takes to coach Superkeepers well: “We need to go inside out. We need to assess the *whole* person, not just their profile of leadership competencies. We need to have real relationships with these people. They need to *know themselves* and understand what influences their behavior in good times and bad. Their accurate self-awareness is essential for continued learning and personal growth. Continued learning and personal growth are essential for the evolution of world-class leaders.” That was the conceptual moment of Rohm and Haas’s Leadership 2000 (now Leadership 3000), a psychologically oriented and competency-based leader development process still in existence nearly 20 years later.

The wisdom implicit in Feck’s thinking about Superkeeper development—particularly regarding the centrality of self-knowledge—is echoed in contemporary writing on the topic of executive development. Goleman (1998) places self-awareness as the foundational element in his conceptualization of emotional intelligence. He states: “People who assess themselves honestly—that is, self-aware people—are well suited to do the same for the organizations they run.” Bossidy and Charan (2002) cite self-knowledge as one of a leader’s seven essential behaviors: “Without what we call emotional fortitude, you can’t be honest with yourself, deal honestly with business and organizational realities, or give people forthright assessments.... Emotional fortitude comes from self-discovery and self-mastery.”

Holistic Approach

A *Fortune* magazine cover story (November 1998) captured an attitudinal shift about work among talented Gen-Xers. On the cover we see a bespectacled young man in a T-shirt with a canary on his head. The headline reads, “Hey, corporate America, I want a sign-on bonus, a cappuccino machine, and I want to bring my pet to work. And guess what, you need me.”

While the Nasdaq roller coaster muted the less adaptive aspects of this entitlement attitude, current Superkeepers are often more focused on the *work-life integration* issue than the generations before them. This has become an important consideration in their employer selections. Therefore, customization of Superkeepers’ coaching will be enhanced by an exploration

of the intersection between their work and personal priorities. What are those critical points of intersection? Are companies' policies and practices supportive of Superkeepers' commitments to better work-life integration? What can be done to convey that Superkeepers' employers care about them as whole people?

Kevin T., like other executives who had worked in this *Fortune* company's Latin America region, was experiencing heightened stress upon repatriation to the United States. The almost daily tension between Kevin and his wife was escalating to the point that it interfered with his concentration and focus at work, as well as with his sleep. His direct reports had started to comment on his fatigue and disengagement from key day-to-day matters that warranted his attention.

In a meeting with his coach, Kevin confided the situation and his growing concern. The coach, recognizing a pattern he had seen with other repatriation scenarios, suggested Kevin and his wife participate in a "partner module" the coach had created just for Superkeeper couples. The couple agreed and, within a month, the coach was able to help them identify the real issues, put those issues into perspective, create a pragmatic plan to address them, and rediscover the spirit of adventure and hope that had always characterized their relationship. Freed from his personal concerns, Kevin was able to bring the full force of his leadership to his new role.

Working with Superkeepers holistically means coaches have the inclination, skill, and courage to address the critical intersections between work and personal priorities in ways that are appropriate and helpful. It also means companies are willing to support such coach efforts, because they believe the more focus and concentration Superkeepers bring to their work, the more successful they and their companies will be. Superkeepers who believe they must compartmentalize their lives often induce more stress on themselves—and others—than is warranted. Therefore, coaching Superkeepers from a holistic perspective is a strategy for maximizing continued effectiveness. Smart companies will choose coaches well and remain supportive of holistic coaching strategies. These companies will be rewarded with the retention of Superkeepers whose careers might have otherwise been stalled or derailed by personal issues left unattended.

Behavioral Insight

Argyris (1991) wrote in a classic *Harvard Business Review* article: "Every company faces a learning dilemma: the smartest people find it hardest to learn." Since Superkeepers are among the brightest people in an organization, how are they engaged in new learning? Coaching can be a major learning tool—if coaches are focused on the challenge of rapid engagement. One vehi-

cle for rapid engagement is *data*. With their natural penchant for facts and data, Superkeepers can be drawn into new learning with a data-based profile that highlights their core strengths and also provides clues for coaching focus. Business people will work with data—often before they will be engaged in the *relational learning* that typifies the reciprocity between Superkeepers and their coaches. Coaches with backgrounds in the behavioral sciences possess the broadest armamentarium of tools for providing data-based leader profiles. With the understanding that such data is held in confidence between coaches and Superkeepers, coaches who can weave together multiple data points (e.g., themes from a developmental history, a battery of psychometrics, 360 data-gathering, etc.) engage Superkeepers rapidly. This is especially true if the weaving *goes inside out*, i.e., yields fresh, insightful information about the underlying basis of behavior. Such information speeds acceleration for Superkeepers who are intent on getting to their next level of effectiveness.

Ned B., a brilliant R&D leader, had been given performance management feedback many times about his obnoxious, arrogant behavior, especially in meetings where senior executives were present. While he had been perceived as a Superkeeper for many years, he now ran the risk of a career plateau if he didn't adjust his offensive behavior. The threat of a plateau was the coaching "hook" for Ned. Since he told the coach he wanted her to conduct an "excavation" to help him see what he needed to see about his behavior, the coach included the Rorschach inkblot test as part of a battery of psychometric tools. Trained in the use of this projective technique with senior executives, she believed the Rorschach results would help them identify a deeper insight about the underlying basis of his inappropriate behavior. Through the qualitative analysis of Ned's responses to each inkblot, the coach unearthed her client's deep-seated fear of authority figures. Their discussion of this material and how it set off behavior that sabotaged his career prospects proved valuable on a number of fronts. Ned was able to challenge the need for him to continue his attacking behavior as a way of self-protection, better recognize when and why his deep fear button might get pushed in meetings, and use that recognition to censor the behavior that was alienating him from senior management.

Unlike other coachees, Superkeepers are often interested in a deeper, psychological look at themselves as a way of both enhancing self-knowledge and increasing self-management. For this reason, companies are advised to include consulting psychologists in the cadre of coaches they engage for Superkeeper assignments.

Involvement of Top Executives

For all their achievements and confidence—and despite what organizations do to reward and recognize them—Superkeepers can be hypervigilant about

where they stand in the company. Further, this attentiveness can be exacerbated by the tactics of aggressive executive recruiters. Companies that are proactive about retaining their most talented employees recognize the importance of creating opportunities for them to be known to and to interact with top corporate leaders. Superkeeper coaching can assist these efforts. For example, the selection of participants in a Superkeeper's 360 data-gathering sample—assuming the coach gathers the data face to face—presents an opportunity for the coach to deepen senior executives' knowledge of Superkeepers. Coaches should, in ongoing collaboration with company sources (boss and human resources), help identify opportunities that would foster Superkeepers' heightened exposure to corporate leaders.

Further, coaches who have coached senior executives in Superkeepers' companies have accumulated in-depth knowledge/insight about the culture and as such become especially credible in the eyes of Superkeepers. While these coaches must remain mindful of the appropriate boundaries of confidentiality and use good judgment in their comments about succession planning, for example, they nevertheless can be an invaluable resource for keeping things in perspective, especially when Superkeepers question and/or are unduly impatient about their future career prospects.

Janice B. was one of this *Fortune* 100 company's top high-potential employees. Her track record as a "turnaround" specialist was flawless and in her current role she was demonstrating her ability to grow a business as well. Her boss had done all the right things in terms of Janice's level, compensation, and the acknowledgment of her accomplishments. But when Janice received a company announcement about a new round of promotions, she commented to a colleague, "Where am I in all this?" Fortunately, her coach picked this up on the grapevine and was able to signal senior management such that both the CEO and President made special efforts to assure Janice of what an invaluable asset she was and the positive implications of that for her future with the company. This proved to have a palliative effect on Janice and also served to remind her of how she needed to reassure a few of her own Superkeepers regarding their future prospects with the company.

When Superkeeper coaches identify ways to increase their clients' direct interaction with top senior executives, everyone wins. This is reciprocal learning at its best. The Superkeepers deepen their business perspectives and get exposure that can be a retention factor. Senior executives get a closer, more visceral sense of their Superkeepers—an invaluable perspective especially when they have to make quick decisions on key personnel moves.

Sustained Relationships

Superkeeper coaching needs to be a boundary-less process—not a contained program. At its best, Superkeeper coaching is *relational*, not *transactional*.

Superkeepers may commence relationships with their coaches that continue over many years. For myriad reasons, companies are wise to endorse and support such relationships financially.

Ruis C. was one of this *Fortune* company's top five Superkeepers. A technically knowledgeable and charismatic general manager, he was on the short list of potential successors to the current CEO. As a Latin American ex-pat working in the U.S. for several years, he and his family yearned for a rotation back to Latin America, especially during the high school years of their two children. Based on conversations with the CEO, Ruis had reason to believe this could happen. So when a major role in Latin America was filled with another company executive, Ruis was stunned and disappointed and felt betrayed by the CEO. While he was absorbing this disappointment, an executive recruiter called and, for the first time in his career with the company, Ruis called back and soon had a very tempting offer.

While Ruis had started working with his coach four years prior to this time, he maintained a relationship with the coach, who served as an objective sounding board on people-, team-, and career-related issues. Ruis told him what had happened. While preserving the boundaries of their confidential relationship, the coach signaled the CEO about the depth of Ruis's disappointment and urged the CEO to initiate a meeting with Ruis so he could explain fully his decision about the Latin American job and tip his hand a bit regarding upcoming plans for Ruis. This full and far-ranging discussion influenced Ruis's decision to remain with the company and restored his trust in the CEO.

With Superkeepers in particular, there is no substitute for trusting relationships. Such relationships serve as the glue, the oasis, and the open forum—especially when Superkeepers need a safe, objective place to talk through difficult business/career issues. The coaching relationship can also be an antidote to the isolation that occurs as Superkeepers assume positions of greater responsibility. Saporito (1996) writes: "The fact of the matter is, the higher an individual moves in an organization, the less feedback he or she is likely to receive. Senior executives tend to get isolated from real-time, unvarnished feedback about the impact of their individual leadership."

Many companies are fortunate to have an internal resource who can forge the level of deep trust essential for full dialogue on issues—especially as related to thorny business issues and/or the Superkeeper's career aspirations. In the absence of such an internal resource, coaches who have long-standing relationships with companies can fill that need. In the ideal, companies have both, i.e. a partnership between trusted internal and external resources who work together in exquisite candor and harmony to ensure the next generation of a company's leadership.

Meta Themes

Three meta themes are central to a conceptual understanding of excellence in the coaching of Superkeepers. These meta themes are *traction*, *trust*, and *truth-telling*. Attention to these meta themes is key if meaningful outcomes in the coaching of Superkeepers are to be achieved. How mindful are you of these *meta themes* as you make decisions about and/or participate in Superkeeper coaching engagements? Test yourself by reviewing *meta theme* factors presented in the box just below for *traction*, *trust*, and *truth-telling* respectively in making sure coaching Superkeepers takes hold.

Traction

- “Rightness” of the coaching referral
- Time—Superkeeper has sufficient time, timing is right
- Superkeeper participation in choice of coach
- A collaborative coaching model
- Customization of coaching
- Coach maintains momentum

Trust

- Confidentiality
- Superkeeper as client
- Emotional competence of coach
- Positioning of coaching in the company
- Superkeeper capacity for forming working alliance with coach
- Coach knowledge of business and company culture

Truth-Telling

- Coach uses “double-mirror”—individual feedback to Superkeeper, culture-based feedback and contextual observations to company (boss and HR)
- Candor of company sources—boss and HR “collaborators”
- Coach’s ability to receive tough feedback
- Coach’s courage, skill in providing Superkeeper with feedback, insightful observations/behavioral interpretations
- Coach’s courage, skill in giving straight talk to Superkeeper’s boss and HR “collaborators”

Traction

What’s meant by *traction* in the coaching of Superkeepers? Think tires, think roads: think tires on pavement gripping the surface while moving and with-

out slipping. This is the essence of Superkeeper effectiveness: *moving without slipping*. Superkeepers personify rock-steady momentum in decision-making, progress, competitive advantage, and results.

Rightness of Coaching

The cardinal *traction* factor in coaching Superkeepers is the “rightness” of the coaching referral. Not every Superkeeper is motivated to participate in coaching and coaching is not the right development resource for every Superkeeper. Both the company decision maker(s) and the coach need to be satisfied that the Superkeeper is truly motivated to participate.

Some years ago a human resources colleague conveyed this anecdote about a brilliant marketing executive who joined his *Fortune* company. In an executive assimilation exercise, this executive was asked how he saw himself adjusting to his new company’s culture—admittedly very different from the one whence he came. The executive’s response was “No, you don’t understand. The real question is not how I’m going to adjust to this company; the question is how is this company going to adjust to me?”

The postscript to this story is that this executive reluctantly agreed to work with an executive coach—someone with an international reputation for working well with senior executives. While the executive was truly a Superkeeper, the coach made little headway because of his client’s total lack of motivation to participate. The executive agreed to participate only because the CEO wanted him to; therefore, he resented the coach’s presence. With no appetite for new learning, his inflated sense of self and egocentrism overwhelmed objective self-appraisal about his impact on others. He personified the darker side of the narcissistic leader.

According to Maccoby (2000): “Companies need leaders who do not try to anticipate the future so much as create it. But narcissistic leaders—even the most productive of them—can self-destruct and lead their organizations terribly astray. For companies whose narcissistic leaders recognize their limitations, these will be the best of times. For other companies, these could turn out to be the worst.”

Good Timing and Quality Time for Coaching

Superkeepers who understand the potential value from coaching are receptive to the idea of working with a coach. They will often request one—when they join a new company, take on roles that constitute significant stretch, lead their first turnaround situation, do a function-to-general-management shift, adjust to an expatriate assignment, etc. These coachees are prepared to give the coaching the *quality time* it requires—another key *traction* factor.

The *timing of coaching* is another important *traction* factor. Like any premium learning or change experience, the individual must have sufficient time to immerse himself/herself into it fully.

Jack, a brilliant field operations executive, was expected to be promoted to president reporting to the CEO, a former operations whiz. While the CEO would likely not be retiring anytime in the near future, the elevation of Jack to president was generally seen as a first step in a succession plan. At the point of his appointment, Jack agreed with the board, CEO, and corporate head of human resources that working with a coach would be helpful to his settling into the new role.

This just-in-time coaching proved useful in myriad ways—but particularly at the outset when the coach helped the new president see his most critical task: managing the complex dynamics of his relationship with his boss, the CEO. In the absence of that coaching guidance, Jack would have forged ahead on key operations issues—issues on which his boss and he did not have philosophical alignment.

Participation in Choice of Coach

Once Superkeepers have decided to work with a coach, the next step is to manage the alchemy such that they feel party to the decision on which coach. Coaching *traction* is helped significantly when Superkeepers participate in the selection of their coaches. Armed with information about core coach competencies and training requirements (see Brotman, Liberi, and Wasylyshyn 1998), Superkeepers are advised to interview two or three prospective coaches. Further, companies are wise to provide approved lists of qualified coaches and to cultivate long-term relationships with those coaches. In addition to having a depth and breadth of experience with Superkeepers, qualified coaches will have (or will be building) knowledge of the company culture and of its senior executive population. This contextual grounding is invaluable in coaching of Superkeepers.

In their meetings with prospective coaches, Superkeepers are advised to probe a number of factors, including the coach's (1) experience with other Superkeepers and willingness for the prospective coachee to speak to them, (2) professional credibility, (3) methodology, (4) handling of confidentiality, (5) assessment of what would be helpful to the individual, and (6) the chemistry.

The importance of chemistry cannot be overstated—given the relational nature of coaching Superkeepers well. There are literally thousands of coaches—from former executives to schoolteachers and communications experts. There are objective and subjective criteria that need to be screened carefully. The objective part revolves around the nature of the coaching agenda. Is it a discrete piece of learning—about the cultural subtleties and nuances, for example, of working in the Asia Pacific region? For this type of engagement, someone who has consulted or managed in that business environment would be ideal. Is it a behavior change? For example, does a hard-driving, turnaround Superkeeper need to make the style adjustments needed to run a regional, highly matrixed organization? In this instance, someone trained in the behav-

ioral sciences with sufficient business perspective would bring more tools to the development agenda than someone without these competencies.

The subjective part is about the chemistry between people. Wasylyshyn's (2003) research on personal coach characteristics cited the following factors as most key: (1) the ability to form a strong connection (empathy, warmth, listening, fosters trust, quick rapport), (2) professionalism (intelligence, integrity/honesty, management of confidentiality, objectivity), and (3) sound coaching methodology (delivers "truth" constructively, contextual grounding, unearths core issues, use of psychometrics).

A Collaborative Model

Coaching Superkeepers is best accomplished through collaboration of the Superkeeper's boss, the human resources partner, and the coach. The coach must manage this collaboration, setting its tone at the outset of the work by ensuring clarity of roles, expectations, timeline, methodology, coaching agenda, and the boundaries of confidentiality. The coaching is enriched immeasurably by the coach's ready access to the boss and HR professional in order to build a deep and rich contextual grounding. A steady stream of collateral information will also be invaluable to the process. In this collaborative scheme, the coach can also capitalize on opportunities to provide the boss with "secondary gain," i.e., cues regarding important issues related to the Superkeeper's success, aspirations, any concerns, etc. In this model, coaches are more likely to remain current on contextual information they need to be maximally effective not only with the Superkeeper but within the organizational system.

The natural flow of communication inherent in a collaborative coaching relationship minimizes any sense on the part of the coach—and the company—of "not being in the loop." However, coaches must remain vigilant regarding the judgment calls they make about what does/does not get shared with the company in terms of coaching session content. For example, what do coaches do when they know a recruiter has tempted a Superkeeper to look at an opportunity elsewhere?

As a top high-potential employee, Steve T. ran one of his company's most successful business units. While recently promoted, he was not happy with his compensation package relative to peers in similar roles in other companies, so when the recruiter called, Steve was willing to listen. He had been working with a coach for two years and their trust was sufficient for him to tell her about the situation. She created a "stay-go" exercise that he used to rate all key work-related and personal factors. The exercise punctuated his desire to stay with the company due to culture, ongoing opportunity, and family lifestyle factors. With the coach he also identified a strategy that resulted in a satisfactory discussion of his compensation with his boss. In the

debrief of the entire episode, they discussed what they might have done if he had decided to leave the company. The coach said she would have sought his permission to signal the company that he was tempted to respond to a recruiter's call, thus giving his boss an opportunity to initiate retention dialogue. Steve indicated he would not have considered that action a breach of their confidentiality agreement.

Customization

Every Superkeeper coaching assignment must be customized to address the subtleties and nuances that typify the challenges of helping talented people learn and achieve personal growth. *Traction* will be seriously compromised, if not lost, when a Superkeeper senses a programmatic, off-the-shelf experience. With customization as the critical caveat, there is a structure to sound Superkeeper coaching that typically consists of four interrelated phases: (1) data gathering, (2) feedback, (3) coaching, and (4) consolidation.

In the data-gathering phase, the coach will use an array of tools to draw information that will be useful to the coaching agenda that has been established with the Superkeeper. These tools can include a life history, a battery of psychometrics, company input based on an established set of leadership competencies, in-depth conversations with key stakeholders in the company, shadowing of the Superkeeper, etc. The goal of this customized data gathering is always to illuminate key factors that have implications for the individual's accelerated success.

In the feedback phase, it is incumbent upon the coach to weave together all data points in a manner that engages the Superkeeper in a deeper observation and understanding of himself/herself. Such feedback can also inform and enrich the coaching agenda with new learning and/or behavioral insight.

In the coaching phase, Superkeeper and coach remain focused on the established objectives, maintain frequency of contact, and conclude with an action plan that captures key learnings and actions that ensure the Superkeeper continuing to benefit from the coaching work. The coach will also maintain frequency of contact with company collaborators.

In the consolidation phase, coaches maintain contact with Superkeepers on an as-needed basis. In addition, there will be opportunities to punctuate accrued learnings by sending Superkeepers suggestions about relevant business reading, news stories, films, books, poetry, etc. In short, coaches of Superkeepers remain vigilant for *anything* that they know would continue to support the investment their clients made in accelerating their personal growth and new learning.

Maintaining Momentum

The timeline in Superkeeper coaching can—and should—vary enormously, given the customized nature of this work. Some engagements last a few

months, some several, and it is not unusual for Superkeepers to want to continue their coaching relationships—as do athletes—over an extended period. As mentioned earlier in this chapter, companies are wise to support these relationships. Regardless of the length of the coaching relationship, coaches must be flexible and tenacious enough to maintain sufficient momentum for the coaching to “take” (have *traction*) initially and to add increasing value over time.

Trust

In the context of coaching Superkeepers, this meta theme connotes a *reciprocal trusting*, not just between the coach and coachee but with two primary collaborators as well—the Superkeeper’s bosses and human resources partners. All parties are committed to the success of the development activity and believe in each other’s honesty and reliability in doing what needs to be done to deliver on the objectives of a clear coaching agenda.

Confidentiality—Who’s the Client?

Confidentiality is another significant *trust* factor. Any consideration of this factor must begin with the core question, *Who’s the client?* The working alliance with Superkeepers is enhanced when coaches view Superkeepers—not the sponsoring organization—as the clients. Wasylyshyn (2003) states: “In terms of forming strong connections with clients, coaches who work from a perspective of the *executive as the client* (versus the organization as client) are likely to form faster and more trusting coaching relationships. Seasoned coaches discover how to work from this perspective—satisfying both the coached executive and the sponsoring organization.”

The issue of confidentiality must be addressed at the outset of coaching. Ideally, this should be accomplished in a “live” meeting with Superkeepers and company “collaborators” present. In this meeting, coaches state the boundaries of confidentiality. Specifically, and in the spirit of the *Superkeeper as client*, this means the following information would be kept in confidence between Superkeeper and coach: personal history, psychometric data, and content from coaching sessions. It is understood that the coach would need to share certain information with the boss and/or human resources partner—so they can function fully in their roles as “collaborators” in the coaching. Information of this type would include thematic material from 360 data gathering and a general sense of how the coaching is progressing.

As hardy and confident as Superkeepers typically are, they can also be hypervigilant regarding organizational political factors, what coaches learn about them, and the implications of this information for their careers. Therefore, it is incumbent upon their coaches not only to establish the boundaries of confidentiality at the onset but to stay focused on this issue through the coaching so there is never any question in the Superkeeper’s mind about it.

Emotional Competence

Managing the meta theme of *trust* in a coaching relationship requires that the coach, in particular, possess a high degree of emotional competence. Emotional competence is defined as the awareness of and ability to manage one's emotions. The four dimensions of emotional competence captured in the author's acronym, SO SMART, are self-observation, self-management, attunement to others, and relationship traction, i.e., the ability to form and maintain meaningful relationships.

Surely emotional competence is central in the skill set of any coach. Coaches of Superkeepers, however, will do distinctive work if this is a strength. Specifically, emotional competence will aid coaches as they strive to maintain objectivity about their clients, seize opportunities to link clients' work and personal realities, and proceed with courage to make interpretations that deepen behavioral insights. Strong emotional competence also influences the likelihood of coaches being attuned to opportunities (or the creation of opportunities) for their clients' exposure to senior management. Further, emotionally competent coaches can inspire their clients and build strong bonds that can be a source for objective reality-testing over time.

Ideally, the Superkeeper-coach dynamic is *relational*, not *transactional*. This is not to say that every Superkeeper will be the best relational learner. However, Superkeepers in general need to know their coaches *are there for them*, i.e., these coaches are committed to doing whatever needs to be done to ensure that the Superkeepers continue to succeed. The power of this relational connection can be heard in the following anecdote.

Larry E., in an unexpected moment of vulnerability and self-disclosure, told his coach several years later that there were times when he (Larry) was working in the Asia Pacific region when he called the coach late at night—just to hear the reassuring tone of his voicemail message.

Additional Trust Aspects

There are a number of other key considerations in ensuring *trust* in the collaborative approach to coaching Superkeepers. These considerations are captured in the following questions:

- Will company collaborators (boss and human resources professional) be as open and accessible as they need to be?
- Will company collaborators respect the boundaries of confidentiality as established by the coach at the outset of the coaching engagement?
- Have the internal collaborators done what they need to do to position one-to-one coaching as a special “perk” for Superkeepers?
- Is the Superkeeper capable of forming a close working alliance with a coach?

- Since learning and/or behavior change are the hallmarks of successful coaching, will the Superkeeper feel comfortable enough in the coaching relationship to display vulnerability? To shed defenses? To explore “blind spots” or biases? To discuss the tension in the interaction between work and personal priorities?
- Will the coachee make his/her coaching a priority, i.e., get full value of this development tool despite tough, ongoing business pressure?
- Does the coach know enough about business to be practical and focus on business imperatives, as well as on forming a respectful and empathic relationship with the Superkeeper?

Truth-Telling

Even gifted Superkeepers need *truth-telling*, i.e. an accurate read on how they’re perceived in the organization. If it’s all positive, it deepens affirmation and becomes an invaluable resource for increasing their internal locus of control. If there’s any negative input, it becomes invaluable grist for the mill and can help focus a coaching agenda. If it’s mixed, it can ignite an honest appraisal of truth and clue Superkeepers to issues within important stakeholder groups that warrant their attention.

For seasoned coaches, the *truth-telling* meta theme necessitates the use of a “double mirror.” The “double mirror” metaphor connotes the simultaneous process of helping individuals see themselves as they are perceived in the organization while also helping the organization see important systemic considerations. Effective coaching of Superkeepers cannot be done in a vacuum. Clarification of the interaction between self and contextual factors is key to a credible and full coaching process.

Here are critical questions in assessing *truth-telling*:

- Will the coach’s collaborative partners (boss and HR manager) be fully candid at the outset of the coaching engagement—even if that means the talented Superkeeper hearing for the first time something that is less than glowing?
- Is the coach willing to take/seek direct, tough feedback from his/her client?
- How courageous is the coach? Given how crucial Superkeepers are to the future of their organizations, can the coach be nimble, diplomatic, inspirational, and courageous enough to help these individuals hear whatever they need to hear—in a manner that doesn’t alienate the Superkeeper from the company?
- Is the coach willing to deliver tough feedback to the company—even when it may mean risking future business in that company?

Conclusion

Coaching Superkeepers is different from coaching other employees. This difference is represented by four methodology factors: (1) a holistic approach, (2) the unearthing of deep behavioral insight, (3) the active involvement of top executives, and (4) sustained relationships with the coach and/or trusted internal (company) person. This difference is also illuminated by the consideration of three coaching process or *meta themes* for effective Superkeeper coaching: (1) traction, (2) trust, and (3) truth-telling. Further, as we examine the interaction of these methodology and process considerations, we find that the coaching of Superkeepers has implications for a number of crucial talent management processes. These processes include recruitment and branding (the ability to attract other Superkeepers), retention of key talent, succession planning, talent deployment, and leadership development.

Is there a corollary between the most coached people in the world—professional athletes—and Superkeepers? Aside from natural ability, there is one essential thing that Tiger Woods, Michael Jordan, Florence Joyner, and other successful athletes have in common: each was *coached* to greatness. They would not have achieved the heights in their careers on the strength of their natural gifts alone. Should every Superkeeper who is sufficiently motivated to work with a coach have one?

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Chapter 30

Differentiating Leaders Throughout an Entire Organization

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FRANK SIMS WAS WORRIED AS HE WATCHED THE ROADWAY TRUCK DRIVE away from the dock. Specialty Glassware (a pseudonym) was one of Roadway's large customers. The damage problems had been getting worse lately. He needed some Pepto-Bismol. As he walked to his office, he remembered something from a recent workshop on emotional intelligence. Instead of worrying about the damage and an angry customer, Frank asked himself how he could see this as an opportunity to try something different. He watched another truck being loaded and an idea began to take shape. He thought about the customer and wondered if the dockworkers and drivers

understood their customers' concerns. He looked for a way to engage more people in solving the customers' problems.

That afternoon, Frank called the Senior Transportation Manager at Specialty Glassware and got his help on the project. They videotaped various operations at the company's distribution center and one of their plants. For the video, Frank interviewed laborers and salespeople about their business processes.

Then Frank called a special meeting at the Roadway terminal late one evening. Several of the top executives from Specialty Glassware came for the meeting with the dock crew. They described their vision, business, and strategy. They talked about their customers, manufacturing processes, and value chain. Frank showed the videotape and the crew was able to ask questions. At the end, each dockworker was presented with a commemorative mug made by Specialty Glassware.

The dock crew was surprised and impressed that top management from one of Roadway's customers would put so much effort into helping them understand their business. It was motivating to know how their efforts fit into the big picture. They could see how important the products were and how much care Specialty Glassware put into serving its customers' needs. It made them want to be more careful and find ways to help Specialty Glassware succeed. These meetings became a story the 600 people working for Frank at this center told new hires as an example of Roadway being a great place to work.

The Challenge of Developing Superkeepers

Superkeepers are those individuals that the organization most wants to keep. They are the people whose talent inspires the talent of others. Frank Sims is a leader Roadway wants in its future.

This distinctive talent has three domains of capability: knowledge, competencies, and motivational drivers. These are the *what*, the *how*, and the *why* of capability.

A person's *knowledge* helps us to understand *what* the person knows and can do. This knowledge is necessary but not sufficient for the leader, manager, or professional to add value to organizations. In this sense, knowledge is a basis or threshold talent for greatness. Knowledge is the functional, declarative, procedural, and metacognitive information needed. Examples of these types of knowledge are market segmentation for a new product (i.e., functional knowledge), the time it takes a polymer to set (i.e., declarative knowledge), calculating the present value of a capital acquisition (i.e., procedural knowledge), and ethical principles as applied in international business transactions (i.e., metacognitive knowledge).

To be an outstanding manager, leader, or professional, a person needs the ability to use knowledge and to make things happen. A person's *competencies* help us to understand *how* he or she can do it. Competencies are defined by Boyatzis (1982) as "the underlying characteristics of a person that lead to or cause effective and outstanding performance." Whether direct empirical research is reviewed (Bray, Campbell, and Grant, 1974; Boyatzis, 1982; Kotter, 1982; Thornton and Byham, 1982; Luthans, Hodgetts, and Rosenkrantz, 1988; Howard and Bray, 1988) or meta-analytic syntheses are used (Campbell, Dunnette, Lawler, and Weick, 1970; Spencer and Spencer, 1993; Goleman, 1998), there is a set of competencies that have been shown to cause or predict outstanding manager or leader performance.

Regardless of author or study, they tend to include abilities from three clusters:

1. Cognitive or intellectual ability, such as systems thinking;
2. Self-management or intrapersonal abilities, such as adaptability; and
3. Relationship management or interpersonal abilities, such as networking.

The latter two clusters make up what we call emotional intelligence competencies (Goleman, 1998).

Beyond knowledge and competencies, the additional ingredient necessary for outstanding performance appears to be the desire to use one's talent. A person's *values, philosophy, and motivational drivers* help us understand *why* the person feels the need to use his or her knowledge and competencies.

The Distinguishing Factor—Emotional Intelligence: The How

Thousands of studies have shown that effective leaders use more emotional intelligence competencies every day than others in leadership positions (Goleman, 1998). Emotional intelligence (EI) is defined as a set of competencies in managing yourself and others leading to or causing outstanding performance. They work through a neural circuitry emanating in the limbic system (Goleman, Boyatzis, and McKee, 2002). Emotional intelligence is composed of four clusters of 18 competencies. The clusters are self-awareness, self-management, social awareness, and relationship management (Goleman, Boyatzis, and McKee, 2002), as shown in the box below.

Personal Competence

Self-Awareness Cluster

- Emotional self-awareness: recognizing one's emotions and their effects
- Accurate self-assessment: knowing one's strengths and limits

- Self-confidence: a strong sense of one's self worth and capabilities

Self-Management Cluster

- Adaptability: flexibility in dealing with changing situations or obstacles
- Emotional self-control: inhibiting emotions in service of group or organizational norms
- Initiative: proactive, bias toward action
- Achievement orientation: striving to do better
- Trustworthiness: integrity or consistency with one's values, emotions, and behavior
- Optimism: a positive view of the life and the future

Social Competence

Social Awareness Cluster

- Empathy: understanding others and taking active interest in their concern
- Service orientation: recognizing and meeting customers' needs
- Organizational awareness: perceiving political relationships within the organization

Relationship Management Cluster

- Inspirational leadership: inspiring and guiding groups and people
- Developing others: helping others improve performance
- Change catalyst: initiating or managing change
- Conflict management: resolving disagreements
- Influence: getting others to agree with you
- Teamwork and collaboration: Building relationships with a creating a shared vision and synergy

Frank used his awareness of his own worried feelings and willingness to be flexible to stimulate a different way of thinking about the situation. EI also includes social awareness, which Frank used in realizing that the dockworkers at Roadway probably did not understand their customer's challenges and concerns. By holding the meeting and showing the videotape, he helped them to understand Specialty Glassware at a deeper level.

It is reassuring to note that no leader studied to date, no matter how outstanding, has strengths in all of the many EI competencies. In that sense, there is no formula for effective leadership. Effective leaders typically demonstrate strengths in at least one or two of the competencies from each of the four clusters of emotional intelligence (Goleman, Boyatzis, and McKee, 2002).

One Company's Approach to Breakthrough Leadership

Frank's experiment with new ways to be a leader is typical of many innovations going on at Roadway Express Inc. during the last three years. Roadway Express is a trucking company founded in 1930, with over 26,000 employees. It has 379 terminals throughout the U.S. and Canada. Company executives recognized that they needed to develop leaders at every level to achieve a sustainable competitive advantage in the highly competitive trucking industry. In 1999, the company partnered with the Weatherhead School of Management at Case Western Reserve University to begin a journey of transformation. A customized leadership development program known as Developing Breakthrough Leadership at Roadway was launched. The program produced direct and measurable results in the following three years.

For example, the program equipped the leadership team to take an innovative approach to improving safety. The company-wide safety initiative started in 1999. The rollout was so successful that:

- Roadway saved \$6 million since inception,
- The number of injuries decreased by 43% annually, and
- The number of accidents decreased by 41% annually.

Roadway is a different company now. Executives and managers, drivers and dockworkers, union representatives and staff talk excitedly about what it means to work at Roadway. Their excitement is contagious and inspires a new level of confidence in their customers. Jim Staley, Roadway's President, says, "We're convinced we're developing leaders at every level of the organization. That's what we're doing with EI (emotional intelligence). We want to not just develop leaders in the senior management team, but at every level.... The resonance anybody can create as a leader can improve performance for the individual and the organization."

Here's how they made it all happen. In 1999, company leaders recognized that Roadway needed to change culturally. The company's culture originated and evolved during decades when management practice was typically more traditional. It was characterized by hierarchy, a command-and-control style, and, in recent years, average financial performance. Top executives identified that what they needed was breakthroughs—breakthroughs in performance, leadership, and management. A vision emerged as "everyone is fully engaged in the success of the company and committed to the success of each other." The leadership program became the launch pad for attuning key leaders to the vision and enhancing their capabilities to achieve it. The overall objectives were to help managers develop new knowledge, competencies, and motivation to pursue their vision and succeed together. Specific goals included:

- Increasing leaders' self-awareness and emotional intelligence,
- Positioning leaders to develop leaders at every level,
- Developing the capabilities of the leadership team to achieve breakthrough performance, and
- Broadening the participants' understanding of issues that are crucial for long-term economic performance.

A nine-day program was designed and delivered over six months. The approach included a multidisciplinary curriculum, centering on emotional intelligence, strategy, system thinking, marketing, finance, and appreciative inquiry, a positive approach to leading change. Participants included key leaders throughout the Roadway organization, most notably the President, Jim Staley.

Creating Better Leaders—Stimulating More Emotional Intelligence

The Breakthrough Leadership program adapted a design used successfully in degree and non-degree programs at the Weatherhead School of Management. The central theme focuses on helping managers identify areas for behavior change, then giving them opportunities to practice new habits real-time. The results have been extraordinary. Participants have shown a 70% improvement in emotional intelligence competencies one to two years after the program. The changes are sustained at 50% improvement five to seven years later (Boyatzis, Stubbs, and Taylor, 2002; Goleman, Boyatzis, and McKee, 2002). These dramatic results are in contrast with the typical impact shown by above-average MBA programs of 2% improvement one to two years after a program and the typical impact of management training showing only 10% improvement three to 18 months after training in industry (Goleman, Boyatzis, and McKee, 2002).

The program guides each participant through a process of discovery called Self-Directed Learning, shown in Figure 30-1 (Boyatzis, 1994; Boyatzis, Cowen, and Kolb, 1995; Goleman, Boyatzis, and McKee, 2002). Because of the discontinuous nature of sustained change, the process is experienced as five discoveries.

The first discovery is one's Ideal Self, that is what he or she wants out of life and work—what his or her dreams and aspirations are. This helps each person discover or rediscover his or her passion at work. This energy becomes the driving motivation for making changes in their leadership behavior. After a number of exercises, each person develops a Personal Vision statement describing his or her Ideal Self.

Following development of the ideal, each participant works toward the second discovery, awareness of his or her Real Self. After receiving feedback from a 360 assessment of emotional intelligence competencies, participants

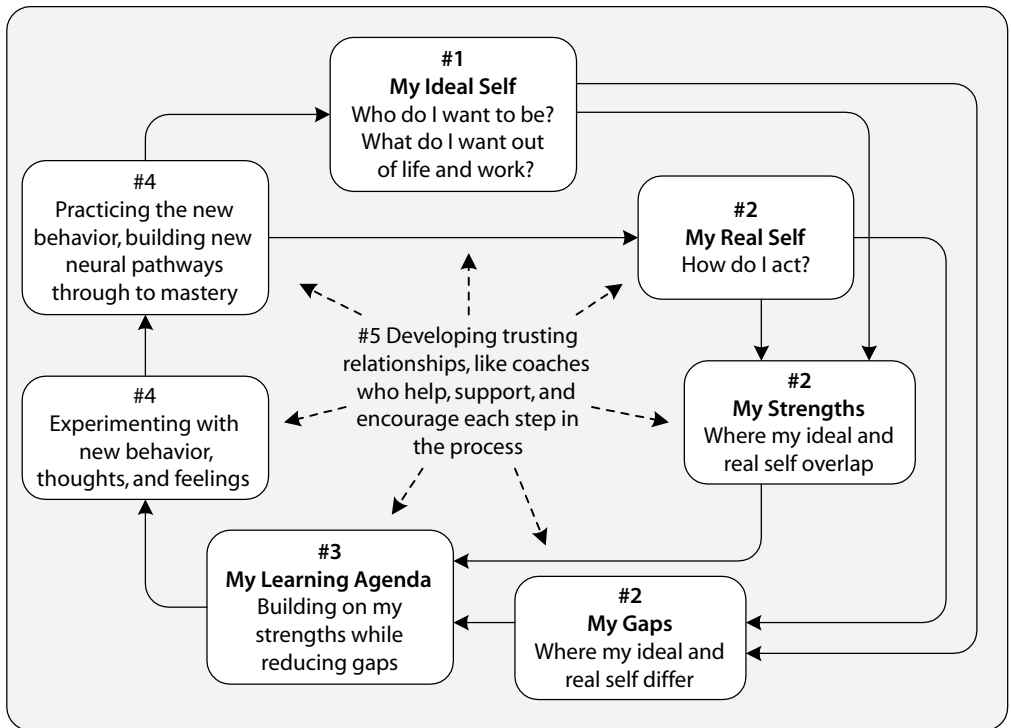


Figure 30-1. Boyatzis' theory of self-directed learning (Goleman, Boyatzis, and McKee, 2002)

analyze the results with personal coaches. In the context of their Ideal Self, this view of their Real Self allows them to develop a Personal Balance Sheet. The Personal Balance Sheet provides a view of their distinctive strengths, gaps (or weaknesses) close to the tipping point of effectiveness, and those gaps further from the tipping point.

With the help of coaches, each person converts his or her Personal Vision and Balance Sheet into a Learning Plan for developing as a leader—this is the third discovery in the process. The plan provides a focus for their future efforts. It provokes participants to think of how to use their day-to-day and week-to-week experiences as the basis for learning. In this sense, the plan helps each person convert his or her life and work activities into a learning laboratory. The planning is slightly different from typical methods, because each person is encouraged to use his or her own style in planning (not imposing one planning method for all), learning style preferences, and flexibility and structure of his or her life style.

The experimentation and practice occurs on the job, as evident in Frank's experience. These constitute the fourth discovery.

The fifth discovery is actually a continuous discovery throughout the entire process—the development of trusting relationships that help and encourage the person at each step. It is here that coaches become so crucial to change. The coaches help participants reflect and develop their dreams and aspirations, look at the way they come across to others, identify strengths and weaknesses, and overcome blind spots in their leadership style. The coaches help the participants “reality test” their learning plan. This includes finding ways to work on the goals during their typical work and life experiences, anticipating likely obstacles, and considering ways to overcome them. During the experimentation and practice, coaches help each person keep track of and reward progress. They can serve as a reminder or a cheerleader.

Paths to Developing Talent

An organization has two strategies for getting the talent it needs: *finding it* and *placing the people* in the right jobs and/or *developing it*. The placement options often appear to be the most efficient. The organization quickly gets someone into a job who can do it really well. As Lyle Spencer states, “Why try to teach a chicken to climb a tree, when you can hire a squirrel?” (Spencer, 1990). Placement approaches to having the right talent in the right jobs in the organization include recruiting and hiring for the specific talent, promoting people into those jobs who are proven ready to use their right talent, using compensation and benefits to create the incentive for a person to use his or her talent, and performance appraisal and management techniques to coax, cajole, motivate, or manipulate a person into using his or her talent.

While placement applications can help, development incites a multiplier effect. Roadway executives knew they had to inspire an atmosphere of continuous and sustainable development of talent to be prepared for the challenges of tomorrow. The Breakthrough Leadership participants are now cascading their learning throughout the organization. The leaders are becoming the teachers. The key leaders who participated in the program are sponsoring teams of Superkeepers in their areas of responsibility. These teams participate in educational opportunities, which are similar to the Breakthrough Leadership program, but at a local level. They also tackle real business projects over a specified time frame, yielding quantifiable results.

Another example of leveraging the education afforded to Superkeepers to develop the talent throughout the organization has been the implementation of 360-degree feedback and coaching. Recognizing the importance of feedback and the importance of emotional intelligence, Roadway has begun to methodically implement 360-degree feedback and has trained internal

coaches (many of whom are the Breakthrough Leadership participants).

Beyond Breakthrough Leadership, Roadway has also embarked on improving its talent management processes to enhance the performance of all of its employees. The company has implemented a comprehensive performance management process, which includes four formal discussions per year. The process is not your typical “appraisal.” The focus is on key business measures related to performance, developmental objectives related to demonstration of competencies, a career discussion, and finally a performance review. This holistic, integrated approach to performance management optimizes the development of both the individual employees and the organization.

Development approaches to having the talent the organization needs include training, mentoring, coaching, developmental assessment, and career planning. The programs described in this chapter were a major departure from earlier approaches. The executives had decided that the future had different challenges from the past. They needed talent for problems yet to emerge. How could they define it, find it, and place it in their company? They had to develop it. But the specifics of the talent needed shifted dramatically from one industrial cycle to another, so they needed a culture of development. They needed a culture and climate in which people were involved in and committed to developing themselves and others all of the time.

Creating a Culture of Leadership: The Why

Once a company has people with the talent needed, the challenge is to stimulate their desire to use their talent. The ultimate goal of the Breakthrough Leadership initiative was cultural transformation. As the executives of Roadway described it, they wanted everyone to “understand both the big picture (i.e., how Roadway will be successful) and their personal role in the big picture (how does their role affect the customers and the financial results). That is referred to as ‘line of sight.’ Ultimately, each employee must be able to link his actions to the financial results of the organization.”

To extend application of the Breakthrough Leadership program into changing the culture, Roadway and Weatherhead started a process called Engagement Through Education in the Fundamentals of Business (EEFB). It followed the same self-directed learning model of change described earlier at the organizational level. Using Appreciative Inquiry (Cooperrider and Srivastva, 1990) to convene large group meetings, people were brought together to discover and articulate their organizational “Ideal.” They told stories about times when they were at their best and proud to be a part of Roadway, times when they exceeded their customers’ expectations and achieved breakthrough financial performance. They also examined how the company is doing on numerous dimensions (i.e., looking at the “real” organization).

The meetings were called Summits. Each Summit was organized around a major terminal, the basic operating unit of Roadway. They identified a business topic of current importance, such as “delivering unsurpassed speed and leveraging employee pride and involvement” or “developing a Team Sell approach.” They invited people from all of the stakeholder groups. Groups of 200-300 people met for several days. They identified their organizational strengths and gaps, which in this approach were viewed as future opportunities related to the shared Ideal.

At the end of the Summit, they broke into small groups to analyze a better way for Roadway to address the overall theme. They developed a Learning Agenda, an Action Plan, for the company about an aspect or theme of that Summit. The action learning teams met regularly to analyze the specific issue over several months. To model effective large group management, the last segment of each Summit was spent reflecting on their new learning, what they valued the most about the session, and their hopes for the future. These were emotional and exciting moments when truck drivers and business managers would talk about how proud they were to be in a company that asked for their views and cared about their approach to the future of the company.

As they worked in action learning teams, they practiced new leadership behavior using emotional intelligence, meanwhile experimenting and practicing new organizational norms. They are developing their new culture while solving real problems. They are also forming trusting relationships that are the basis for a new Roadway culture. They were working on the norms of the new culture as well as the values and motivation to use their talent, the *why* mentioned earlier.

An example of how the culture changed and new leadership emerged was evident in an incident in which a mechanic and a driver discovered a way to save one terminal \$130,000 per year. Since the company has 379 terminals, they expect dramatic savings from this one incident alone.

A mechanic, a driver, and the terminal manager discussed the problem of delays in getting the drivers on the road. Overweight shipments forced the dockworkers to unload some of the freight to get within required weight limits. This took time and cost the company money as drivers sat waiting, while other shipments were delayed. Coming from a Summit, the mechanic and the driver felt inspired to solve the driver delay problem. They started analyzing the situation that evening. Sitting in the mechanic’s kitchen, with Post-it® Notes, they mapped out the process and issues.

After several meetings, his kitchen looked like it had new wallpaper. His wife thought it was annoying, but deferred to his enthusiasm and let him continue to use the kitchen as his workroom. They identified that the overload problem was occurring only with the newer tractors, even though all of their tractors were about the same weight. By further probing, they uncov-

ered the fact that the newer tractors had larger fuel tanks. Overloads were occurring through the common practice of topping off the gas tanks. This not only led to delays for drivers, it also left less weight allowance for the freight. Through calculations and persistence, the mechanic and the driver solved the problem related to driver delay and identified a significant cost savings opportunity. By filling the tanks on these tractors to three quarters, more freight could be loaded without creating overloads and ample fuel could still be available.

The mechanic and driver felt responsible for helping Roadway be as efficient, and therefore profitable, as possible. Their sense of ownership and engagement was a direct result of the EEFB process and the fact that their manager, a Superkeeper who participated in the Breakthrough Leadership program, created an environment that fostered engagement and emergence of leaders at every level.

Inspiring Emotional Intelligence and a Leadership Culture

Roadway feels like a new company in an old business. The results of the Breakthrough Leadership program have been dramatic for the company. The people of Roadway have gotten excited about being leaders. Through working on their emotional intelligence, they have expanded the possibilities for their personal impact. People who were Superkeepers were invigorated to aspire to new heights. Many others became Superkeepers.

Its effect has been contagious. Inspiration and energy have spread throughout the company. The resonance surrounding these reinvigorated people rippled throughout their relationships. A new culture has emerged, one in which people are motivated to leverage their knowledge and talent. Their customers are excited about the change as well. The new Roadway is surpassing many of its competitors in revenue and net profit growth through savvy acquisitions, cost savings, and an atmosphere of excitement, especially during a period that has not been kind to the industry.

Roadway represents a case study in developing capability. The company hires people who have the knowledge necessary for outstanding performance and/or it provides the necessary training to update that knowledge (the *what*). It may hire people who also have the necessary competencies to be effective (the *how*). However, recognizing the importance of having people who are able to use their knowledge, the company also invests in developing its employees' emotional intelligence. It is especially committed to developing the emotional intelligence of its Superkeepers, recognizing their impact on the organization and the cascading effect that it can have. Last, the company has demonstrated the effectiveness of creating a culture in which peo-

ple desire to use their talents in ways that have tremendous impact on the organization (the *why*).

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Part VI

Using Compensation to Implement a Talent Management Plan

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Chapter 31

Integrating Compensation with Talent Management

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THERE ARE THOSE WHO BELIEVE THAT COMPENSATION IS OF SECONDARY importance to most people in their decisions to stay at or leave organizations. These people conclude that to retain top talent, pay only needs to be fair and competitive. In fact, they believe that pay really operates only as a dissatisfier: if it's viewed as competitive and fair, it's a nonissue, whereas if it is perceived lacking on either factor, it is a source for discontent. There are others who believe that compensation is the primary tool for attracting and retaining talent. They develop highly elaborate programs with extreme pay packages, significant "handcuff" provisions, and conditions that require careful legal review. The first group misses powerful opportunities; the second group often wastes a great deal of time and resources. We will argue that compensation can be a potent tool for retaining important contributors, but only in the context of an integrated package of tangible and intangible rewards that operate within the framework of a reward philosophy that supports a winning business strategy.

The chapter examines the principles that make total compensation and reward systems work and examines how they can be employed to strengthen the organization's relationship with the whole cadre within the "talent value chain." This means:

- **Superkeepers:** Creating a "magnetic culture" to attract, retain, and energize people who represent your top talent. These are the 3% to 5% of the organization who consistently demonstrate superior accomplishments in a manner that reinforces the core values and desired culture of the organization. They consistently accomplish the desired "what" and "how" of success and they help others do the same.
- **Keepers:** Maintaining an environment and reward programs that recognize those who make a continual difference to the organization. These individuals represent the 25% to 30% of the organization who have clearly demonstrated their leadership capabilities and exceed expectations for both job accountabilities and core competencies.
- **Solid Citizens:** Providing rewards that keep those who are the baseline contributors on an even keel without requiring an undue investment and creating an environment that motivates these individuals to move up the talent chain. These individuals are those 65% or so of the organization who meet expectations in terms of core competency requirements and job responsibilities and may be able to lead others.
- **Misfits:** Making the tough decisions regarding those 3% to 5% who do not appear to fit within the organization and clearly do not perform as expected or demonstrate essential competencies. The decisions will be to engage them in special development with close supervision to improve performance, reassign them to other work where they should show an almost immediate improvement in performance, or remove them from the organization. While it is always difficult to fire an employee, it is more toxic to an organization's chemistry to leave misfits in place while others wonder why they are working hard to achieve high performance.

As reviewed earlier, compensation plans are many things to people, but few are totally satisfied with the quality and value of these programs. To find how they create value, we need to view compensation plans from a different perspective and understand the principles that make them work. These key principles are:

1. Compensation plans need to be tailored to the specific needs and unique characteristics of the organization. It's always important to understand the best practices among your top competitors, but if the organization only mirrors other organizations, it will fail to create a competitive advantage. This requires developing the process and creat-

ing the alignment that suits the strategic requirements of the organization: *process*—the approach (not the outcomes) to the programs and their implementation, creating highly effective mechanisms for decision-making—and *alignment*—the measures, performance requirements, and rewards supporting the drivers of the business strategy and the deeply held cultural values of the organization.

2. To effectively manage and maximize talent, compensation plans need to be expanded and integrated with programs, tools, and practices that impact the actions of people. This means that compensation needs to be seen as part of an *integrated total rewards system* that includes what the organization is willing to offer and the individual perceives as rewarding in exchange for his or her contributions. This is achieved by having a well-stocked and finely tuned toolbox that includes cash compensation and equity participation, employee benefits and services, recognition, responsibilities, and development. In this way, compensation is a critical component of what helps to shape the actions of people within an organization, and these actions in turn become a major determinant of the organization's success.
3. Rewards need to be meaningful to the individual and directly relate to the strategy and key drivers of the organization's success. Programs applied universally within an organization become important to some and irrelevant to others. To make rewards both meaningful and strategic, organizations need to "segment their internal market" at a macro level, in terms of different talent populations, and at a micro level, in terms of the manager's understanding of what motivates his or her staff members. This is the rewards version of "mass customization." Regarding this individualization, keep in mind that *the individual—not the organization—determines the value of any rewards*. The individual ascribes value to rewards, and he or she often uses a frame of reference that is different from the organization or those who develop the programs. In order to enable the programs to be administratively supported, the organization may not need different programs for each segment of the talent cadre, but the programs need to be sufficiently flexible so that the levels and types of rewards available and earned match the needs and motivational profiles of the individuals.
4. Rewards need to directly support the creation of *magnetic cultures*. This term suggests an environment that draws people in and gives them many good reasons for staying and contributing in an energized fashion. Magnetic cultures are characterized by employees who are proud of their workplace and their work product, enthusiastically recommending its products and services to others and their organization as one of the best places to work in the community. Compensation and

total reward systems that foster such environments must mix both extrinsic and intrinsic rewards effectively to meet the needs of the employees, who in turn take the initiative and apply their best efforts to build a successful organization.

Defining the Elements of Total Rewards

In the traditional approach to rewards, organizations include salary, bonuses, or other incentive-based variable compensation, stock options or similar participation in the equity of the organization, and employee benefits. These are key elements of every total rewards package and they inevitably require a considerable financial investment. Additionally, the organization can utilize other programs and practices that may have greater meaning to the individual and reduce costs to the organization: skill development, having one's ideas put into practice for others, working closely with a team to accomplish an important mission, having the flexibility to address personal work/life issues, etc. To many individuals, these are as important as traditional rewards. The challenge to the organization is to create opportunities and recognize contributions whereby people can earn the ability to have greater control, impact, and share in the organization's success.

To understand this principle, we first need to realize that people make decisions to join or remain with an organization for many reasons, although the tangible elements (pay and benefits) are usually found at the top of the list. Research on employee commitment, conducted by Aon's Loyalty Institute, found that pay is the most important factor in taking a job, with benefits being the second most important. In healthcare organizations, one of the industries most troubled by labor shortages and high turnover, the primary criteria for accepting one's first job were "a chance to learn new skills and grow on the job" (52%) and "pay and benefits as good as or better than other fields" (49%). There is a common held belief that people join an organization because of the opportunity and compensation, and leave the organization because of how they are treated by their manager or others—they lose faith in the leadership or feel they have little opportunity to be recognized and rewarded for their contributions.

Therefore, we need to define the elements of total rewards to include:

- Salaries and other forms of secured compensation
- Variable pay and the opportunity to share in the success of achievements
- A stake in the long-term growth and future of the organization through equity participation, career opportunities, or job security
- The investment in one's development and increasing competencies
- The opportunities to have challenging and meaningful work

- The appreciation and recognition of one's contributions to the organization
- The involvement in decisions that impact one's work and career
- The ability to make meaningful decisions and exert some degree of control over resources commensurate with one's role in the organization
- The confidence in the leadership, mission, and importance of the organization in one's community
- The pride that accrues from being part of a winning organization and one that has high integrity and commitment to its mission

To truly retain desired performers, from the entry level to the clearly superior, the organization needs to create opportunities in which performance is valued and recognized with personalized rewards that are meaningful and significant.

Integrated Rewards Philosophy: A Blueprint for Success

Organizations that put little emphasis on defining a philosophy or strategy often regard such positioning statements as non-binding rhetoric. For example, a typical rewards philosophy statement usually states that the purpose of the company's compensation plans is to "Attract, retain, and motivate our people and provide pay that is competitive with the marketplace and consistent with performance achievements." While one cannot argue with these points, there is nothing in these statements that has any meaning to individual employees, provides tools or guidance to make decisions, or suggests that the organization is different from others in the marketplace. There is little clarity about the purpose of various programs, nor can these statements be used to guide human resource actions. We often find companies that use "generic" statements are more interested in doing what others do than in defining how they can use rewards to become distinctive in the marketplace.

However, organizations that have carefully thought through their philosophy and approach to total rewards can create a more robust and effective system by which they support their talent requirements. Further, they see the various programs—base salaries, variable compensation, equity participation, recognition activities, performance feedback and development, career-building investments, employee benefits and services, etc.—as integrated.

Why integrated? This enables the organization's leaders to view rewards as one of their key management systems for driving the business and developing the capabilities of the organization. Each program has a primary focus, but the inherent limitations in each are offset by the effective use of the

other highly focused programs. Considered together, they achieve a greater yield and impact on individual and organizational performance and support the organization’s capability to retain people.

This means that individuals within the organization should be treated differently, in a way that reflects their roles, contributions, and results capabilities. This goes beyond the superficial *quid pro quo* that offers more money for more performance, but creates a deeper relationship in which both company and individual needs are met in mutually supportive ways. This can lead to higher performance and satisfaction from both perspectives.

The best reward systems address people in a holistic manner, both for their membership in the organization and for their performance. Membership-based rewards are provided because one joins the organization or assumes a role or reaches a level that makes one eligible for certain programs. The performance-based rewards are earned directly as a result of individual, team, unit, and/or organizational performance. The following list shows examples of membership- and performance-based rewards:

Membership-Based	Performance-Based
Cost-of-living pay increase	Merit-based pay increase
Profit sharing	Team or individual bonus
Employee stock purchase	Stock options or award
Job training	Career development
Life insurance	Special award
Disability insurance	Special work assignment
Company parties	Recognition clubs (e.g., president’s)

An initial reaction to this list might be that the programs on the left are just “nice to have” and supportive of neither company nor employee goals, while the rewards on the right are the “ones to have.” In truth, both types are essential. Membership-based offerings often distinguish one organization from another and can create some of the critical elements of the “magnetic culture.” Performance rewards are earned, awarded based on achievements or demonstrating certain behaviors and/or actions that are defined according to the strategy, goals, and business needs of the organization. They are contingent on achievement, whereas membership awards are based on employment.

To develop an integrated, total rewards philosophy, the organization needs to define the purpose and guiding principles for each type of reward it offers to members of the organization. By their very nature, statements of reward philosophy are longer and more meaningful than the typical generic types and provide important clarity to the design, decision-making, resource investment, emphasis, and management of various total reward programs.

Designing Integrated Rewards—Making the Strategy Real

The process of developing an integrated rewards philosophy that can be translated into real programs addresses five key questions:

1. Who are those that we believe are critical to the present and future success of our organization?
2. What are the things that they value or find important at this stage in their careers and in the foreseeable future? What are the basic talent segments of the organization?
3. What do we as an organization need from them that will enable us to sustain or enhance our marketplace leadership?
4. How effective and how competitive (or distinctive) do the programs we offer need to be to reinforce the commitment and performance of these individuals?
5. What are we willing to do and not do as an organization?

These five questions go beyond the decision of how competitive the organization needs to be in the marketplace for talent. They define the purpose and importance of the reward programs from the perspective of the individual. Then, the organization defines the conditions in which individuals can receive the rewards that the organization is willing to offer.

Who are the critical “talent segments”? To start this process, we should answer the first question and define whom the organization needs and their level of current and future value. This entails both a common criterion and a reliable assessment and decision-making process. All groups in the talent cadre must be considered—Superkeepers, Keepers, Solid Citizens, and Misfits.

What is important to them in their careers and work life? The next step is to define what your employees believe to be important in the workplace, at the particular stage in their careers and for the foreseeable future. Each of us is different and each of us has certain provisions we seek from our workplace. Those who are entering the workplace may desire opportunities for further training, development, and recognition for taking desired actions. The seasoned performer who operates effectively independent of supervision may want to balance both personal and work life and find opportunities to use his or her expertise to make a bigger difference in the organization.

To determine what people value, a manager should at least ask the questions of his or her people. Since this may result in a superficial response, depending on the manager-employee relationship (“Why is she asking me this and what does she want to hear?”), an effective manager will supple-

ment such questions with a more robust, yet time-intensive approach that entails both understanding an employee's preferences and observing the individual to learn what kinds of things make him or her "tick."

We will consider this question in the context of the talent cadre spectrum, recognizing that every person in the same group will not have the same view of what is most important. Superkeepers typically are self-motivated and so *do not require* considerable tangible rewards as a prerequisite to work and perform. This is not to say that compensation can be ignored, since these people need to feel that rewards are commensurate with effort and results. So long as this need is being met, life is fine. To the extent that it is not, the organization is in a high-risk situation with this key player.

Given the Superkeeper's typical performance/commitment mindset, it also makes great sense to treat compensation not as an isolated award but as an integral outcome of the person's individual or group/team achievement. Superkeepers also value being part of a winning organization, having the opportunity to lead (whether formally or informally), and being given the latitude to make decisions, take action, succeed or fail, and then recast the action plan to better ensure success the next time around.

Keepers tend to have much of the same internal value system as the Superkeepers, although clearly their impact on others is less dramatic. Solid Citizens tend to put greater value on fairness of treatment and want to be sure that their package is consistent with others who are at approximately the same level of contribution and experience as they are. While this chapter is not the forum to discuss the notion of internal pay equity within organizations, compensation professionals must be clear that internal equity is less a function of job evaluation and salary structure (although these are necessary foundations) than of individual perception around issues of performance, broadly defined. As a Solid Citizen, I will feel that my pay is equitable if I think my manager is not more demanding or more subjective than others in determining my pay increases and pay levels and if I believe that a person who is paid the same as I is in a job similar to mine, performs no better than I, and has no more relevant experience than I. Thus we see that effective communication and understanding are two keys to a successful and well-perceived compensation program.

It is harder to predict what Misfits value as a group, since their actions often reflect feelings of isolation and may engender conflict with others. If the Misfit can be "saved," the organization needs to bring the actions of the Misfit closer to organizational values as quickly as possible.

What does the organization need from them? The third question defines the requirements the organization has for employees' performance. This is where there is a direct link to the key strategic drivers of the organization.

Organizational leaders may assume that if employees remain with the organization, they will perform as they have or better than they have in the past. Performance improvement depends on the organization's actions to communicate clear directions and encourage desired actions, provide the right tools and resources, and create a situation in which people are doing things differently and better. Each of these dependent factors in fact augments and solidifies the impact of each other factor, to create an environment in which innovations are required, realized, and rewarded.

From a talent cadre perspective, expectations regarding desired organizational achievements define what is needed from people. It goes without saying that leadership and significant contribution are expected from Superkeepers and Keepers, while some leadership and ongoing contribution are expected from Solid Citizens. Immediate change or departure, unfortunately, is on the table for the Misfit. Of course, the real issue is how the organization can best create the environment that both maximizes the likely contribution of each employee and facilitates the movement of employees up the talent value chain.

How effective and competitive (or distinctive) do we need to be? The fourth question challenges the organization to determine how distinctive it needs to be in order for these programs and practices to work to encourage and reinforce desired performance. This often includes two primary dimensions:

1. How competitive does the program need to be vis-à-vis the marketplace for talent?
2. What type of design works best for us?

Regarding competitiveness, the decision depends primarily on the *prominence* of pay within the organization. (How central is pay as a tool of motivation and reward?) Much research suggests that premier organizations tend to target and/or provide compensation that is highly competitive (typically in the third quartile), although there is no algorithm that says targeting a certain percentile of the market will make it harder or easier for a company to attract and retain Superkeepers. It is our experience that a highly competitive strategy is often more a function of the company's goals and values ("We see ourselves as a market leader and we need top-notch people to support and enhance this positioning. It's just natural for us to provide above-average pay and benefits packages.") than a driver of competitive advantage ("Well, we're having a hard time holding onto our top performers. If we raise our pay target from median to 75th percentile, that should allow us to plug the leaks.").

In terms of what kind of design works best, the answer—as we've alluded to before—is a resounding "It depends." To reiterate, the goal is to create a total work offering that is magnetic, flexible, clearly communicated, and, in particular, ingrained in the employees' mindset. Most companies don't

need to set up separate reward systems for their Superkeepers. What they need are structures and decision-making processes that are flexible enough to provide the necessary totality of rewards, as determined by *well-trained* managers. The result is that the Superkeepers will tend to be in the bigger roles (hence at higher pay levels) and will be paid on the upper end of a particular pay range, will be recognized in multiple ways for their contributions, and will have a clear understanding that there is a close link between what they do and how the organization does and between their personalized rewards and what the organization receives in return.

What is the organization willing to do? The final question is one that defines the limits or parameters of the organization's total reward systems. We suggest taking a systematic view of the situation and ensuring that decisions are made from a solid foundation based on what is appropriate for the organization and provides a desired return on the investment. This means that one needs to know what a job is worth in the market, how much one needs to provide an individual in that job in relation to his or her contribution, the level of risk of loss to the organization, and how best to manage that risk in a proactive fashion.

No organization should be "held hostage" to the demands of even the Superkeepers. Facing such a demand implies that the individual should perhaps not be regarded as a Superkeeper and the organization must prepare for the succession or transfer of responsibilities and relationships if necessary. To the extent that the organization has to make pay decisions in response to threats to leave or real offers from competitors or engage in a bidding war, this is a sign that you are in a reactive mode, with no strategy or system as a framework. But these situations do happen, and the best advice is to always have contingency plans ready and available to minimize risks.

The fundamental goal is to provide enticing, culturally aligned total packages without resorting excessively to "offers they can't refuse." There is potentially a thin line between commitment and entrapment. To the extent your Superkeepers feel they are in the latter situation (perhaps because of golden handcuff stock options, restricted stock, or supplemental executive retirement plans), they may slip down the talent value chain and become more dysfunctional than functional.

Finally, in terms of communication, both experience and research have shown that the better an individual understands the basis for his or her compensation, the more satisfied and motivated he or she is by the programs. Additionally, it has been shown that high-performing companies tend to communicate to employees about current and potential compensation more frequently than other companies, and that greater and more effective communication regarding compensation during plan redesign efforts is critical to successful redesign.

Finding Your Own Pathways

Throughout this chapter we have emphasized the importance of understanding what is important to the individual and creating opportunities where employees can earn rewards that they value. This links the personal interests of the individual with the strategic interests of the organization. Some of these rewards may be merely based on continued employment and commitment to the organization—as demonstrated with membership-based rewards (e.g., health benefits, matching contributions to retirement funds, company events and parties, etc.). Other rewards are provided contingent on the performance in terms of results or taking desired actions (i.e., the process to achieve results) needed by the organization—as demonstrated by performance-based rewards like variable pay, spot bonuses, recognition awards, equity participation, greater freedom and control over one's work, increased involvement in critical decision making, and so on. The type and the level of the reward need to be based on the necessary return on investment to the organization.

Therefore, if you are looking for concrete illustrations of what will work for the Superkeepers or others, you will not find the answers here. Look instead to what works and what needs to work better within your own organization. This is to suggest a “Zen experience,” where the answer in one situation will not likely work for another situation. Our advice is to examine the five questions outlined above and assess the impact and value of your current reward programs. Further, since people make decisions to leave an organization because of how they are treated, increasing compensation contingent solely on retention may minimize a short-term risk, but will likely create a long-term and perhaps more expensive problem.

When one group complains about the rewards provided to another, their concerns may come from two different motivations; the response must apply to the motivation. On the one hand, realize that they are expressing a need for new, more meaningful rewards and that their concerns may be legitimate. Pursue initiatives that provide them the opportunities to earn special rewards for what they accomplish. (Review the five questions and answers above.) On the other hand, they may be seeking to receive the “goodies of others” without having to perform differently. These are the voices of entitlement, and the extent to which you provide rewards to others that are not based on creating value for the organization, you are reinforcing a culture of entitlement. We strongly suggest that you offer them the opportunities to participate *if* they are willing to take the responsibility and accountability for improving their performance, as you required of the other groups.

There are many tools available for rewards. Some are very inexpensive and others require significant resources of the organization over time. Some are immediate, verbal or spontaneous, and create a clear connection between

the behaviors and the rewards. Others are provided to individuals just because they are members of the organization or as a result of particular roles and responsibilities within the organization. When one designs reward programs that make a difference, there is great value in being clear about who, why, and how. Be clear that, to get people's attention, increasing the amount of money is not always the best answer. By making rewards more personally significant, contingent on performance and contributions, and aligned with the strategy and individuals' roles within the organization, however, there is a better chance that compensation will have the impact desired. Plus, by adjusting and targeting the significance of the rewards to the level of talent demonstrated, the organization can realize substantial returns.

Superkeepers help to support and propel the magnetic culture created by the organization. They do this because of their clear commitment and capabilities to serve the organization and because their actions are truly aligned. The organization needs a wide range of tools and practices that communicate their importance without creating the "star syndrome" that is so prevalent in sports and entertainment industries. Hence, contingency and succession plans are critical to minimize organizational risks. Winning teams need those super players to the extent that they also support the team's goals, help mentor and develop others, and provide a desirable spirit to the team. In this context, the additional rewards they receive will provide returns to both the owners and the other teammates.

An organization cannot exist with only Superkeepers. There are others who do the day-to-day work of the organization and may not directly ask for much. They become the Solid Citizens, and some are truly Keepers. How the organization treats, encourages, and rewards them is also critical to success. Hence, this chapter has not focused only on the Superkeepers. In fact, all members of the organization should have similar opportunities to earn and receive rewards that are commensurate with their roles and impact on the organization. The principles and the guiding questions outlined above should be applied to the Superkeepers, as well other segments of the organization. These are the ingredients and the characteristics of every high-performing organization.

Conclusion and Key Points to Remember

The performance and success of the organization are caused by many factors. The actions that people take or fail to take are often a significant factor. The fundamental purpose of reward systems is to encourage and reinforce actions that are aligned with the strategic needs of the organization. To the extent that people see these rewards as personally meaningful and understand what they must do and how well they are doing, the organization will often realize

substantial return on its investments. These returns may take the shape of increasing revenues and customer retention levels, higher levels of productivity and quality, more responsiveness to change and business plans, and lower turnover. Each of these factors improves the bottom line and creates greater shareholder value.

If the design of plans were easy, they would not provide a source for competitive advantage. If the plans had no impact on people, there would be little to discuss or be concerned about. The critical concern is that the organization is likely wasting significant resources on programs and processes that are creating little value and do not have a meaningful impact on those whose behaviors the organization seeks to influence. The response is often to either fight for more money or fight for spending less money on people. It is most unusual (although more common than one would expect) when organizations take little time and interest in how their compensation and reward programs are structured. Therefore, the call to action is to realize that when rewards are focused, designed, and managed effectively, they have an incredible impact on the actions of people regardless of their level of talent. In such environments, people see themselves as winners working for a winning organization.

There are many books and articles that outline how to develop various reward programs. (Some are included in the reference materials listed below.) The focus of this chapter is not to rehash well-documented programs, but to provide you with new ways to look at traditional programs as well as new ideas on how to better align rewards with what people value and what the organization needs to succeed and prosper in an increasingly competitive marketplace. The challenging aspect of reward programs is that they operate in a dynamic world, where the needs of people are changing and the requirements for success are changing as well. The organization can only do the best that it can with limited resources and find creative and innovative ways to realize both immediate and enduring returns. But these returns do not just happen; they are the result of utilizing integrated, total reward programs, as discussed above. One of the premises of this chapter is that using such reward systems can help create both the impact (and associated returns) the organization needs and the value the members feel in being part of a winning organization. Having pride in what we do, for whom we do it, and where we do it is a basic characteristic of the human condition.

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Chapter 32

Compensating Superkeepers: Talent Your Company Needs to Thrive

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SOME PEOPLE YOUR COMPANY HOPES TO RETAIN. A FEW—AND, IF YOU'RE lucky, it's just a few—your company would like to get rid of but can't, for a host of reasons. But others, perhaps as many as 20% of your non-management workforce, are employees your company *must* keep (and try to get many more of). This chapter focuses on those people your company can't do without—the people your company depends on for its future. Probably many of them are not your executives or managers. They are more the “keepers of the company's secret sauce.” They have the hard-to-find, hard-to-replace, practical, and applicable skills that give your business an advantage with your customers. These are your company's *Superkeepers*.

Superkeepers can have capabilities ranging from engineering/scientific and technical to sales and marketing. They may also be people who challenge conventional thinking to move the business forward, they may be helpful questioners of the status quo, they may be skilled at building con-

Please note: the first section of this chapter offers a description of Superkeepers. If you are already familiar with this concept, feel free to skip ahead a page or two to the beginning of our discussion on compensation.

structurally on the business ideas of others, or they may get marketable outcomes from effective teaming. They all have one thing in common—in total they make up the talented minority who provide the differential advantage your company needs.

Why and how are Superkeepers different from other scarce talent? When the talent market gets tight, organizations have trouble attracting people with nearly *any* skill. In leaner times, a general “weeding” of the workforce occurs and short supplies of talent may change to a state of oversupply of people with these skills. Talent scarcity isn’t new; it comes and goes, sometimes fairly rapidly. Businesses have gone through shortages of engineers, information technologists, financial professionals, nurses, and even unskilled workers with minimal job skills. So what’s unique about Superkeepers?

Scarce talent is a general economic or specific company’s ebb and flow that affects a lot of organizations. When business needs are high, people with a wide range of talents are added. When business eases or hard times strike, talent needs wane and workforce reductions plus hiring freezes are common responses. But some talent is uniformly and consistently essential to your company business in both good times and bad. These are the Superkeepers who must be identified and kept at all cost. They must be protected from the ups and downs of staffing or your company will be cutting into the bone and muscle of your talent resources.

Identifying Superkeepers

What identifies a Superkeeper is different for different organizations. However, asking and answering a few common questions about talent needs is the place to start. Here are the key questions your company needs to answer to identify your Superkeepers:

1. What skills and capabilities does your company absolutely always need to be a success?
2. Which people currently in your company possess these skills and capabilities?
3. Where are additional people who fit this Superkeeper mold working or learning now?
4. What, in terms of total rewards (individual growth, compelling future, positive workplace, and total pay), do these current or potential Superkeepers want to work for you?
5. What reward changes, if any, need to be made to your total reward package to put your company in the market for this talent?
6. Most importantly, is your company ready to make the talent model and reward changes necessary to provide advantage in the Superkeeper market?

Where do the criteria for identifying your Superkeepers come from? Figure 32-1 identifies essential Superkeeper capabilities in terms of adding value in financial, customer, operational, people, and future-focused capabilities for *your company*. The emphasis is on *your company* because the definition should be customized and unique to your business model. The definition of Superkeeper comes from whatever it takes to be successful in *your company*. This information can help you develop a reward profile of Superkeeper criteria to guide your reward design effort.



Figure 32-1. Measures and skills defining superkeepers

Source: Patricia K. Zingheim and Jay R. Schuster, *Pay People Right! Breakthrough Reward Strategies to Create Great Companies* (San Francisco: Jossey-Bass, 2000).

A Superkeeper talent-and-reward strategy must have at least two objectives:

- *Primary Objective:* Customizing a Superkeeper definition to match your specific strategic/tactical business goals. And subsequently making your company’s talent model and rewards ultra-attractive to the people you want.
- *Secondary Objective:* Continuing growth and value-added development of your company’s Superkeeper core. Adding value by requiring and facilitating Superkeepers to produce needed performance outcomes and to continue to grow essential skills.

If your company can tolerate the ebb and flow of scarce/excess talent as business fortunes vary, the talents you’re letting go or gaining aren’t your Superkeepers. They aren’t the talents your company absolutely depends on for its continued success. Superkeepers can’t be replaced like tires on your

car. They hold the critical skills your company needs to be a success. Like a fine red wine, they get better and grow more valuable with time.

Superkeepers generally constitute no more than the most important 2% to 5% of your workforce. This talent must be kept without regard for tenure and entitlement because they get your company through thick and thin.

Rewarding Superkeepers

This talent model necessarily excludes companies that merely provide liberal and permissive rewards. It also excludes organizations that are slow to hold individual executives, managers, and supervisors accountable for results and managing their individual reward budgets to focus on Superkeepers. And it most likely excludes organizations with highly centralized reward formulas that are unwilling to delegate flexibility to the business unit leader challenged for bottom-line outcomes and responsible for building a Superkeeper core in the business unit.

Although some of your business and talent competitors may be gearing rewards to satisfy the general workforce, your company must target Superkeepers wherever they are. The talent-and-reward strategy is sort of “elitist,” but a strategy that will prove advantageous. Although everyone on your workforce team is important, some talent is more critical.

Total rewards are the name of the scarce-talent attraction-and-retention game. People work for more than pay. Companies must cover all the bases to get the best ones. Figure 32-2 depicts the total reward components we propose as being critical to effective reward design now and in the future—Individual Growth, Compelling Future, Positive Workplace, and Total Pay. The appendix describes the application of total rewards to Superkeepers.

Business First

This is a business-first talent-and-reward model. People count more to an organization than ever, and that is why a strong business emphasis is a talent-and-reward priority. For employees to win in a win-win relationship, the business itself must prosper. Otherwise you are building a talent-and-reward strategy much like rearranging the deck chairs on the Titanic. Sharing a *growing asset* is central to a healthy stakeholder talent strategy. And if you select your Superkeepers correctly, you will have a legion of people who will keep your company growing.

Organizations have many options when it comes to building a talent model. They can copy the talent needs of other successful organizations or they can buy a canned model already made. And, of course, they can develop their own model from their business goals. The concept of enlightened self-interest suggests that building your own solution is the best direction,

<p style="text-align: center;">Individual Growth</p> <ul style="list-style-type: none"> • Investment in people • Development and training • Performance management • Career enhancement 	<p style="text-align: center;">Compelling Future</p> <ul style="list-style-type: none"> • Vision and values • Company growth and success • Company image and reputation • Stakeholdership • Win-win over time
<p style="text-align: center;">Total Pay</p> <ul style="list-style-type: none"> • Base pay • Variable pay, cash and stock • Benefits or indirect pay • Recognition and celebration 	<p style="text-align: center;">Positive Workplace</p> <ul style="list-style-type: none"> • People focus • Leadership • Colleagues • Work itself • Involvement • Trust and commitment • Open communications

Figure 32-2. Total reward components

Source: Patricia K. Zingheim and Jay R. Schuster, *Pay People Right! Breakthrough Reward Strategies to Create Great Companies* (San Francisco: Jossey-Bass, 2000).

because people and organizations will see what is best for them. The symbiotic relationship between meeting the company business goals and rewarding those who help most is the formula a talent model can help address. The process must start with what’s needed to do your business very well to create a business-first talent model.

Branding Rewards

Branding isn’t new. Choice companies have global brands—Pepsi, Coke, Disney, Amazon.com, Starbucks, and the U.S. Post Office, for example. These brands evoke an image in the minds of customers who recognize in them what the company and its products and services are about. Customers associate Pepsi with “those who think young” and Disney with “fun and enjoyment.” Brands create a vision that’s attractive or neutral or even unattractive. Companies spend a great deal of money building very positive brand recognition, with the objective of making the company attractive to the potential customers it wants.

Many organizations have tried to develop a best-place-to-work brand that makes them attractive to *every* employee. But when companies place a Superkeeper imprint on rewards, they send a message about what it’s like to

work in the company. And you usually don't want to make your enterprise attractive to people who can't or don't want to add value to your specific business as you define it. You want a magnet brand for those people your company must have.

Business branding for Superkeepers is essential to your company's future. This means making your specific company attractive to its most essential talent. It means avoiding the trap of just being a "best place to work" because it's difficult to business-justify a talent-and-reward strategy that fails to differentiate between business-critical and less critical talent. It's much easier to make a powerful business case for a talent-and-reward strategy that focuses on the people with the unique capabilities the business needs to thrive.

U.S. Postal Service and Amazon.com

Different talent needs mean "different strokes for different organizations." As a case in point, here are two dramatically different talent models. One is driven by an energetic leader with a vision of dominating a creative, volatile, risky, and incredibly competitive business that was provided by a newly available technology, the Internet. The other was created by the U.S. federal government to fill an urgent need by economically providing mail service to a country that could not communicate effectively without it. So their initial strategies differ wildly in concept and in time. Each organization developed structures and cultures to match the task to be accomplished. The U.S. Postal Service developed a top-down culture that remains formal and rather militaristic, even in light of sagging revenues and external competition from the private sector. It attracted a highly risk-averse workforce dominated by a powerful, inflexible union. It continues to hire and promote to sustain a bureaucratic model. Amazon.com, on the other hand, created a very open and unstructured culture where people had wide discretion and opportunity to innovate.

Now, if the U.S. Postal Service wanted to go into the e-retail business and Amazon.com wanted to go into the U.S. mail business, this may require a dramatic change in talent strategy and corresponding changes in structure and culture. And it would certainly require new reward directions to make the workplace attractive to people who fit the new strategy. Although this is an extreme example, it illustrates the point that aligning talent strategies, structure, culture, and rewards to effectively execute a necessary business strategy is critical. Amazon.com would not elect to brand its rewards in the same fashion as the U.S. Postal Service might.

Since the task for the U.S. Postal Service was known and clearly defined, a military-type organization, highly structured with clear duties and responsibilities for everyone, was believed to be best. It made Superkeepers of those who could keep a bureaucratic ship afloat. Amazon.com counted on bright and creative innovators—Superkeepers—to make the growth, innovation,

and creativity strategy a reality. Little structure and definition in organization design resulted. People were encouraged to work throughout the organization's business plans to help create something that did not exist. While to some extent the mail was being delivered before the U.S. Postal Service was established, the sale of books on the Internet didn't exist other than conceptually before Amazon.com.

The U.S. Postal Service developed a culture and organization design that's attractive to employees who best fit doing semi-skilled work in a bureaucratic environment where they have job security and can easily avoid doing anything that puts them at risk of losing their jobs. Keeping everyone employed with the U.S. Postal Service without serious and objective regard to individual performance is the talent strategy. Amazon.com chose a culture and organizational design that's attractive to Superkeepers who must deliver creative products and services that sell in a competitive market and accepted the reality of a situation where many people are more identified with their professions than the organization for which they work.

Talent-and-reward solutions follow these strategies, structures, and cultures. The U.S. Postal Service has formal and hierarchical pay and liberal, entitlement-focused benefits. Amazon.com has stakeholderism in terms of stock options and ownership. These rewards fit as long as the strategies, structures, and cultures continue to match the realities of the business. When they fail to be the most effective way to run an organization, problems arise. That creates a need to realign culture, structure, and rewards to match the realities of what the business must do to survive.

The problem for the U.S. Postal Service is not that its original founding talent and business strategy didn't make sense; it probably did. But inflexibility—including inflexibility in changing its definition of Superkeepers—is hurting it during times of change.

U.S. Airline Industry

The U.S. airline industry is another example. The talent-and-reward model for airlines was established when the industry was heavily federally regulated, when every airline survived regardless of performance, and all costs could be passed on to the customers with no difficulty. The government dictated pricing, and little or no route competition could exist.

The airline industry is strongly controlled by powerful unions. These unions, negotiating with leadership teams in a regulated industry where individual airlines didn't strongly compete for business, created an entitlement-based talent model that didn't permit labor cost to vary based on any valid indicator of business success in a deregulated industry. The talent model does not pay for outcomes but only for time. It provides work rules that are anti-performance. And it permits people to become more costly

without requiring a corresponding gain in their skill and capability of relevance to their employers' businesses.

What went wrong? At the foundation, deregulation didn't permit the airlines to change their talent-and-reward model to let them compete as real businesses. And the low-margin airline business in a competitive business environment could not survive with an ever-inflating cost for labor that wasn't improvement-focused. Now, as more and more airlines are forced out of business, no learning about a flawed talent model is occurring. Things aren't changing, and both the workforce and leadership are failing to provide a successful business solution.

Finding and Keeping the Superkeepers

"But *everyone's* important," the Vice President of Human Resources said.

"Yes," I said, "but 10 minutes ago you were talking about some key talent and said your company would 'drop dead for' if they left—and that wasn't *everyone*."

How true is this in your company? My guess is that if you did a critical analysis of your company's most essential talent needs, you would find that some of the people have urgently important skills and capabilities that are at the core of your business' current and future success. It may be technology or sales and marketing talent; it may be people with a special product or service development skill or a capability that is attractive to your most essential customers. The people who fit these profiles are your Superkeepers. And your job is to figure out how to hire and retain more of them than the companies that are competing with for you for business and talent.

Do you ignore everybody else? Clearly not. But "Superkeeper brand" your reward model for essential talent. This communicates to everyone what your business values are. If your company can keep the people nearest to your customers and business lines, everyone will share in this success. Every company has some people with skill and talent most important to the business. But relatively few companies have the commitment to identifying these skills and capabilities clearly and patterning their talent-and-reward solutions to get and keep the Superkeepers happy and productive. That's your company's opportunity to shine in talent strategy and reward design.

Once you've identified your Superkeepers, the next step is to develop the business case for making them priority reward targets. Superkeepers make up 2% to 5% of your workforce. Find out what these essential people want in exchange for helping your business be a winner. The best way to find out is to ask them—hold what may be the most important talent-attraction focus groups your company ever will hold. Use the reward components in Figure 32-2 to take two actions: (1) have Superkeepers rate the current

rewards in terms of the reward elements and (2) have them identify the reward elements they prefer in the future.

Ask your Superkeepers to score current rewards. They can rate each reward element in Figure 32-2 with a “plus,” “neutral,” or “minus” (strength, neutral, weakness). Then, have them rate total rewards based on what’s important to them—a “plus” for the most important elements of total rewards (and maybe a “plus-plus” for the “must haves”). Have them also do the “neutrals” and “minuses.” Now you know how your Superkeepers view your company’s total rewards and what they want in exchange for being “super” for you. The next move is up to you. What is your company going to do about matching total rewards to its critical business needs?

Changing Rewards

Changing pay and other rewards is heavy lifting. “You can mess with anything but my kids and my pay” is a common attitude people have about change. Let’s assume your company has charted a course to emphasize a reward solution that’s defined by your specific talent model. It’s changing from a model that either ignored the relevance of rewards to key people or even paid no attention to total rewards at all. What will be the really hard part of the message for managers and employees to buy into? The talent message of considering the wishes of Superkeepers over others is tough, but essential, to sponsor.

Executives and managers clearly bring essential skills and capabilities such as leadership and vision to the table. But they may not have the up-to-date professional skills and capabilities that represent the substance of the core technology or capability of your business. Companies may find that those who have the critical skills they need want reward solutions such as a focus on relentless and challenging individual growth and a positive workplace that hires and keeps only the very best people in their field. People with scarce skills commonly prefer a compelling future that is based on continuing change and even business revolution or total pay that puts pay at risk in exchange for significant breakthrough innovation. This reward model may not be attractive to everyone.

In the box below, the first two necessities in our list—“Top management support and championing” and “workforce trust” in what leadership is telling them about what’s going on—apply to *any* reward change. If these priorities need shoring up in your company, direct your efforts toward them. The third priority that includes the business case of why your company is doing this and what it will mean to employees is essential in a move toward rewards designed for the Superkeeper. Why is the company moving to a Superkeeper reward strategy? How will the reward model change? And what will this mean for those who may not be Superkeepers?

- Top management support and championing
- Workforce trust
- Consistency with total reward strategy, business case, and work design
- Challenges that people can help address
- Belief that workforce can enhance organizational performance
- Adequate communications with people
- Willingness to share information with people
- Current measurement of results on key initiatives
- Accounting and information systems to support reward solution

Your company must be ready for a “Why not me?” questioning as well as possible accusations of unfair treatment by employees who are not defined as Superkeepers. The Superkeeper designation should not discriminate against members of protected groups, meaning it must not be an arbitrary designation. This all means it must be an objective set of criteria that can be discussed clearly and intelligently.

Reward change is always challenging and creates “noise” in the communications process. The box just below presents the most frequently asked communications and rollout questions. Use these to begin to develop your company’s questions in anticipation of delivering the message to the workforce. The first question is always “Why is the company doing this?” This tests the business logic for the actions under way. Companies should begin the transition to a reward solution focused on Superkeepers by addressing these questions *before* they are asked.

1. Why is the company doing this? Why must pay change now?
2. What does the pay change mean to me? How will my pay change? What’s in it for me?
3. We hear a lot about “total rewards and total reward strategy.” What are these, and can we see the strategy?
4. Who was involved in this pay design? How were they selected?
5. Will any elements of current pay be reduced? When, how, why, and how much?
6. How does the new pay plan work specifically?
7. What do I need to do to be successful under this new plan?
8. What role does my manager play in this new program?
9. Where can I go to get more of my questions answered?
10. What plans have been made to keep us informed on how the organization is doing compared to the goals you discussed?

Communications and rollout actually begins when your company is planning a reward change. If your company is ready to answer these ques-

tions, it's highly likely that you will have taken a major step toward making a positive business case for making a reward change. Changing to a reward solution that puts a priority on rewarding those with key skills makes unmistakable business sense.

Two Emerging Reward Trends

Figure 32-3 summarizes two emerging reward trends as changes from prevailing practice. Companies will have a better chance of being effective Superkeeper employers if they position themselves to accomplish the following:

1. *Customize Rewards*: Decentralize the responsibility for adapting the talent-and-reward strategies to match business unit Superkeeper talent needs and challenges. Enable business unit managers to customize reward and talent strategies to match local needs.
2. *Delegate Reward Accountability*: Make managers at the business unit level responsible for effective reward budget management in their area of responsibility. Managers are accountable for focusing on Superkeepers in their own organization.

Large- and medium-sized companies are coming to believe that traditional talent-and-reward solutions may not work. Typical pay and reward designs have proven rigid, hierarchical, and sluggish. Senior management and boards have also intensified governance review of rewards.

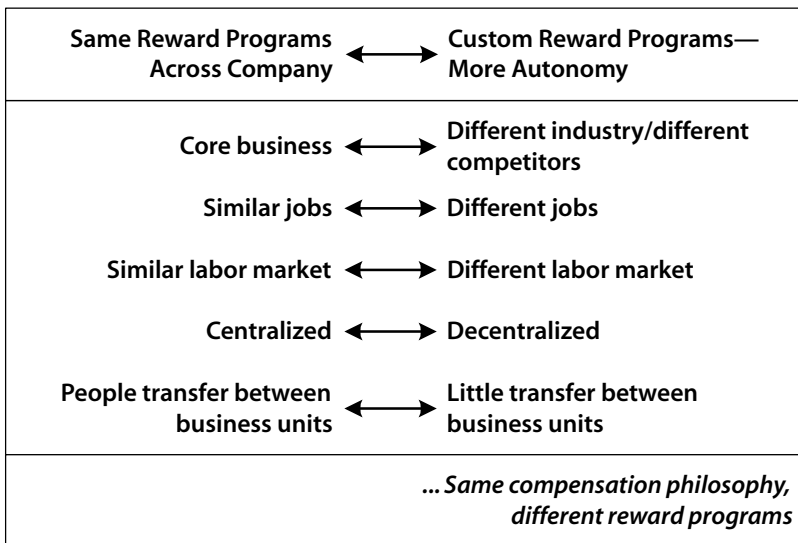


Figure 32-3. Factors impacting common vs. customized reward programs within the company

Common Feel—Customized Look

Corporate policy may define a common talent-and-reward “map” to be interpreted at the business unit level. Business unit leaders should be able to translate this map based on local business challenges and the prevailing marketplace—with emphasis, of course, on the Superkeepers. The translations may differ from business unit to business unit because of differences in products and services, competitors, location, and other variables. The corporate staff becomes the reward tool builders. The line and staff executives of business units become the interpreters of policy into specific and locally relevant tactics, since they are responsible for both talent and business management. And they’re accountable for applying this flexibility consistent with whatever economic constraints they have for budget management.

Managers are responsible for getting value from the resources allocated to pay and rewards. With the opportunity to locally innovate from strategy and tools comes the accountability for budget management. The tools business unit managers may deploy to focus on their specific talent needs may include:

- *New, closer line-of-sight business unit metrics.* Provide critical people with metrics they understand and can impact. This involves moving metrics and goals from corporate to the business unit, where they are most likely to be influenced by employee performance. This helps get shared destiny at the level at which it builds a strong local business case for pay and rewards.
- *Deeper use of variable pay in the business unit.* Companies with Superkeepers at the business unit level want them to share in the business unit success. This means variable pay for Superkeepers, to link them to the business unit’s results. Averting surprises from the failure of distant corporate measures to generate incentive awards for business unit key personnel is one objective. Variable pay permits the business unit to be agile and able to emphasize currently critical results and skills by granting awards that don’t become a “local annuity” in the event business circumstances and talent scarcity changes.
- *Team rewards at business unit level.* Linking Superkeepers to others in the business unit through shared goals and objectives is often a priority. Emphasize the opportunity to develop custom teaming opportunities among Superkeepers and subsequently reward them for achieving critical goals. This permits the use of closer line-of-sight metrics to show that key talent working in teams is a value-added proposition.
- *Recognition and celebration tools at the business.* Celebrating local “victories” is essential to successful commitment at the business unit level. Develop positive ways to celebrate and acknowledge success

that make sense at the business unit level. Customizing the acknowledgement of successes to the specific situation and the chance to have business unit employees involved in developing and managing the recognition program is a powerful advantage.

- *Base pay increases.* Base pay for Superkeepers should reflect their individual ongoing value to the company—their sustained performance over time and the skills and competencies they use to generate results, compared with others in the labor market. This means keeping up to date on the Superkeepers' development and base pay so that the increasing value they are adding to the company is reflected in their base pay.
- *Stock options and other forms of stock.* Forms of equity such as stock options and performance shares help create Superkeeper stakeholder-ship and communicate the bigger picture of the company's overall performance.
- *Competitive labor market positioning.* Companies may position Superkeepers higher compared with the competitive labor market than their regular competitive positioning (e.g., the median competitive position in the labor market). This is typically done informally rather than formally.

The chance for customizing is important to business units. And involvement by employees is key to the change process.

Manager's "Tool Kit" for Superkeepers

The company may provide support systems to help the manager use rewards effectively, but the manager is closest to the employees and must be accountable for the reward transactions at a business unit level. Each manager should rightfully have a "mini talent model" for the business area of responsibility. The company can help them with the tool kit, but it is a management responsibility. That's because people with critical and scarce talent are not just concerned about pay. It's more often the entire work relationship that counts for every employee (and not only those who have the most essential skills in short supply). But first it's an issue of preparing the managers themselves to hire and retain their most essential talent:

- Managers know their business, people, and goals best. Part of being a manager is being accountable for talent management.
- Managers are best positioned to evaluate and grow human resources. So they must be trained to develop and nurture people to increase their value.
- Managers must be responsible for pay and reward expenditures. They're accountable for other elements of their budgets—so the management of rewards needs to be in their corner as well.

From the standpoint of human resource management, the best managers manage pay and other rewards to maximize business results. Much lip service is dedicated to this issue, but that's not enough. Here's what the Manager's Tool Kit for Superkeepers must contain.

Tool #1: Know Talent/Reward Strategies—Cold

First things first—"Begin with the end in mind." Often managers don't know their company's talent-and-reward strategy. They should know this strategy and how to translate it into pay and rewards. Managers must know why it is what it is and how it relates to their own business.

A key tool is the list of most frequently asked questions by Superkeepers about rewards and how they relate to them. To answer, managers must know the company reward programs and policies inside and out. The days of "Let Human Resources do it!" are over. Managers practice answering questions and show employees they are in command of rewards.

Managers must also know the value of talent. When employees show them pay data from an Internet Web site on pay levels, managers need to have an idea about what employees are worth. It's not good practice for employees to know more than their manager about the worth of their skills. It's not comfort-building to employees to find that managers have no idea about what the work they do is worth.

Tool #2: Keep Talent Aligned with Goals

Managers need to develop a talent-priority report for their specific organization. They should look at their specific organization over the next 36 months or so to see how current pay and rewards are being distributed. Does the current reward distribution match the people who are the Superkeepers? Does it match your talent strategy? If not, it is necessary to start focusing pay and rewards on key and scarce talent. If the base pay increases, incentives, and other rewards aren't going to a manager's Superkeepers, this is a problem only a manager can solve. It doesn't help a Superkeeper strategy to spread pay and rewards evenly around "like butter on a bagel."

If the alignment of rewards and critical talent isn't right, it's time to implement a redistribution plan for pay and rewards and to tell the Superkeepers and others why they are key and why the resources must go to the people your business needs the most. Like changing pay, redistributing rewards is heavy lifting but a must-do for key talent. This may take time. It usually requires only focusing additional pay and reward dollars to the key talent. Having a continuous plan is essential business for the talent-concerned manager.

Tool #3: Deliver the Scarce-Talent Message

Communications about difficult issues is one of the really hard talent-management challenges to handle effectively. Managers very often don't like to tell employees who among them have the must-keep critical skills and whose

capabilities may be less essential. Managers like to give every employee a positive message without regard to performance differences. But it's essential to make the talent priority clear. Key talent and performance are the premier objective for reward management in their specific organization. The manager is at the core of communicating the business case for hiring and retaining key talent. If a company fails, it's a leadership failure.

Managers are the designated communicators of the talent-and-reward strategies on an individual basis to everyone, but most importantly to business-essential talent. Each manager should have a talent-and-reward communication plan that's very tactical to the specific area for which the manager is accountable. Managers should get the message across to employees in their organization at least quarterly. Focus on people with the critical skills first. Then shift the focus to those who have the potential of becoming Superkeepers and want a route to that goal. Present a promise to focus pay and rewards on Superkeepers and then back up the talent model promise with action.

Tool #4: Manage Superkeeper Career Plans

Career paths for Superkeepers need buy-in from both the manager and the Superkeeper. It's a written plan that, although it must be agile, describes a direction for learning, more responsibility, and adding more value with the organization. As you need to pay some talent more, they should grow so they are always worth the rewards they receive. If you just pay for increased market value and there is no corresponding growth, it will not continue to add value to the enterprise and may result in overpaying some employees. Make Superkeepers increasingly valuable to the organization. Describe where they can go, how they can grow, how the organization will help, what they need to do themselves, and how they will be rewarded as their value increases.

Part of this is developing a key talent early warning system to get information about whether Superkeepers are committed or are looking. Talking with individuals monthly is critical to getting early knowledge that can be actionable. It's easier to keep Superkeepers before they give notice and also less expensive to the company. People often consider leaving because lack of information creates distrust and overly complex communications challenges.

Conclusions About Superkeepers

Talent rules in the battle for long-term success. Some people are more valuable than others to the company and the manager's job is to make sure the company is able to get and keep the best possible employees. Reward management is experiencing important change. As business units and managers become increasingly responsible for delivering results to the company bottom line, companies need to review rewards periodically to "superkeeperize"

them for the future. Communications and understanding are important. Companies can't afford to focus equally on every employee in the workforce. We've entered the age of rewarding critical talent most and that is what the future of reward design will be about.

Appendix: Total Reward Components— The Better Workforce Deal

This material translates the total reward components shown in Figure 32-2 in the context of Superkeepers. The four total reward components (Individual Growth, Compelling Future, Positive Workplace, and Total Pay) exist in some form in all companies—for better or for worse. By targeting Superkeepers, company leaders gain the opportunity to customize their total rewards to make their business as uniquely attractive to those they want to join and stay as long as possible. Here are the four total reward components targeting Superkeepers.

Individual Growth

Superkeepers are constantly improving and learning. That's what makes them uniquely valuable. Providing them with the opportunity to continue to become more valuable in your company is important both to them and to your company. This component is about how your company encourages employees who have critically scarce capabilities to improve and become more valuable. It involves the amount and type of investment toward growing critical people and the emphasis placed on development and training, who gets training (Superkeepers hopefully), how much they are trained, and what they are trained in. It includes how performance management is carried out to help the people you want to perform as required. Performance management should also assist those the company wants to have leave to do so after a reasonable and humane development commitment. Individual growth involves career preparation and enhancement so people keep fresh and current in the areas of expertise the company needs.

Compelling Future

Superkeepers want to work in a company they are proud of. These kinds of companies have a successful record of keeping Superkeepers. They have a vision and set of values that Superkeepers respect, admire, and can sponsor in the community in which they work. This does not mean just banal generalizations posted on the wall, but a future that helps people get traction to do something worthwhile. The most essential employees want a company with growth in the future so they can prosper as the business does. People want to work in ethical and trustful companies—and this is becoming increasingly

critical these days. They want an enterprise that's successful in meeting its customer and other business goals and objectives over time. Companies with the best and most honored reputations with customers, the community in general, investors, and others are best prepared to get and keep the people they want. Superkeepers clearly want to be stakeholders in the company's future—whether this translates into economic stakeholderhood, emotional ownership, or both. When the company wins at the game of business, the best people want to feel they are win-win partners in that success.

Positive Workplace

What it's really like to work in your company as a Superkeeper is extremely important. Some companies believe their employees are the reason they can be successful, while other organizations are less sure of this. Which of these companies do you think Superkeepers want? People want to work for leaders they respect and with colleagues who inspire them to do better and who are excellent team members. It should not be a surprise: Superkeepers want to work with other Superkeepers. Work that is interesting and challenging is critical. Inspired people with key skills to apply do inspired work. The most essential employees like to be involved in their company—no, they insist upon it. Providing input and suggestions and even participating in making some of the decisions that impact them impel key employees to better support the conclusions reached and programs implemented. The more trust and commitment from top to bottom in the organization, the better. Employees in general and Superkeepers specifically follow leaders they trust and become committed to what they understand. And open communications is essential to understanding and acceptance.

Total Pay

In response to a question about the importance of pay, a CEO once said, "If you don't think pay is important, stop paying your people and see how long they continue to come to work." Total pay involves the base pay employees receive for performing the jobs to which they are assigned and/or for the skill and competency they bring to the work relationship. The use of variable pay and incentives for performance has grown in volume and variety. Variable pay is an essential total pay tool, because it effectively rewards performance that can vary from performance period to performance period. Benefits provide a lifeline for employees and protect them from many of life's health and retirement risks as well as provide saving and investment opportunities. Acknowledging accomplishments through nonfinancial recognition and celebration has grown in importance. Making people feel important and making them winners is critical to making an employment brand work. And to Superkeepers it means pay that acknowledges their value and makes it eco-

nomically worthwhile to stay. The primary total reward challenge is making your company attractive to the *best* people.

This means making it worthwhile to be a Superkeeper from a reward perspective. Whether this involves paying for performance or skills or whatever, it's essential to start a total reward journey on a course of keeping the best.

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Chapter 33

Linking Competencies to Performance and Pay

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DURING THE EARLY AND MID-1990S, MANY ORGANIZATIONS EMBRACED competencies as the foundation for their staffing, career management, performance management, and training and development programs. They were expected to provide a consistent foundation for various HR applications and pinpoint the critical behaviors employees needed to exhibit to be successful in their jobs. While initial enthusiasm for these new applications ran high, economic change and the challenges of implementation turned the competency revolution into an experiment and subsequently an evolutionary change process. Today, competencies have taken a back seat to other programs, such as performance-based programs. However, competencies continue to hold great promise and competency-based pay programs—especially those linked to performance—have proved successful at many companies.

To gain a clear understanding of the type of competencies that this chapter focuses on, let's start with a definition. Competencies are *the observable and measurable skills, knowledge, and behaviors that contribute to enhanced employee performance and organizational success.*

Competencies have generally come in two primary forms: strategic and job-specific. Strategic competencies typically reflect the skills, knowledge, and behaviors that directly link to organizational objectives, shared values, and/or competitive advantage. Leadership, Communication Effectiveness, and Business Understanding are typical examples of strategic competencies found in many organizations. Strategic competencies generally apply to all employees in a company, but are commonly leveled to reflect the different degrees of contribution expected at different tiers in the organization. In recent years, especially in the U.S., as organizations attempt to increase employees' understanding and engagement in the business, we have found that strategic competencies are in the spotlight more than their job-specific counterparts.

Domain expertise is the focus of job-specific competencies. These competencies reflect the specific skills and knowledge (more so than behaviors) that are required for employees to be effective in their jobs. Not surprisingly, job-specific competencies are often part of a competency-related job evaluation approach. While used less often, detailed job-specific competencies can often be the most powerful way to provide employees with clarity regarding the demands of their current position and the developmental requirements for future career moves.

As evidence of the declining interest in competency-related pay, research conducted by Towers Perrin in 1996 indicated that 70% of organizations planned to link competencies and pay within three years. Yet when a similar survey was administered in 1999, only 14% of companies linked competencies and pay progression (up 3% from the 1996 survey) and just 18% of companies used competencies in job evaluation (up 2% from the 1996 survey). So the anticipated competency revolution did not materialize. Additional research on the topic points to a few key reasons why.

1. The economy heated up in the latter half of the decade, creating a talent shortage across most industries and functions. The challenge for HR shifted from selecting the best or most competent candidates from a full pipeline to finding any candidate who could fill even the basic requirements of key open positions. This change took the emphasis off competency-based selection systems, one of the significant influences of the competency revolution.
2. During the same period, the attention of business leaders shifted dramatically toward the performance of the business and the role the workforce played in creating financial success. The use of stock options and the implementation of performance management systems tied to business results became the most important applications, reducing the focus once placed on development and competencies.

3. The increased availability of competitive compensation data in the U.S., coupled with the greater employee mobility, elicited a stronger reliance on external valuation of jobs, rather than internal comparisons and competency-based systems. In fact, most organizations today, according to a Towers Perrin study, use a market-based system to evaluate jobs.
4. In many cases, HR organizations were struggling with cumbersome competency-based systems and the administrative burdens associated with them. This was particularly true of competency-based pay systems. While almost everyone agreed that point-factor systems (those that are based on the assignment of point values to various job factors) were outdated and inflexible, the new competency-based systems sometimes proved even more difficult to manage and communicate.
5. The pace of change in the business world over the course of the last decade increased dramatically. Many of the early competency-base pay applications were slow to implement (averaging one to two years from design through implementation) and ran afoul of the desire of many organizations to have flexible, nimble operations.

While these changes and challenges were significant, most leading HR organizations did not completely abandon what they were doing with competency models. Instead, they slowed down the revolution and began to more thoughtfully use competencies as an integral component of key HR applications, while not necessarily the focus of the programs themselves. This is particularly true of programs related to pay, where companies have continued to use competencies as one mechanism in delivering rewards.

Today, competencies are in use at most organizations. They are imbedded in various HR programs and continue to play a strategic role in defining the requirements for specific positions and the behaviors expected by the company. Further, organizations are signaling that competencies will continue to be part of the pay equation. This chapter will explore key methods organizations are using to establish a link between competencies and pay.

The following chart (Figure 33-1) outlines the two major competency-related pay approaches being used by companies today. The concepts in this chart are not intended to be exhaustive, but our work in this area indicates these two approaches effectively address the lion's share of the successful competency work being done by leading organizations today.

In the first row, you find companies using competencies to define job requirements in an effort to establish pay levels and structures based on more than job factors alone. The use of competencies in this fashion allows a company to set base pay levels and define jobs in competency-based terms, thus establishing a clear career path framework.

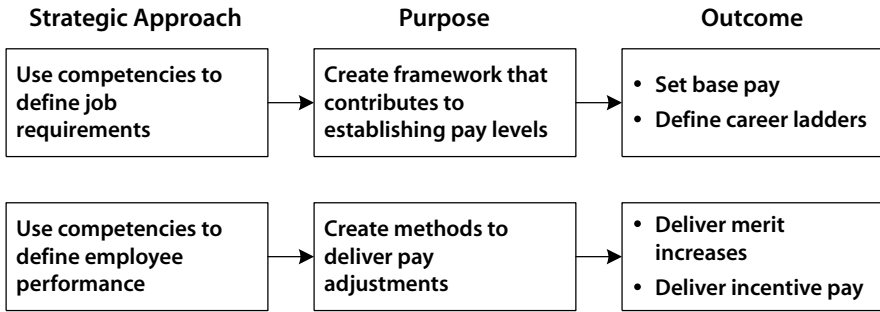


Figure 33-1. Two major competency-related pay approaches

In the second row, you find companies using competencies to define employee performance. Rather than establishing a compensation structure, this approach allows companies to determine how pay adjustments and incentive awards will be distributed based on competency assessment and development. Both of these approaches have merits and will be explored in the following sections.

We have seen organizations leverage both strategic and job-specific competencies in their pay and performance management programs. For instance, a leading domestic producer of truck engines uses a set of strategic competencies that are based on the company’s core values. They are reflected in the performance management program in that all employees must have a representation of competencies, technical skills, and business goals in their performance management plan. Meanwhile, a set of job-specific competencies is currently being tested for organization-wide use in career ladder progression. The competencies are graded into nine levels of proficiency, and an employee’s rating on the competencies impacts movement from one career ladder rung to the next. Movement up the ladder reflects career development and results in greater base pay opportunity.

Competencies and Pay

In the U.S. and Europe, yesterday’s application of competencies commonly focused on determining appropriate base pay levels. After years of administering cumbersome point-factor systems, organizations were more than ready to embrace competencies as an alternate method to valuing jobs. Today we see many organizations using competencies as an essential part of the performance management system—as an essential element in rating individual performance. Meanwhile competency-related job evaluation (that is, using competencies to determine base pay) continues to be used most extensively in Europe. That said, some of the latest job evaluation approaches take a slightly

different angle on the use of competencies. Many European and U.S. organizations have been investigating, and some have implemented, a global job leveling framework. Such a framework defines the requirements of the various levels of a job (such as Accountant I, II, III), allowing cross-organizational and even global use. This has provided the consistency many organizations sought after either globalizing current operations or integrating HR processes after a merger or acquisition.

Using Competencies to Define Job Requirements

The use of competencies as the primary driver of job evaluation never reached anticipated levels in the U.S., but in Europe, many organizations have found competency-related job evaluation to be effective. According to Towers Perrin's Rewards Challenges and Changes survey, conducted in Europe in 1999, 21% of organizations use a competency/skill-based job evaluation approach. This approach offers two key advantages. First, competencies represent a solid basis for a variety of HR applications, including salary structure design, performance management, and career development. Second, competencies can be developed to support key business objectives, enabling the related HR applications to link to business success factors, not just job success factors.

Yet, as with most pioneering approaches, an evolution has occurred with competency-related job evaluation. At about the same time as some organizations, mostly in the U.S., were starting to experience the previously discussed pains of competency-related job evaluation, more and more company operations were becoming global. The management of a multinational operation on a country-by-country basis (with a strong home-country basis) had begun to evolve into global management of customer relationships, supply chains, and resources. Companies are now increasingly managing talent—deploying top talent around the world, working in multi-country teams, and valuing employees who have deep, pragmatic knowledge of multiple markets. And most companies have come to realize that solid talent management is critical to business success and can be achieved only with integrated and holistic HR programs and systems and a consistent value proposition for employees and management. A critical ingredient in a company's ability to attract and retain top talent is a formal career process with a focus on the right skills and behaviors.

Moving to a global approach for job evaluation that leverages competencies requires a close look at the most prevalent barriers experienced in both the U.S. and Europe. In the U.S., we frequently have gravitated to market-based compensation designs because:

- Job market data are abundant and credible and play a key role in informed decision-making
- This approach is flexible and supports both hierarchical organizational designs and team-based, flatter environments

In Europe, the norm is to use a point-factor design, based on a rigorous methodology that:

- Is accepted by works councils and unions
- Meets government regulations, where needed

When going global, the weakness of the U.S. approach is the lack of good, robust market data in all corners of the world. The weakness of the European approach is the resistance to point-driven hierarchical designs. So where is a point of convergence?

The answer, currently being designed and implemented at several leading-edge organizations, is a global career-based framework that includes competencies in its core foundation. This framework has “career development opportunity” set at the heart of its philosophical design. Towers Perrin’s 2001 Talent Report shows that career opportunity was consistently cited by workers as one of the top three reasons for joining a new company. The career-based framework focuses on job opportunity and at the same time addresses the fundamental purpose of competency-related job evaluation, providing a framework for valuing a job and defining career opportunity.

The structure of a career-based framework is illustrated below (Figure 33-2). Baseline matrices are used for different groups. Companies create managerial and technical/professional positions at a minimum, and often include research, sales, and other functions. One axis of the matrix reflects job dimensions (broad categories of work for that group) and job factors (individual elements within each dimension that provide detailed work descriptions). The other axis reflects levels of proficiency. For example, the various levels of accountants would be on a technical/professional career ladder. One job dimension might be Functional Expertise. The levels would reflect differences between an Accountant I and an Accountant II—perhaps the first level would require the functional expertise of maintaining a general ledger, whereas the second level would require application of cost accounting principles and budget management.

Career levels in the career ladder can be market-priced and aligned to a salary structure as appropriate (Figure 33-3).

The career-level approach integrates both strategic and job-specific dimensions—and some of the dimensions are closely akin to competencies, such as innovation, leadership, and teamwork. Others are reflective of the job definition, such as level of knowledge and scope of impact. Taken as a whole, the framework gives managers and employees a complete picture of

Job Dimensions	T/P1	T/P2	T/P3	T/P4	T/P5	T/P6
Job Factor A	~~	~~	~~	~~	~~	~~
Job Factor B	~~	~~	~~	~~	~~	~~
Job Factor C	~~	~~	~~	~~	~~	~~
Job Factor D	~~	~~	~~	~~	~~	~~
Job Factor E	~~	~~	~~	~~	~~	~~

Technical/Professional - Dimensions/ Job Factors (Example)

- Technical/Functional Expertise
 - Lack of Knowledge
 - Application of Knowledge
- Problem Solving
 - Complexity
 - Direction Received
- Impact of Actions
 - Resource Management
 - Scope of Impact
- Innovation
- Role in Team Interactions

Figure 33-2. Illustration of technical/professional career ladder matrix

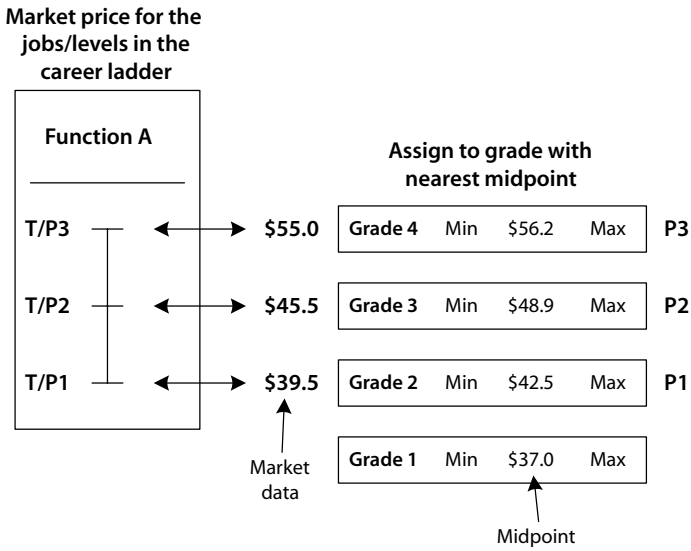


Figure 33-3. Illustration of linkage of career levels to salary structure

what's required to advance.

For HR professionals who have designed a purely competency-based job evaluation approach, this career model proves to be advantageous, as it gives them license to consider job factors alongside competencies. The dimensions of the career-level model are job-based and reflect job requirements and are leveled to show increasingly advanced stages of proficiency. These same dimensions can be used as the basis for performance management, staff planning, training needs analysis, and other HR applications. Overlaying a competency-based performance management system atop a career-level

approach can yield powerful results because of the strength of a consistent message. Using the same approach for both the job evaluation system and the performance management system sends an integrated message about what is important to the employee's job progression, individual performance, and development as well as the organization's performance.

Using Competencies to Define Employee Performance

When asked, most HR professionals and line managers attest that their performance management system is broken beyond repair or, at best, is too complicated to inspire and motivate performance that counts. A Towers Perrin survey on performance management conducted in 2001 showed that 80% of *Fortune* 1000 companies plan to simplify their performance management program within the next 18 months.

Common complaints on performance management include:

- The process and tools are too complicated.
- There is a lack of balance between results and competencies.
- The right behaviors and results are not measured.
- There is too much discretion and little consistency across raters.
- The link to pay is so diluted that completing the process is an exercise in futility.

Including competencies as part of the performance management process can either exacerbate current weaknesses or address them when executed effectively. For a successful result, competency design must be simple yet relevant, define the critical skills and behaviors that are often dismissed as "soft" and therefore unimportant, and link to key rewards mechanisms.

One of the essential elements of success is developing a competency model that strikes the balance between simplicity and relevance (Figure 33-4). The greatest risk in oversimplifying the competency model is using one that has been developed for a different company with different business objectives. The greatest risk in driving to the perfectly relevant set of competencies is ending up with something that is lengthy, cumbersome, and ultimately obsolete by the time it is implemented. Karen Garoukian Ferraro, Director of Worldwide Human Resources at S.C. Johnson, remarked on this very topic. She pointed out that organizations today have little tolerance for the burdensome approach and outcome that is often associated with competency modeling. She recognizes the appeal of generic competencies for their simplicity, but is highly cautious of their lack of relevance. She has experienced a successful result when the words and actions of leaders were directly reflected in the competency model.

<i>Simplicity</i>	<i>High</i>	<ul style="list-style-type: none"> • Short, superficial process with little key leader involvement • Few competencies, single definition for all employees • Little reference to business situation (off-the-shelf) 	<ul style="list-style-type: none"> • Supercharged, jump-started process with key leaders engaged • As few competencies as required, leveled • Highly applicable to key business objectives
	<i>Low</i>	<ul style="list-style-type: none"> • Long, involved process with little key leader involvement • Many competencies, common yet multiple levels, roles • Little reference to business situation 	<ul style="list-style-type: none"> • Blank-sheet, rudderless process with key leaders involved • Many competencies, more than essential levels and roles • Applicability to business objectives waning as time elapses
		<i>Low</i>	<i>High</i>

Figure 33-4. Competency simplicity/relevance grid

In practice, when linking competencies to performance management and pay, organizations should not be at the very highest point of the simplicity scale because the result will be too general to be of value. Pay linkage requires a rigorous approach to ensure that employees have the incentive to exhibit effective performance and that the reward system is designed to deliver fair compensation.

An Effective Process

Earlier in this chapter we alluded to the shift in roles of both line managers and HR professionals. To leverage this shift most effectively, HR must open up the process of competency development and creating the performance and pay linkage to managers. Line managers must be the owners of the outcome. Ownership of the process and subject matter expertise becomes the domain of HR—and this is no small task. A supercharged, jump-started process comes from a depth of knowledge of competencies, business drivers, culturally workable performance and pay applications, and effective facilitation skills. For an effective linkage of competencies, performance and pay, HR and managers must share a common vision of success.

Potential Competency-Related Performance Management Frameworks

Including competencies as part of the performance definition is increasingly important as organizations strive to achieve the right balance between *what* results are achieved and *how* employees achieve them. For both components to truly resonate with employees, both must count toward the overall performance rating and, ultimately, the overall pay increase or bonus payout. If an organization achieves this balance, and if there is a significant impact on pay, two very common complaints about performance management processes are immediately addressed—lack of balance between results and competencies and a diluted rewards linkage.

Furthermore, organizations increasingly realize that the intangible contributions (Figure 33-5) of their Superkeepers—those individuals who have demonstrated superior accomplishments, who have inspired others to attain superior accomplishments, and who embody the core competencies and values of the organization—are critical elements of organizational performance. Many times, these more subjective factors of performance are de-emphasized, especially with today's focus on results. In fact, organizations that articulate the key intangibles important for their longer-term success are, in fact, clarifying the performance definition, ensuring Superkeepers are recognized and rewarded for their contributions. As it relates to high-potential employees, this may be the most powerful aspect of competency-based systems. They allow an organization to reward and recognize the intangible strengths the best employees bring to the company and they encourage the development of those same characteristics in others. In this type of environment, Superkeepers feel valued for their unique contribution and are more likely to stay, engage, and perform.

So how can the pay for performance system deliver a balance of the “how” and the “what”? Focusing on base pay increases and annual bonus payouts, there are two main approaches to linking competencies to a pay event (Figure 33-6).

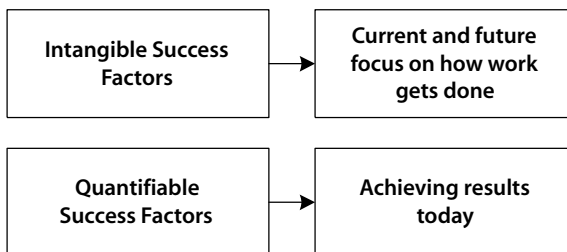


Figure 33-5. Intangible vs. quantifiable success factors

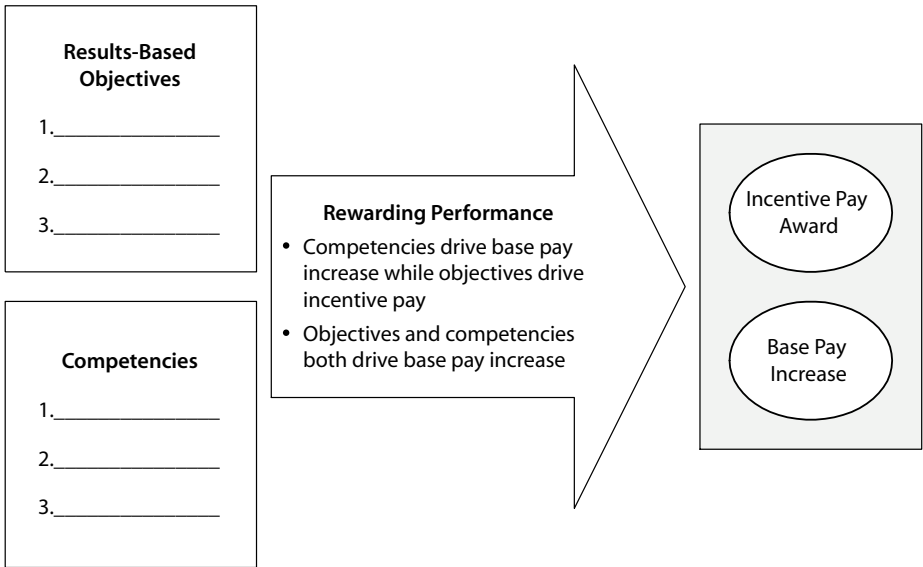


Figure 33-6. Two approaches to linking competencies to a pay event

The framework within which the base pay increase is related to competency demonstration/growth and the incentive pay award is related to performance on results-based objectives is intuitively fitting. Competencies generally reflect sustained contributions to an employee’s work, the incremental growth of enduring knowledge, behaviors, and skills. Positive performance on competencies is appropriately rewarded through base pay increases. This can be achieved through linking the competency rating within the performance management system directly to the merit increase process. Conversely, results-based objectives are typically aligned with near-term business objectives (Figure 33-7).

Positive performance on results-based objectives is appropriately rewarded through an annual incentive plan. The results-based rating of the performance management process can factor directly into the annual incentive plan calculation. Within this framework, the overall performance management rating, which encompasses both competencies and results-based objectives, can serve as a point of discussion for managers and employees. The actual determination of rewards, however, would be derived from the two separate ratings, with competencies influencing base pay increases and results influencing the annual incentive award.

Another alternative is to link the *overall* performance rating, consisting of the competency rating and the results rating, to the pay event (Figure 33-8). The pay event might only be the base pay adjustment or it could be both

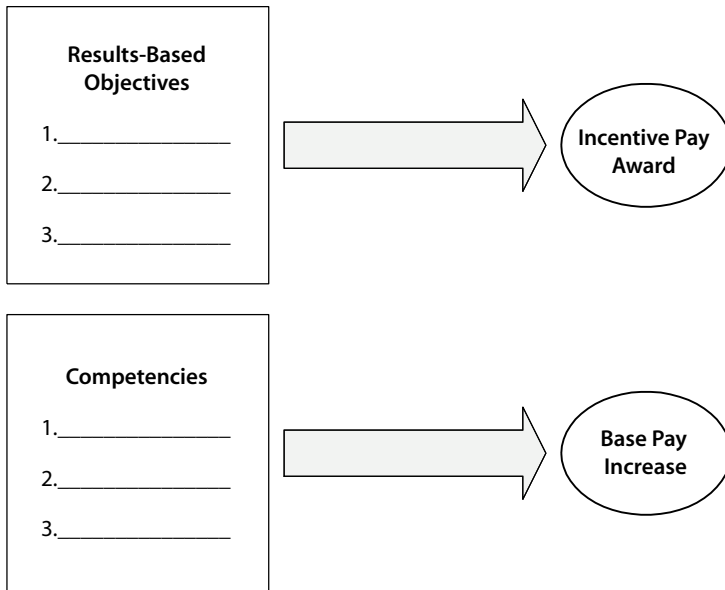


Figure 33-7. Pay linkage approach number 1

the base pay adjustment and the incentive pay award. This sends the message that performance is a cohesive measurement and has a correspondingly integrated impact on rewards. Often, organizations find it to be a simpler approach to linking rewards on performance to competencies and results.

In many cases, the only individual performance reward for an employee is a merit increase. Often, a significant number of employees are not eligible for an annual incentive plan. And, in cases where employees are eligible for an annual incentive, the measurement for award determination is based on company or department performance rather than on individual performance. Therefore, in many cases the performance management system (and the

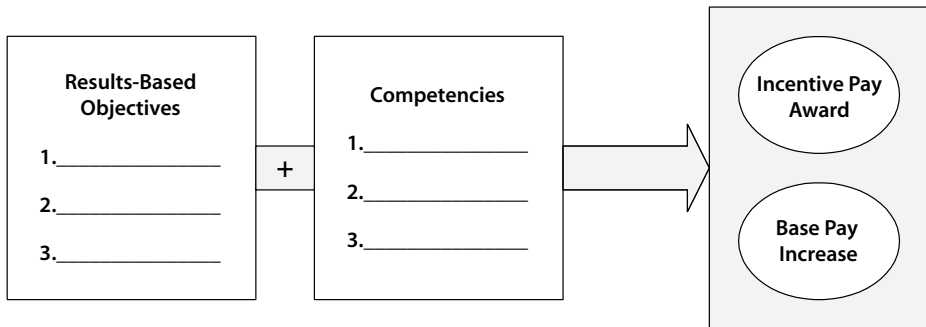


Figure 33-8. Pay linkage approach number 2

resulting base pay increase) is the only management tool that can effectively make the link between competencies and pay.

So, how direct should the link be? It depends on the message the organization wants to send to its employees. Typically, the pay increase reflects a balance between competencies and results. In many organizations, performance related to competencies has only a discretionary impact on a performance management rating. Baxter, for example, has developed a competency model for the HR group as HR evolves into a more advisory, consultative organization. The competency model was designed to communicate what the new performance behaviors look like. Right now, the competencies are a platform to articulate what is important for the group to succeed and for individuals to advance. But, direct links to performance management and pay are not yet in place.

Table 33-1 shows several examples of how to deliver a competency-related base pay increase. Three reflect a balance of results and competencies and one is solely focused on competencies.

Alternative	How it works	Example	Message to employees				
Pay for results with competency modifier	<ul style="list-style-type: none"> • Employees assessed on individual results • Managers assess and use competencies as an input to final recommended increase 	<ul style="list-style-type: none"> • John's performance based on results = exceeds expectations • Initial recommended increase = 6% • Competency assessment = below expectations • Adjusted base pay increase = 4% 	Focus on results, but don't forget competencies				
Weighted results and competencies	<ul style="list-style-type: none"> • Employees are measured on both their results and their competency rating • Base pay increase determined based on quantitative assessment or matrix that incorporates desired value for results vs. competencies 		Both results and competencies are important				
		Competency Rating		Results Rating			
					Low	Med	High
				High	2%	6%	8%
Med	2%	4%	6%				
Low	0%	2%	2%				

Table 33-1. Competency-related base pay alternatives (continued on next page)

Alternative	How it works	Example	Message to employees
Pay for competency with results modifier	<ul style="list-style-type: none"> • Employees assessed based on individual competency • Managers assess and use individual results as an input to final recommended increase 	<ul style="list-style-type: none"> • John’s performance based on competencies = meets expectations • Initial recommended increase = 3% • Results assessment = exceeds expectations • Adjusted base pay increase = 5% 	Focus on competencies, but don’t forget results
Competency-growth-based pay	<ul style="list-style-type: none"> • Assess employee’s competency rating this year vs. last year • Base pay increases within ranges 	<ul style="list-style-type: none"> • John’s competency rating last year = 3.5 • John’s competency rating this year = 5.0 • Competency growth of 1.5 exceeds expectations • Pay increase = 6% 	Growth in competency assessment is critical

Table 33-1. Competency-related base pay alternatives (continued)

Conclusion: Maximizing the Effectiveness of Competencies

Organizations haven’t followed through on their original vision for competencies—elaborate models driving everything from careers and pay to learning and development. The business environment changed, with corresponding implications for people strategy and a different emphasis for reward programs. However, competencies are helping reinforce new strategies in two key ways. First, they are pivotal in communicating pay opportunity in the context of what’s valued by the organization. Second, they are a key consideration in determining individual increases—demonstrating that how you get results is as important as what you achieve.

Most importantly, competencies can be a powerful tool in reinforcing the very behaviors that cause Superkeepers to stand out in a crowd of employees. Rewarding behaviors that lead to success will serve as an example to the rest of the organization and will provide reinforcement to top performers regarding the very behaviors that lead to their success.

It is our belief that organizations must not only direct their energies to keeping proven performers, but also institute programs to grow and advance every employee in the organization. Competencies are a tremendous instrument for codifying the behaviors of organizational leaders and can serve to

accelerate the development of others. Organizations should not define Superkeepers as a limited pool of superior employees, but as an inclusive body of employees who behave and perform in a manner that adds value to the organization.

Chapter 34

Using Long-Term Incentives to Retain Top Talent: Super Rewards for Superkeepers

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BACK IN THE GOOD OLD DAYS, PEOPLE DIDN'T HAVE TO WORRY ABOUT THE stability of their jobs. People joined a company when they were young and stayed for their whole career. Loyalty and seniority were valued and rewarded. Workers thought business results and relationships were intertwined.

A lot has changed. Put simply, we're living in an era in which employees are well informed, confident, and mobile (although less pronounced than a few years ago). Workers value the work-life experience differently than did their parents—or their parents' parents. Today's workforce is goal-oriented, self-reliant, and flexible—and employees are prepared to move from job to job when the opportunity is right for them. According to *The Towers Perrin Talent Report 2001*, a majority of the workforce is “in the market”—56% are open to move¹ and often it's the top talent who receive offers (Figure 34-1).

This “mobility mindset” influences the way human resource professionals think about recruiting and retaining talented employees. The combina-

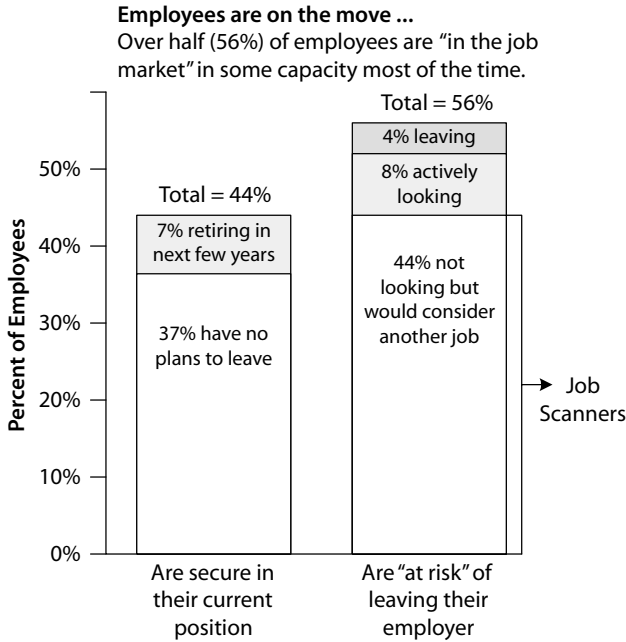


Figure 34-1. Mobility mindset

tion of mobile employees and a turbulent economy makes an even more challenging situation for human resource professionals today.

Companies need to focus on attracting and retaining top talent or Superkeepers—those employees with superior performance, who can inspire others to superior performance, and who embody the organization’s core competencies and values. Why? Regardless of the financial strength or weakness of the economy, the best people are always needed and always have choices. Towers Perrin recently conducted a 2002 *TP Track* survey, in which nearly 75% of respondents cited their number-one people-related issue as retaining high performers.² Other Towers Perrin data show that 92% of respondents believe it is as difficult or more difficult to motivate and engage employees.³

Competing for top talent—as well as motivating, engaging, and retaining it—will be one of the greatest challenges for human resource professionals in upcoming years. Employers will need to understand what top talent employees need and want and provide the right combination of reward elements to ensure their top performers remain focused and committed to the organization.

Implementing a well-balanced mix of traditional, quantifiable elements such as competitive salary and benefits, as well as more intangible rewards like providing learning and development opportunities is essential to moti-

vate, engage and retain top talent.⁴

Our primary focus in this chapter is the use of long-term incentives in motivating, engaging, and retaining top talent. Specifically, the chapter will:

- Discuss the importance of making rewards for top talent a high priority.
- Provide background on the current prevalence of long-term incentives.
- Identify how companies can use long-term incentive plans to achieve desired objectives.

Making Top Talent a Priority

The challenge of managing top talent will remain difficult as the economic landscape continues to change. However, through identifying top performers and measuring their value to the organization, companies will see that these individuals bring a significant impact to the organization—both financially and nonfinancially.

Identifying and Defining Top Talent

Most companies classify between 6% and 15% of their employees as “high performers.” A Towers Perrin⁵ study revealed that high-performing companies—defined as those delivering five-year total shareholder return in the top quartile of a sample group—were more likely to have a smaller percentage of high performers (6%-10%) than were mid- to low-performing companies (11%-15%). High-performing companies may use more stringent performance management systems and standards that restrict the volume of employees becoming or staying high performers. It’s critical to identify and engage those who are truly top performers in the business.

To identify and manage top talent, human resource professionals need to understand the performance of employees across the entire organization. Data show that high-performing companies using organization-wide performance plans are twice as likely to see significant performance improvements than companies that do not use organization-wide performance plans.⁶

The Impact of Top Talent

Managers often understand that their star talent can improve employee morale, heighten the level of employee motivation and engagement, and raise the performance standards in a particular group. In addition, top talent often attracts other high performers to the organization. A star talent’s presence, when recognized and reinforced, can serve as a strong recruiting tool for the organization. But often managers don’t fully understand what the real financial impact of top talent can be.

Job Complexity	Position	The Top 1% ...
Low	<ul style="list-style-type: none"> • Machine Operator • Clerk 	Produced three times more output than those in the bottom 1%
Medium	<ul style="list-style-type: none"> • Sales Clerk • Mechanic 	Were 12 times more productive than those in the bottom 1%
Most	<ul style="list-style-type: none"> • Insurance Salesperson • Account Manager • Lawyer • Physician 	Were measured against average performers (rather than those at the bottom) and were 127% more valuable
High Technology	<ul style="list-style-type: none"> • Computer Programmer 	Produced 1,272% more than average performers

Table 34-1. Significance of high performers

Towers Perrin data show that as job complexity rises, the impact on the bottom line increases substantially.⁷ Table 34-1 outlines the Towers Perrin data.

Because top talent makes such a positive impact on the business—both financial and nonfinancial—that when top talent leaves, companies realize a significant *negative* impact on the business. The cost to recruit, hire, and train top talent is so costly that companies are placing greater emphasis on retaining top talent today more than ever before.

Retaining Top Talent

According to Towers Perrin research, the factors that attract people to join an organization are different from the factors that keep them there.⁸ The chart below (Table 34-2) illustrates the top five reasons employees join and stay with an organization. Respondents indicate that tangible rewards—like pay

	Join	Stay
1.	<ul style="list-style-type: none"> • Competitive base pay and health benefits 	<ul style="list-style-type: none"> • Developing the skills of employees
2.	<ul style="list-style-type: none"> • Opportunities for advancement 	<ul style="list-style-type: none"> • Understanding the unique needs of high performers
3.	<ul style="list-style-type: none"> • Work/life balance 	<ul style="list-style-type: none"> • Competitive base pay
4.	<ul style="list-style-type: none"> • Competitive retirement benefits package • Pay raises linked to individual performance 	<ul style="list-style-type: none"> • Aligning HR programs to meet the business objectives
5.	<ul style="list-style-type: none"> • Recognition for work 	<ul style="list-style-type: none"> • Clarifying what the company expects and what employees can expect in return

Table 34-2. Top factors that attract and retain employees

and benefits—often attract them to join an organization, while the intangible rewards encourage them to stay.

When asked why respondents stay with an organization, the second-strongest response was “understanding the unique needs of high performers.” Identifying, recognizing, and rewarding high performers engages these employees in the business and encourages them to become and remain successful. High-performing companies can gain competitive advantage by motivating, engaging, and retaining high performers through understanding their needs.

High-performing companies⁹ engage employees in their business, link performance with rewards, and differentiate rewards for top and average performers. For instance:

- Leaders at high-performing companies demonstrate a commitment to sharing results of strong financial performance with those who have an impact on business results.¹⁰
- Employees at high-performing companies are aware that top performers are rewarded more than average performers.¹¹
- High-performing companies are no more likely to position overall base pay above the market average, but are more likely to allocate more merit dollars to high-performing employees than are other organizations.¹²
- High-performing organizations provide incentive pay that is tied to individual performance.¹³
- Employees at high-performing companies give their organization higher marks than other organizations for recognizing talented employees.¹⁴

Put simply, high-performing companies focus on creating performance management processes and reward programs that are tailored to respond to the unique needs of high performers.

The Role of Long-Term Incentives

Long-term incentives have been prevalent for executives for decades. Some of the reasons long-term incentives have been provided to executives include not only market competitiveness, but also the desire to align their performance and resulting compensation to the longer-term results achieved in the business. One of the significant side benefits of this approach has been increased retention of this population. This same thinking applies to the idea of providing long-term incentives to a small, select group of high performers.

This section describes common features of frequently used long-term incentives and illustrates the prevalence of each. Following this information

is an identification of how to use long-term incentives to retain and engage top performers.

Long-Term Incentive Plan Types and Prevalence

What is a long-term incentive? A long-term incentive provides an opportunity to receive something of value for the achievement of specific performance results, typically over a multi-year period.

Companies often use one or more long-term incentive vehicles as part of their total compensation strategy. Towers Perrin conducts research annually to assess the usage of long-term incentive plans. We've briefly described some commonly used long-term incentive vehicles (Figure 34-2) and illustrated their prevalence in the marketplace in 2002.¹⁵

Common Long-Term Incentives

- **Stock options**—An award granting the right to purchase a specific number of shares of stock at a predetermined (grant) price. Grants become exercisable once they are fully vested (typically three to four years from date of grant). The value of stock options depends on the number of shares awarded and their subsequent appreciation—the exercise price less the grant price. Of the companies that grant stock options (87% of survey respondents), a majority grant awards annually.
- **Performance plans**—Examples include *performance shares*, *performance units*, and *performance cash*. In any performance plan, a reward is contingent upon how well performance objectives are achieved over a given performance cycle—typically three to five years. Most companies who use a performance plan (31% of survey respondents) grant awards annually. The value of the award depends on the plan type:
 - *Performance shares*—The amount of stock awarded depends on the achievement of specific performance objectives. The value depends on the stock price at the end of the performance cycle.
 - *Performance units*—The amount of units awarded is contingent on the achievement of performance objectives. The unit value may be a current market value or book value per share of stock or some other financially derived result (e.g., business-unit value).
 - *Performance cash*—A specific cash opportunity expressed in dollars or a percentage of base salary or cash compensation that is tied to the achievement of performance objectives.
- **Restricted stock**—Of the companies that use restricted stock plans (17% of survey respondents), most award restricted stock annually. Restricted stock is considered “restricted” because the recipient must fulfill a vesting schedule to fully earn the award. When the vesting schedule lapses, often within three to five years, the recipient can sell

or retain his or her shares. Recipients normally have voting and dividend rights even while shares are subject to restrictions.

- **Phantom stock**—Typically a cash-based equivalent of restricted stock or stock options. Most companies that use phantom shares are subsidiaries of public companies, are privately held, or are companies that do not have equity available for use in an incentive program. The value of phantom stock can be equal to the value of the business, determined by appraisal, formula, or other means, or can be tied to other criteria (like performance plans).

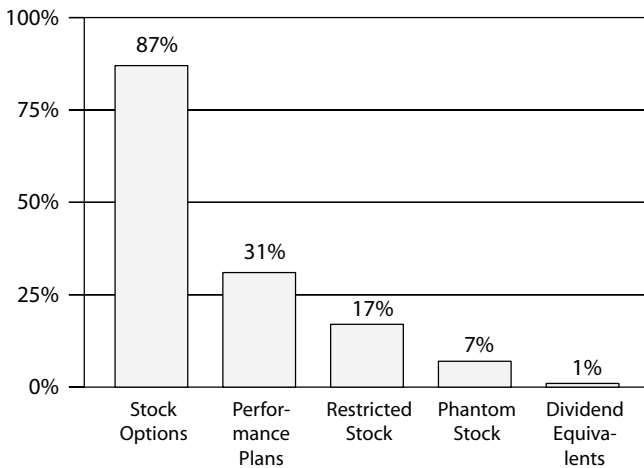


Figure 34-2. Use of different long-term incentive plans

Changing the Mix

Companies often use a mix of long-term incentive plans to achieve their objectives—whether it's motivating, engaging, or retaining talent. Although a company may use more than one type of long-term incentive vehicle, it does not mean that all employees are receiving each type of award. Table 34-3) shows the types of award combinations companies use.¹⁶

For now, stock options are the dominant vehicle when compared with any other long-term incentive plan type. When companies use two types of long-term incentives, stock options and performance plans are the most common vehicles.

However, in the current environment (potentially changing accounting rules, concerns surrounding overall use of stock options, evaluation of design efficacy), we may see a shift away from stock options toward more performance-oriented plans.

	Percent of Companies	Type of Award			
		Stock Options	Performance Plans	Restricted Shares	Performance Shares
Companies using one type of long-term incentive award	61%				
	49%	✓			
	7%		✓		
	5%				✓
	<1%			✓	
Companies using two types of long-term incentive awards	36%				
	19%	✓	✓		
	14%	✓		✓	
	1%	✓			✓
	<1%		✓	✓	
	<1%	✓			
	<1%		✓		✓
Companies using three types of long-term incentive awards	3%				
	3%	✓	✓	✓	
	<1%	✓		✓	✓
Companies using four types of long-term incentive awards	<1%				
	<1%	✓	✓	✓	✓

Table 34-3. Combinations of long-term incentive pay types

Long-Term Incentives for Top Talent

Given a shrinking labor market that continually presents challenges to attract and retain strong performers, why not break some rules? Why focus on the confines of merit pay, recognition, or prevailing bonus amounts? Why

not provide some unusual awards to a small handful of people who regularly outperform others? Perhaps guidelines that apply to other employees (i.e., the majority of the bell curve) stand in your way of offering something really special to the stars you've rightfully identified.

Why focus on long-term incentives in a discussion of retaining and engaging top talent? In an environment where talent is scarce, using the *right reward mechanisms* can affect business substantially. So, what are high-performing companies doing differently?

It's not just about retention. High-performing companies are seeking to achieve multiple objectives when compensating their top talent. Long-term incentives may help to achieve some of these objectives, but other compensation (and non-compensation) elements are important as well. The objectives high-performing companies are seeking to address may include the following:

- *Attract top talent*—using a competitive rewards strategy tied to market.
- *Engage and motivate employees*—driving business performance and connecting results to compensation outcomes.
- *Retain top performers*—differentiating pay opportunities based on performance, and lengthening the timeframe associated with pay receipt.
- *Create succession plans*—knowing the next generation of leaders.
- *Lengthen the performance horizon*—focusing on longer-term results (beyond one year).
- *Create line of sight*—aligning individual performance, business outcomes, and shareholder expectations.

Organizations need to tailor their compensation strategy to help meet these objectives, and long-term incentives can play an important role.

What Should Companies Do Differently for High Performers?

Recognize talent—Talent recognition is tied directly to retention and, ultimately, business results. The recognition associated with incentive eligibility is an important outcome for high performers. Organizations have found that the amount of incentive pay is often less important to certain employees than the fact that they're eligible for an incentive pay award.¹⁷

Broaden the base—Introduce long-term incentives deeper within the business, selectively for your high performers. Perhaps it's time to forget internal equity and ensure that superstars understand how important they are to the success of the business—both in the short and the long run. Top performers aren't born in top management positions; top performers often rise from lower levels within the organization—they'll be your next generation of leaders. Use selective awards of long-term incentive opportunities to connect them more deeply to the business.

Tailor your strategy—Do you want to issue stock options as the only long-term incentive reward? Or would stock options in combination with another type of long-term incentive achieve your objectives? To have the greatest impact, have a clear strategy, understand what you’re trying to accomplish, and tailor your incentive strategy to fit your objectives.

Give top talent more—Even if you currently provide long-term incentives to more than your top-performing employee population, provide additional long-term incentives to top talent. By differentiating reward sizes, you can boost morale (and performance?), suggesting that performance is rewarded.

Build excitement—Make employees love their jobs. Clearly communicate what you expect out of employees and what employees should expect in return. Engage employees in producing results by linking performance with rewards. Consider how and what is communicated to both high performers and those not identified as high performers. Can your organization benefit from the excitement that may build from employees knowing that top performers are identified and commensurately rewarded?

Taking Action

Before building a long-term incentive plan for your top talent, acknowledge what you’re trying to achieve, tailor your strategy to align with what top talent values, and assess your risk tolerance.

Below, we’ve outlined ways to achieve retention and engagement of high performers, by highlighting a potential approach for each of several long-term incentive vehicles. Potential objectives include the following:

- Increase performance horizon.
- Increase line of sight.
- Engage and motivate high performers.
- Increase retention.
- Possibly others?

Table 34-4 outlines four long-term incentive vehicles with the strategy

Strategy	Implications
Stock Options	
<ul style="list-style-type: none"> • Reward top talent for the achievement of measurable goals during a special project by making selective awards of stock options (e.g., performance-conditioned award of stock options: if you complete x, you get y; if you complete x+1, you get y+1). 	<ul style="list-style-type: none"> • Stock prices fluctuate. In bear markets, options have a greater chance of having little to no value to the recipient. However, options provide an unlimited upside potential.

Table 34-4. Incentive vehicles (continued on next page)

Strategy	Implications
Stock Options	
<ul style="list-style-type: none"> Reward top talent with annual stock options for sustained top performance. (As long as the employee remains a top performer, he or she would be eligible to receive options.) 	<ul style="list-style-type: none"> Vesting schedule provides retention effect. Stock options usually seem to have a longer time frame (three-year vesting, but a 10-year term) than restricted shares (which vest usually after three years). Options provide a longer-term opportunity for value to grow and enable postponement of taxation (until exercise). However, options have poor line-of-sight and/or motivational impact below the executive level.
Performance Plans	
<ul style="list-style-type: none"> Establish a payout opportunity based on achievement of goals pertinent to the star's activities (can be paid in cash or shares). Can be focused only on a specific project or can also factor in broader organizational achievement (e.g., stock price shapes overall payout opportunity). Award forfeited if recipient departs prior to the completion of the performance cycle. 	<ul style="list-style-type: none"> More line of sight than stock options; more stable payout potential (less likely to fall to zero like stock options); less overall upside potential. Vesting schedule improves retention effect and, depending on goals established, may enjoy a strong motivational impact as well.
Restricted Stock	
<ul style="list-style-type: none"> Make selective award of restricted stock to identified high performers. Award size determined on the basis of employee level (generally higher awards for higher-level employees) and vesting schedule (higher award for longer vesting schedule). Award vests at fixed point in the future (e.g., 3-5 years). 	<ul style="list-style-type: none"> Provides strong retention effect during vesting schedule (depending on award size), particularly when close to the vesting date. Less upside potential than options (assuming fewer shares provided), but provides more stable value (less downside risk). Also, less direct line of sight (depending on overall impact on stock price).
Phantom Stock	
<ul style="list-style-type: none"> Can be used similarly to both the performance plan and/or the restricted stock alternatives cited above, but the valuation basis shifts from a purely external perspective (observed stock price) to a calculated basis (e.g., formula, appraisal, other). 	<ul style="list-style-type: none"> Similar to restricted stock above, but introduces greater complexity associated with the process of value determination. Success of this approach would depend on how phantom stock is currently used in the organization (and how well it is understood).

Table 34-4. Incentive vehicles (continued)

and implications for each: stock options, performance plans, restricted stock, and phantom stock.

Achieving Your Goals

Human resource and compensation professionals aim to get the most out of the long-term incentive reward plans they implement. Figure 34-3 shows a recap of several issues we've discussed in this chapter. Focusing on each of these will enable you to have a successful long-term incentive strategy and plan.

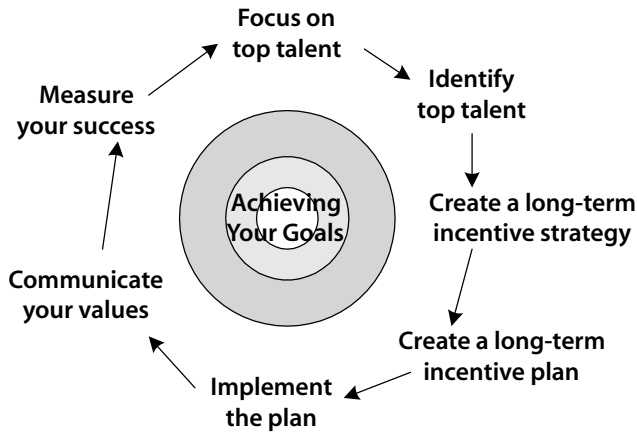


Figure 34-3. Process for achieving your goals

Step 1: Focus on top talent. Ensure that top leaders and management understand the importance and value of retaining, motivating, and engaging top talent. Gather financial and nonfinancial data specific to your organization to support your identification and design processes. Beyond this, understand and communicate not only that attracting and retaining high performers is good for your business, but also that their presence creates hard and soft results. Employees can be motivated to know that they can be identified as a top talent and are also attracted to working with top talent. As a long-range approach to focusing on top talent, acknowledge that high performers are likely to attract other high performers to your company.

Step 2: Identify top talent. Create (or refine) an assessment process that identifies top talent in your organization. It should go beyond individual performance and assess ability to inspire others to superior achievement and exceeding expectations in organization core competencies. This can be a separate, developmental tool or can be tied to or part of your performance management process.

Step 3: Create a long-term incentive strategy. Create a strategy that incorporates your vision and values. Understand how implementing long-term incentives will enable you to achieve your goals.

Step 4: Create a long-term incentive plan. Build a plan that uses the most appropriate long-term incentive vehicle or combination of vehicles for your top talent.

Step 5: Implement the plan. Train leaders and managers on the “big picture”—how to recognize top talent and how the plan fits into your business strategy. Next, ensure they understand plan details (i.e., eligibility requirements, plan measures, award opportunities). Finally, inform your employees of the value top talent brings to the organization and articulate reward opportunities.

Step 6: Communicate your values. There is no question that any talent management system or long-term incentive vehicle will be ineffective if it is not clearly communicated. Providing ongoing communications about the value top talent brings to your organization can engage employees and motivate them to succeed.

Step 7: Measure your success. Create tools to ensure your plan is achieving your objectives. Measure the success of your long-term incentive vehicles at least annually.

Conclusion

The success an organization experiences is impacted heavily by the nurturing of its top talent. The nurturing doesn't have to be in the same form as provided by other companies—prevalence is interesting, but not always the best approach. Why not break the rules? Retain these critical employees, make them more connected to the business, and give them a stake in the outcome. Be aware that there is no silver bullet; as an organization that has decided to focus on and reward high performers, don't be afraid to be creative. When considering all the possibilities of appropriate rewards, long-term incentives may be only one component of the “right answer”—there are probably others as well.

Whether you focus on improved short-term incentives, enhanced recognition, other bonuses, or some form of long-term incentive, be certain to identify and reward your high-performing employees in a way that:

- Leverages their needs and desires (talk to them!)
- Reflects what they offer your company and their fellow employees

Harnessing the energy and results top talent brings to the company may require a change to your current approach to performance and rewards, but it is worth the effort.

Notes

1. *The Towers Perrin Talent Report 2001: New Realities in Today's Workforce.*
2. *Towers Perrin TP Track Survey: Cost and Value: A Delicate Balancing Act for HR.* The survey focuses on critical people and HR issues and examines their effect on business and financial performance. Roughly 100 senior HR executives from North America responded to the survey.
3. *The Towers Perrin Talent Report 2001: New Realities in Today's Workforce.*
4. *Perspectives on Total Rewards—January 2000*, co-authored by Brian Reidy and Jane Bhar.
5. *The Towers Perrin Talent Report 2001: New Realities in Today's Workforce*
6. *Compensation Effectiveness Survey 1999: Is Pay Delivering on Its Performance?*
7. *Perspectives on Total Rewards—January 2000*, co-authored by Brian Reidy and Jane Bhar.
8. *The Towers Perrin Talent Report 2001: New Realities in Today's Workforce*, page 7.
9. *The Towers Perrin Talent Report 2001: High-performing companies were identified as those delivering five-year total shareholder return in the top quartile of the sample research group.*
10. *Compensation Effectiveness Survey 1999: Is Pay Delivering on Its Performance?*
11. *The Towers Perrin Talent Report 2001: New Realities in Today's Workforce*, page 7.
12. *Compensation Effectiveness Survey 1999: Is Pay Delivering on Its Performance?*
13. *The Towers Perrin Talent Report 2001: New Realities in Today's Workforce*, page 7.
14. *The Towers Perrin Talent Report 2001: New Realities in Today's Workforce*, page 7.
15. *Towers Perrin Compensation Data Bank: 2002 Long-Term Incentive Plan Report.*
16. *Towers Perrin Compensation Data Bank 2002 Long-Term Incentive Plan Report.*
17. *The Towers Perrin Talent Report 2001: How Leading Organizations Manage Talent.*

Part VII

Using Information Technology to Support a Talent Management System

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Chapter 35

Using Information Technology to Support a Talent Management Process

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WE HAVE REACHED A CRITICAL JUNCTION IN THE EVOLUTION OF HUMAN resources technology. It has now been over six years since the introduction of the first job board, five years since the first Web-based hiring management systems. Employee self-service, online portals, and Web-based performance management tools are in their second and third generations of growth and have seen significant adoption rates among the world's largest companies. The total market for e-HR software and services, which consists of all tools and services that leverage the Internet to facilitate HR administration and business processes, reached \$2.1 billion in the U.S. in 2002.¹ Yet the troubling reality is that the sheer proliferation of technology has been driven by misguided and misunderstood priorities. Even "best practice" approaches to technology have created a deficit in Superkeepers—those individuals who have demonstrated superior accomplishments, who have inspired others to attain superior accomplishments, and who embody the core competencies and values that are key to organization vitality.

As the war for talent continues to simmer, HR is continually reminded

that even in recessions legions of Superkeepers are not knocking on corporate doors. Largely unaffected by the (un)employment situation, the best people are still hard to find and hard to keep.² Strategies for talent attraction and *re-attraction*—for *all* types of talent—are just as important when the flow of job openings is nothing more than a trickle.

Today's Systems Implementations Are Misguided and Neglect Quality

A slowdown in hiring is just that, a slowdown, not a deceleration to zero. Rather than focusing on filling open positions, the remaining HR assets are left to fortify the sumptuary bulwarks in preparation for the next flood of recruiting activity.

Unfortunately, today's HR ethos was cultured in yesterday's business environment—the gray days of supply chain software and Enterprise Resource Planning (ERP), predominated by cost consciousness. Overshadowing this age was the belief that technology offered a magic solution to cost reduction through process automation.

Software vendors during this time showed how companies could squeeze inefficiency out of processes, make better decisions, and ultimately achieve higher return on investment through such actions as cycle time reduction, lower headcount, faster access to raw materials, and so on.

The emergence of enterprise software for HR quickly ensued. If companies could save money through software to manage capital supply, shouldn't they be able to do the same with people supply? Software has so far helped companies address some of the most basic administrative challenges: turning paper résumés and employee records into a digital format, creating a single repository for HR-related information to enable more accurate and thorough reporting, managing the workflow challenges associated with running an enterprise-wide recruitment and retention program, and so forth.

But current approaches fail to account sufficiently for the fact that *people* are the core asset in need of "management." The movement to install cost-cutting software has led to one trend: the reduction of face-to-face interaction, or the rationing of the in-person experience. While the *efficiency* of talent management may be on the rise, the *quality* of the in-person experience is on the decline. It is erroneous to think that all candidates and employees will accept passively the consequences of this trend. And as long as the trend persists, the greatest strategic detriment will hit their stable of Superkeepers.

What Are Superkeepers?

If 20 percent of every company's workforce consists of "MVPs," 10 percent of those—or two percent of the total workforce—are Superkeepers. Superkeepers are the people who are instrumental in carrying out the corporate mission, whose performance skills and abilities serve as an example to the company, and whose departure would have a significant impact on the business. Every company has them and would like to have more. Yet interestingly, not every company can identify them.

It is puzzling, therefore, to observe in this decade, when it seems companies are truly starting to acknowledge the strategic importance of human capital, that the software and processes used to manage that capital are not optimally designed to place *quality*—in both the talent selection process and the employment experience—at the center of the equation. Indeed, the primacy of the time-to-hire metric reflects a worldview still oriented around *time*. Organizations have failed to adopt advanced practices for using information about candidates, potential candidates, and employees to facilitate and improve the act of finding and retaining the Superkeeper. It's an unfortunate misstep, because quality employees are essential to any organization.

The Shortcomings in Today's Approaches

The bulk of the technologies deployed by HR today consists of portals, intranets, interactive voice response (IVR) systems, applicant tracking systems (ATS), human resources information systems (HRIS), and a small number of point solutions for managing everything from contractor acquisition to the performance review process. Yet these solutions are not at the point where they provide insight to either the corporate user or the individual whose personal and career data the system helps manage. This is true for several reasons:

1. The systems are disparate. Data is rarely shared among them, meaning that each system only contains data from one or two stages in the employee lifecycle, or in some cases only for a few key transactions (life events, address changes, etc.).
2. Many systems clearly exhibit characteristics of their forebears and don't go enough beyond the tactical: displaying information, capturing data, and providing administrative-level access to data for reports. Rather than helping elevate the daily tasks of users, systems perpetuate the necessity of performing such tasks.
3. The candidate/employee views these systems as part of a faceless corporate entity that barely differentiates people from the desk chairs they occupy. Many HR technologies deployed today actually pose a threat to the relationship with high-performing and high-potential Superkeepers.

Figure 35-1 presents a timeline for the evolution of present-day HR technologies. The two lines represent relative benefit—one for the company, one for the candidate—over time. The fundamental premise is that while e-HR has generated cost savings for the company, it has also reduced the quality of the candidate/employee experience.

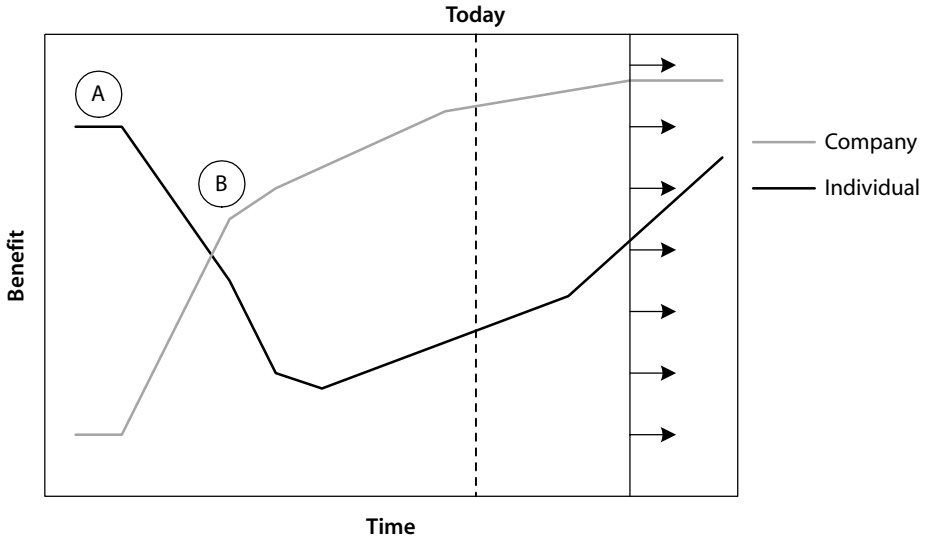


Figure 35-1. The evolution of the employer and individual experience

Before the introduction of HR software, the experience was relatively flat. This was the case up until the 1980s, when the debut of HR systems at point A triggered the “rationing of the in-person experience.” Technology began to reduce the person-to-person contact made by HR, and to the benefit of the employer. But as this was happening, each employee and candidate received less personal attention and interacted more with confusing front-end interfaces to the HR system shells. Not long after this change began, the benefits to the company surpassed the declining quality of the candidate experience, at point B.

Innovative Web-based interfaces were introduced in the late 1990s. These enabled anytime, anywhere access to important systems and information, and this is where we start to see the individual experiences improve. Today the Superkeeper’s experience is moderately negative, while the HR department continues to see the benefits of HR software and technology.

Why does this matter, as long as companies are still seeing cost reductions? It comes back to quality. It is impossible to identify, develop, and retain quality talent when individual contributors are indistinguishable from

each other. When recruiting guru Peter Weddle coined the term “digital strangers,” he was referring to the condition of the anonymous masses who struggle in vain to make a personal connection with their current or potential employer. Applicants complain often that their résumé feels like it’s going into a “black hole.” These are the digital strangers. As long as digital strangers exist, companies risk losing the opportunity to hire and retain Superkeepers.

The evolution of e-HR and the problems we’re addressing bear a strong resemblance to the state of healthcare delivery in the age of managed care. Here is another industry where the in-person experience once provided by the caregiver has been rationed for purely economic reasons. The benefit to the patient so far has been negative, while the economic benefits are perceived to be positive. Rather than feeling delight in the quality of the experience, the patient often feels disgust.

So, too, for the Superkeeper. And in both cases, it’s up to the corporate entity to set the course by adopting and leveraging technologies and approaches that will both ensure continued efficiencies for themselves *and* improve the individual’s experience. This will ultimately depend on every employer’s ability to bridge the present-day gap between benefit to company and benefit to individual by focusing more on the “engagement.”

Characterizing Superkeeper Engagement

Engagement is the experience companies provide to candidates, employees, and “alumni,” or former employees. It’s an essential focal point for HR strategies because it shapes the employment nexus—the force that binds individual to company. Superkeepers by nature are invariably committed to self-betterment. Because employment is most often a voluntary agreement between individual and company, Superkeepers are constantly reevaluating their current job and their options for advancement. According to a 2001 survey of U.S. and Canadian workers conducted by HR consulting firm Towers Perrin,³ 56% of employees are open to changing jobs at any given time. Of course, the employer is always free to break the employment agreement, but legal regulations and the cost of unfilled positions and losing top talent creates a strong disincentive to do this. In short, the agile Superkeeper holds a position of power. This is why it’s in every company’s best strategic interest to optimize the engagement and strengthen the employment nexus by:

1. Identifying the best people (potential contributors) outside the company
2. Enticing them to join the company
3. Developing their skills (once they’re hired) and earning their ongoing attention
4. Reexamining everyone inside the company who has the potential to grow

5. Sustaining the engagement even after an individual has left the company

Technology has great potential to help companies improve the engagement. As the mandate for e-HR shifts towards closing the gap between candidate/employee experience and employer benefit, companies must choose software tools that follow four key principles.

Principles of Successful Engagement Creation

Personalization. Companies must deliver a more personal experience to each high-performing and high-potential individual. This does not mean a regression to a more costly, high-touch model for administering the talent lifecycle. What it does mean is tailoring the experience of each individual for his/her unique situation, often through creative uses of technology.

From the candidate's perspective, this means delivering *relevant* information about a *specific* job opportunity on a *timely* basis to demonstrate a keen interest in an individual's candidacy. Targeted e-mail messages, Web sites, and online resources (chat, discussion boards) go a long way to facilitate the interaction in a personalized and cost-effective way.

For the high-potential and high-performing employee, personalization means feeling involved in the company—not just at a tactical level but feeling fully invested in, and committed to, the company's mission. While companies tend to accomplish this through compensation and benefits, surveys have shown that these elements compose only a small piece of the overall employment offer. Superkeepers are interested in the complete engagement and what it can do for them. Towers Perrin defines this as the "Employee Value Proposition" (EVP). They recommend that organizations clearly articulate a compelling offer, in a way that's consistent with the external brand image, and on a regular basis to employees and potential employees. Other components of a compelling offer include a clear perception of a career path, the nature of the work environment, opportunities for learning and development, teamwork, and innovation.

Former U.S. Labor Secretary Robert Reich, in his book *The Future of Success*, points out that consumers in the modern age have come to expect a high degree of choice and customization, and this affects the way they approach many of their decisions.⁴ This applies to employment to the extent that every employee is a consumer of the employment experience and has the freedom to choose. In the end, being able to provide an enticing opportunity with an EVP that appeals personally to the Superkeepers will have a direct effect on his or her initial attraction and continued loyalty.

Continuousness. As mentioned earlier, employees have an increasingly short attention span. This means that efforts to earn loyalty should impress

them daily. Superkeepers are the most fickle group. Even in tough job markets, they are confident of their ability to find a job (if they're looking) or to switch jobs (if they're already working). Complacency or even plain lack of awareness on the part of an employer can quickly lead to a loss of interest on the part of a Superkeeper. Your opportunity suddenly becomes uninteresting, the wrong choice.

Diligent efforts to curb this wanderlust involve continuous reinforcement of the EVP through different channels—employee self-service, the Intranet, corporate updates, the corporate Web site, HR programs, and managers. It's important to "re-recruit" these people. Remind them why they're working for you, and give them reasons to feel optimistic about their current situation. And do this continuously.

Candidacy. Hand in hand with the need for continuousness comes the importance of candidacy—that is, treating every individual as a candidate, all the time. This means recruiting new talent even when you have no open positions, because every individual you touch could one day be a high performer. It means improving your efforts to manage applicant volumes using technology, because those applicants whom you reject for one position now might be perfect for another position now or in the future. Some companies provide actionable feedback to rejected applicants. "Thanks for your interest. Based on your qualifications, we suggest taking a course in database administration and then reapplying." It's a simple way of investing in the relationship that will pay off in one way or another down the road. Value the engagement of every individual as if he or she were a candidate today.

It's also important to apply candidacy to existing employees. Finding the Superkeeper does not only involve looking outside the company. If one-fifth of your workforce is MVPs, there are Superkeepers among that number waiting to be discovered and developed.

One way to do this is to establish business rules for internal recruitment—for example, every new requisition must be posted internally on a Web site available only to employees for two weeks before being posted externally. High performers, being naturally self-confident and committed to their own professional development, will nominate themselves for open positions, creating a dynamic environment and market for talent within the corporate walls.

Pragmatism. The benefits of this fourth and final principle are inherent. A pragmatic approach to every effort means that resources are allocated to provide the greatest overall return for the company. It's a mistake, though, to regard pragmatism as an extension of financial return. Many efforts err by relying on a purely economic measure of pragmatism that fails to account for the nuances of individual Superkeeper behavior. In other words, the most eco-

nomic approach is also thought to be the most pragmatic one. A revised concept of pragmatism will include consideration for what it takes to attract and retain quality talent, sometimes in opposition to what is, in the short run, most cost-effective.

Two Paths: Alienation and Intimacy

The industry is now facing two potential paths. At the end of one, there waits alienation and anonymity for the Superkeeper. Companies neglect the talent engagement; relationships are marginalized in favor of blind cost-reduction efforts. The employment nexus weakens.

At the end of the other lies a world of personalization and intimacy, where the highest-performing individuals are constantly reinforced, re-recruited, and reengaged. High-potential individuals are attracted and nurtured, and companies achieve true competitive advantage through their talent.

Companies now face the mission-critical opportunity to turn down this second path and realign their approach to talent management to reflect more clearly the importance of the Superkeepers. This involves reexamining the role of technology in the attraction, recruitment, and deployment phases of employee development. In some cases, it involves eschewing the blind cost-cutting motives behind the deployment of software, and reinstating human intervention in order to preserve the quality of the engagement.

Figure 35-2 illustrates the direct relationship between cost savings and personalization in the context of three methods of candidate screening. In-person screening typically demands the most of a staffing department in terms of resources, and the benefit is a high degree of personalization. Conversely, Web-based screening offers minimal engagement for a minimal cost.

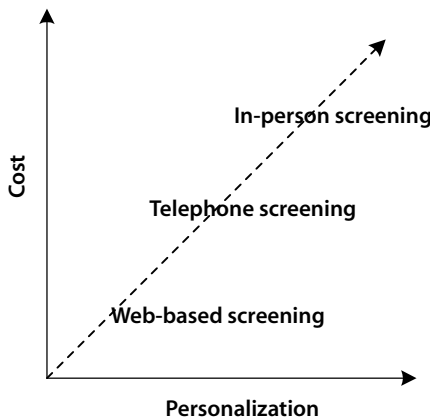


Figure 35-2. Cost and candidate experience

The same analysis can be carried out for other phases of the candidate/employee lifecycle. Organizations must do this and make a more conscious effort to avoid sacrificing personalization in favor of cost.

The Challenge Represents a Substantial Opportunity

The number of Americans using the Internet to perform job searches rose by more than 60 percent from 2000-2002. Today, over four million people look for a job online *each day*.⁵ Aside from the obvious trend, this triggers a compelling conclusion: employers have the choice to earn the engagement of current and potential Superkeepers—or squander it.

Demographic data adds urgency to the issue. The age group with the largest population of Internet job seekers is also the youngest (18-29 years old).⁶ Investing in engagement with these individuals may result in a lifetime of employment. The average American changes jobs 10 times during his or her life—and careers three times. That these numbers are rising confirms that the employment nexus is losing strength.

The Role of Software and Technology

To date, HR has centered its efforts largely on tactical solutions that help organize and communicate information. Figure 35-3 proposes a model for enterprise software platforms' most salient uses.

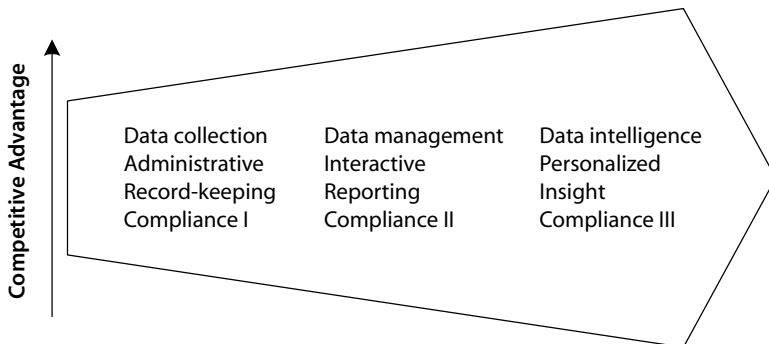


Figure 35-3. The growing advantage and changing role of HR software

The late 1980s saw the advent of employee databases, which provided a facility for collecting data and keeping records. As systems added interfaces for recruiters and HR staff members, they became slightly more interactive and enabled the management of data and processes.

Intelligence, insight, and maximum competitive advantage will not enter the picture until systems and their HR support processes move to the third stage. At this point, system users will be able to make informed decisions because the quality and thoroughness of data and the degree of interest and engagement on the part of employees are all high enough that analysis, reporting, and strategic connectedness are each a part of daily operations. Software occupying the third column helps HR activities follow the four principles described earlier: personalization, continuousness, candidacy, and pragmatism.

A CRM Analogy, for Example

Customer relationship management (CRM) systems and beliefs have had a significant impact on the interaction companies have with current or potential customers. The introduction of CRM, while significant in the landscape of enterprise software, is perhaps most revealing in that it reflects a shift in marketing. It is not so much that CRM has changed the way sales and marketing are done, but that CRM *supports* the new critical business processes and goals of sales and marketing. The same should be true of software and HR. HR can look to CRM for an example of how technology and the quality of the buyer's (candidate's) experience are not mutually exclusive.

One of the most compelling parallels between CRM and HR exists in a map of the information exchange. This is also one of the greatest areas of opportunity for using technology to improve the identification, attraction, and retention of the Superkeeper.

At the heart of marketing with a CRM approach is the assumption that information is a prerequisite to maximum benefit for both the customer and the seller. Customers like to know what they are buying, and they like to know about the entity that is supplying the goods. They make better decisions that way and feel better about their purchases. In the same vein, companies need to understand the target market to which they're selling so as to make the best decisions. The point is not to say that HR is in the business of selling jobs, but rather that it needs to understand its target market. Who are the Superkeepers, where are they, how can we understand their behavior, and how can we attract them?

Another assumption of CRM is that no amount of information is too small. This is also true in the recruitment and retention of Superkeepers. Informed decisions necessitate quality data, and every incremental exchange of information improves the quality of the decision.

But because every information exchange has a cost associated with it, software is often used to reduce the role of the human being. This is true in everything from recruiting to payroll to benefits administration.

Most candidates and employees have no problem interfacing with technology to submit information. But today there is a failure to recognize the importance of a “quid pro quo” relationship. At a certain point the individual needs to receive personalized information in return. An applicant may expect a phone call or personalized e-mail. An employee may expect a conversation with a manager or HR. Technology can be safely used to gather talent data incrementally, as long as the importance of human interaction is not neglected.

Information can also be used to streamline the engagement. “Front-loading” the candidate experience by providing rich, useful information up front enables the candidate to make better decisions. Of the thousands of corporate career Web sites on the Internet today, very few of them communicate effectively with site visitors. Loading information onto the career Web site up front enables the candidate to learn more about the opportunity, self-select in many cases, and in every case come to the table better informed about the opportunity.

An Ideal Information Scenario

One of the few successful online retailers, Amazon.com, operates on a model where information is paramount. The Web site’s interface is designed to put personally relevant information in front of the online shopper and collect information whenever a visitor returns to the site to browse or make a purchase. Amazon uses that information in countless ways behind the scenes: predicting demand, planning inventory, stimulating sales of new merchandise, establishing exchanges for used merchandise, planning promotions, and so on.

The irony is that Amazon.com knows more about its shoppers’ behavior than many companies know about their candidates or even their current employees. Because the information exchange is so limited, many companies rely on a single sheet of paper (a résumé) to make very consequential screening decisions. With better data, staffing teams could:

- Identify the Superkeepers more quickly and effectively, both inside and outside the company.
- Use software to produce and deliver more targeted, relevant messages and content in all media, to all audiences, creating significant improvements in the quality of the engagement.
- Map the characteristics of all candidates and employees, not just the Superkeepers, and determine, based on experience, the right amount of in-person contact needed to engage most effectively with an individual.
- Maintain a more flexible, adaptable workforce, using detailed knowledge of skills, both tapped and untapped, and have the ability to produce, at any moment, a succession plan for every position.

The Paradox of Personalization

One of the dangers of this information-intensive approach is that a resistance to “big brother” could discourage or deter candidates or employees. This “paradox of personalization” happens when efforts to provide a more intimate engagement actually perpetuate anonymity.

To help avoid this situation, every request for information must be accompanied by a request for the permission of the candidate or employee, and that permission must be both explicit and revocable.

The Path to Intimacy: Some Recommendations

What, then, can HR do with technology to move down the path toward building a strong community of talent and ultimately lend credence to the strategic vision—of both HR and the company as a whole?

1. Lead the shift from the résumé as the core measure of talent. For over a century, job seekers have been held to the same unit currency, the résumé. They are expected to summarize themselves in a single document with a rigid format. Now that online interfaces are possible, companies can—and should—offer a more dynamic substitute in the form of a “talent record.” This record should be kept current over time, fed with new information, and used to promote engagement with the candidate. It becomes the single repository for all data related to knowledge, skills, experience, and performance.
2. Link the selection process more closely to the employment engagement. The criteria and systems used to attract and identify Superkeepers are usually separate from performance review systems and HR information systems. In order to improve the benefit to both the individual and the company, data should be shared. It’s critical that the search for Superkeepers take place both outside and inside the company. Creating a bridge between performance data and the selection process will facilitate internal recruitment.
3. Communicate and deliver on the Employee Value Proposition. High-talent candidates need to have a complete understanding of every aspect of the employment opportunity—but that’s only the starting point. Employers need to establish a reputation for delivering on everything that is advertised to the job seeker. A clearly communicated and well-executed Employee Value Proposition is a cornerstone for improvements in the talent engagement.
4. Realign HR resources so they fulfill the need for more personal contact and engagement with candidates and employees. This is a broad mandate that calls for a reassessment of recruiters’ responsibilities. A quick

assessment of the principal tasks in a recruiter's day will reveal how much personal attention is being paid to the Superkeepers, and how much is spent on administrative tasks.

5. Understand the relationship between culture and strategy, and the impact this has on organizational performance. Companies that use corporate culture to define their strategy are historically less effective than those that define their culture *based on* their strategy. Ultimately it's up to employees to fulfill the corporate mission, and culture needs to be defined in support of this.
6. Integrate HR systems. Beyond linking pre- and post-hire technology platforms, creating a coherent repository for all talent data is a critical step in creating a dynamic environment for the Superkeeper.
7. Treat candidates and employees as preferred customers. A guiding principle for all HR efforts, this captures the sentiment pervasive in CRM efforts. With this approach, Superkeepers are much less likely to escape notice.

Ultimately, using technology to find the Superkeeper is not about implementing more technology. It's about a revised approach that uses technology as a starting point for building efficiencies into the daily recruitment and retention, allowing HR to concentrate on re-focusing its attention.

There are two potential paths ahead. Whether we choose the one toward alienation or the one toward intimacy depends on the decisions of HR leaders and the proper use of technology to build relationships, make data-driven decisions, and strengthen the employment nexus. Only through intimacy will companies successfully find and retain the Superkeeper.

Notes

1. IDC, *Worldwide eRecruiting Services Forecast, 2002–2006*.
2. Over the short term a six percent unemployment rate feels high, but by longer-term measures it's actually quite modest.
3. Towers Perrin, *The Towers Perrin Talent Report 2001: New Realities in Today's Workforce*.
4. Reich, Robert, *The Future of Success*, New York: Knopf, 2000, p. 34.
5. Pew Internet & American Life Project, "Online Job Hunting: A Pew Internet Project Data Memo," July 17, 2002.
6. *Ibid.*

Chapter 36

Developing a Talent Management Information Strategy

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BACK IN THE EARLY DAYS OF SOFTWARE NETWORKING, COMPANIES WERE focused on connecting their powerful server-based systems to integrate data throughout the organization. Accounting, human resources, supply chain, distribution, and finance processes were all integrated by large consulting firms so that companies could always keep track of the business activities of their organization. The Internet accelerated this trend to the point that all major *Fortune* 1000 companies as well as smaller companies have built powerful relational databases to control and monitor their key operations. It was only a matter of time before companies began to look to the HR systems functions of payroll, benefits, training, and assessment to develop software that would help track, manage, and develop strategy for their employee assets in a similar way as their capital and financial resources.

Purposes of Talent Management Information Systems

Consultants and software vendors may debate the specific aspects of what talent management software is, but for the most part it is used for four broad purposes:

1. Employee Competency Assessment. It is essential as part of talent management to rate employees on a variety of competencies or skill sets. Employee competency assessment can be simple supervisory rating systems or complex 360-degree surveys in which supervisors, employees, subordinates, and clients participate in the ratings process. Employee competency assessment can be used as the basis for a variety of reports assessing an individual, a division, or an entire company. Employee competency assessment data can also be correlated with performance data like sales or cost control to assess the validity of their relationship.

2. Succession Planning. By surveying replacements for incumbents and employees' career paths, succession plans can be developed.

3. Training and Professional Development. Training and ongoing development programs can also be assessed based on employee and organizational ratings. A training system can be anything from a list of books, resources, and standardized courses to an online integrated training system. By gauging corporate training needs, larger-scale internal programs can be created as well as career guidance programs. Large-scale training and development assessments based on competency needs can be used to create organization-wide valid and effective programs.

4. Compensation. Employee and division ratings and base compensation and incentive programs can be integrated within an overall talent management system. An organization must have a pay strategy and set of administrative guidelines to drive pay practices based on employee assessment.

Additional Features and Integration

There are a limitless numbers of variations that can be developed from the four basic talent management features. EEO data can be tracked to create training and career programs for diverse employee groups. Companies in different sectors of the economy have different emphases for assessing talent. A retail operation may need to focus most of its resources on simple survey ratings, while a technology company may need to focus most of its attention on training and development. A final feature integral to all talent management information systems is integration—the ability to optimize the flexibility to use all data in new and unique ways.

The Race to Create a Market

Software and consulting firms have rapidly seen the potential of creating talent management information systems for organizations. Their efforts to create software and information systems has manifested itself in three areas:

1. Enterprise Resource Providers. Initially, enterprise resource providers (ERPs) saw the potential of the enormous base of companies utilizing their software skills to develop talent management solutions. These solutions tried to use powerful payroll and benefits systems to create software packages for measuring employee retention, resources, mobility, and compensation. These software approaches to talent management have many characteristics similar to their other, older systems processes and were actually basic data-collection devices rather than employee planning and development tools. ERPs are still oriented toward basic data collection and analysis methodologies. Organizations typically require a blend of technical and business expertise to develop tools that use their data and analyses for strategic human resources planning.

- *Areas of strength:* Demographic and basic human resource activity monitoring
- *Areas of weakness:* Ease of implementation

2. Customer Relationship Management. Large players in the customer relationship management (CRM) industry and the training solutions industry focus their solutions on providing stakeholder feedback. This approach is based on software systems that were initially created to manage continuous stakeholder feedback and program delivery. The derivative talent management systems provide continuous information for employees through assessment data and then apply the input to training and development programs. The assessment and development information is generally provided directly to employees and their supervisors to enable them to effect behavioral change that is intended to improve client relationships. If this all sounds steeped in the sales force automation industry, it is, and companies that have adopted these systems generally have come from the same industries that adopted customer relationship management software in the first place and have a clear understanding of applying those concepts to talent management.

- *Areas of strength:* training, surveys, sales information management
- *Areas of weakness:* very difficult to implement, requires buy-in at all levels of the organization

3. Management Consultants. A third approach to developing information systems for talent management grew out of the management consulting industry. These consulting firms adapted existing management models for

employee survey and talent management into strategic database or Internet analysis systems. Grounded in the HR management solutions industry, these software tools were basic but focused, being built from platforms created by software providers. The focus on these software systems is simplicity and utility. Using simple and transparent relational database tools, the software was used to clearly articulate and manage talent strategy. The software is typically not designed for extensive use by every person in the organization and is more focused on being a strategy tool for executives with the HR department supporting the system. The systems are scalable: they can be expanded without major modifications. They usually provide snapshots rather than an ongoing stream of usable information. Recently big software vendors like Microsoft and IBM entered the business solutions industry with a series of scalable programs that can link HR databases to analysis and reporting software on an ongoing basis. This encouraging trend can lead to the best of both worlds: the technical sophistication of highly connected software with the ability to adapt to any management requirement.

- *Areas of strength:* integration of employee information into reports, ease in getting started, lower cost
- *Areas of weakness:* not a real-time solution, limited data mining and sorting capability.

Developing a Talent Management Information Strategy

With so many different types of providers, differing terminology, and disparate needs, organizations are confused when building a talent management information system. Like the enterprise solution revolution of the early 1990s and the customer relationship management systems of the late 1990s, they often jumped into complex systems with a leap of faith and no clear idea of how valid or cost-effective the systems would be. The problem in building costly and complex systems is exacerbated by organizations reducing information systems spending. Talent management, to survive, must be agile and financially resilient.

To develop a talent management information strategy, companies will need to practice a form of ruthless reassessment, auditing, and questioning. Talent management as a support tool must be assessed on the value of the information to the decision-makers at the executive level. The five-part process for developing an information system described below is based on two clear measures: a lean, flexible system and senior executive understanding and buy-in. This process is also based on approaches developed for designing products for the consumer products industry and consumer Web sites.

Five Steps to a Talent Management Information Strategy

1. Project Statement. To create a talent management information system that best fits your organization, the best strategy is not to think about software or enterprise systems at the inception. A thorough project statement is an action plan based on the management needs of the organization that should be undertaken *before* any analysis of information systems. This approach removes the bias that is inherent with finding a solution based on information systems inside the organization or solutions advertised by outside sources by essentially creating an information system structure on paper. This approach also solidifies control and direction at the initial level in the hands of the senior executive level before being implemented at various levels of the organization. Often companies use outside management consultants to undertake the project statement as well as the analysis phase to have an objective analysis and an audit of internal and external capability. This does not relieve internal management of their responsibility. Without clear leadership and direction from top levels of the organization, the project will quickly struggle.

The following form the project statement:

Project Mission: The senior executive staff creates the project mission, which establishes what the talent management system should accomplish. A very specific and detailed mission establishes the direction of senior management and their informational requisites. Typically, a mission statement focuses on the assessment and planning of human resources to meet current and future organization needs.

Project Stakeholders: A listing of the people involved at all stages of the project is a crucial part of the mission statement. These employees should also be listed with their potential contribution to the project. Stakeholders are often combined into two groups: a steering committee of employees crucial to the success of the project and who attend most of the project meetings and the general stakeholders who receive periodic information.

2. Report Components. The report provides a specific listing and description of components that will be incorporated into the talent management system, including specific reports and modules. Typically, reports include succession planning, performance and potential distributions, career plans, and training and development needs.

3. Data Flow Chart. A description should also be created of which base infor-

mation should be included and how it will be disseminated throughout the report components. The two essential elements of demographic information are raw personnel data (names, position titles, EEO classification, and start dates) and evaluation or assessment data. How this data interacts with the various reporting methodologies is mapped using information flow charts.

4. Management Plan. A management plan is developed at the early stages that includes who will be responsible for inputting data into the system, who will be responsible for design changes to the system, and who will have permission to view the various reports.

5. The Internal/External Analysis and Scenario-Tested Request for Proposals. After the project statement is completed, a thorough analysis can be conducted of the company's existing internal human resource information systems, with a particular focus on how data is queried and exported. This information will be combined with the project statement to produce a series of potential design scenarios resulting in the creation of an internal request for proposal (RFP). The RFP is a document the company will write to help decide which software strategy to pursue, based on the scenario results and the range of software options on the market.

Some potential scenarios could include the following:

Company A:

Project Mission: To create a talent management system with a focus on compensation and bonuses using a forced-ranking system to combine with industry supplied compensation data. Only HR and senior management are privy to the results contained in the final reports.

Existing Information System: The company is currently using a PeopleSoft® enterprise system that contains employee and compensation data.

RFP Solution: Create a simple password-protected intranet-based program for retrieving ranking and rating information from supervisors. Combine the ranking data with a database program using information culled from Internet-based and consultant-based analysis from corporate competitors. The results will be three analysis reports that are incorporated into the database. One report covers how the company's employees match up with the existing salary structure of other similar organizations. Another report indicates where the company employees are ranked in terms of pay and bonus scales. The third report indicates where the individual employees are assessed, with compensation recommendations offered. The final database is not linked to a network and only two

senior human resources officers are responsible for distributing reports in a hard format available on a reader program like Adobe Acrobat.

Company B:

Project Mission: To create a talent management system with a focus on training employees in deficiency areas based on assessments conducted three times per year by each employee's supervisor and clients. The employee can also do self-analysis as part of a 360-degree review. Training program recommendations will be updated daily, with a variety of programs offered online and special programs announced daily. Inputting information is open to all employees and outside clients with a universal identification. Individual reports and course announcements are delivered through special employee code. Overall assessment data is presented in report form to the company's top executives.

Existing Software: The company has existing client relationship management software created by Siebel Systems that has full Internet and telephone capabilities. The company also has a SAP enterprise software system for the HR department.

RFP Solution: Using CRM as a base, create an Internet-based assessment system tied to a list of training and organizational reports. The employee is given a series of recommended courses and books and alerted to company sponsored events on the company Web site. The employee can complete a form indicating which reports he or she has taken. The overall information is delivered in spreadsheet format and used by the HR department to create a series of reports correlating the financial results of the organization to the training programs taken by the employees and improved ratings. The organization also has an option to link the financial database with the training database at a later time, depending on the efficiency of the preliminary arrangements.

The options listed for each of the two organizations are different, but both have created scenarios that fulfill the project mission and provide the option to expand in the future. Creating the option for expansion is important in the design development phase.

The box on the next page provides an overview of the five steps to a talent management information strategy.

Talent Management Information Strategy

- 1. Project Statement.** Action plan based on the management needs of the organization. Includes project mission and list of project stakeholders.
- 2. Report Components.** Listing and description of components that will be incorporated into the system. Can include succession planning, performance and potential distributions, career plans, and training and development needs.
- 3. Data Flow Chart.** Description of base information and its dissemination through reports. Includes demographic and evaluation or assessment data.
- 4. Management Plan.** Includes responsibility for inputting data, for designing changes to the system, for giving permission to view reports.
- 5. Analysis of Existing Systems and Request for Proposals.** Analysis of existing human resources information systems. Request for proposals is written by company to help decide which software strategy to pursue based on scenario results.

Design Development Through Rapid Prototyping and Scaling

Design development is potentially the most time-consuming and trouble-laden aspect of the talent management system. By a dual approach of rapid prototyping and scaling, the organization can keep the project moving forward and on track.

Rapid prototyping is the quick development and testing of software with the executive steering committee. Usually starting with a basic shell of input forms and reports, the prototype progresses through a rapid design of screens and fields. Changes in the project mission, goals, and implementation can readily be made during the prototyping without slowing down the project because of the visual nature of the exercise.

Scaling is the ability to connect at a high level the prototype software with the organization's main software infrastructure while allowing for the practical use of the package. Scaling ensures that there will be a workable model for early organizational use while still being able to advance the software to a more sophisticated level.

Rapid prototyping and scaling go hand in hand by ensuring that the organization has complete input into project development on an ongoing basis. Major errors in communication occur when the user is disengaged from design development for lengths of time.

Consulting firms can create a simple stand-alone talent management database that is a generic prototype for little or no cost to the client. The firm then works with the client to customize the prototype reports and add new reports based on specific client requirements. Once the customization is complete, the client is ready to integrate the assessment delivery and report dissemination process into the network infrastructure of the organization.

The benefits of this approach are obvious. By rapidly improving existing models and reports, the company can quickly produce the survey and data structure it wants and has a workable model, even if the budget is not in place to get to the next level. At the same time, the organization can discover how it wants to survey and deliver data in the organization. There are drawbacks that also must be kept in account. Rapid prototyping requires a focused staff or the project can spin quickly out of control. Also focus must be maintained on integration with other software systems or the project might stay in a limited stand-alone form.

Implementation and Maintenance

Once the information system has been substantially designed, the implementation system outlined in the project mission stage should be called into action. This implementation plan should be expanded and include the following parts:

Talent Management Plan: The theoretical underpinnings of the information system, including the corporate philosophy and the senior executives responsible for implementation.

Management Plan: A management hierarchy should be listed for all the tasks associated with the creation and maintenance of the information system. Designating people with specific tasks associated with the talent system places ongoing accountability at all levels of the organization.

Instructions Manual: Instructions for using the talent management system should be keyed to the management plan, with basic user information and definitions integrated into the software. The instruction manual should also contain information on how basic changes and updates to the software can be made and timetables for when changes should occur.

Design Development Document: A document outlining all the decisions and process steps made in the creation of the talent management system. Included in this document is an accounting of what decisions were made and why they were made.

Expansion Plan: A continuously updated report on possible expansions and changes to the system. This should be incorporated in the audit stage into a

survey for senior management to ensure continuous feedback on the success and direction of the talent management system.

All this information should be encapsulated into a guidelines manual and made readily available to the main stakeholders. The guidelines manual is the bible of the talent management system. Its existence and continual updating reinforces the importance of the system to the organization and puts a human face on a set of processes.

Audit and Update

Changes to the talent management system are inevitable. Managing these changes requires a formal feedback system. Creating a system for continuously surveying employees and senior management will ensure that the software system is meeting the objectives of senior management. Many companies look at the audit as a way of justifying return on investment. This is a shortsighted view and is open to inappropriate corrections. The success of the talent management system is based on the usefulness of reporting information to employees and management. By focusing on the way reports are used for formulating corporate strategy, the talent management system can stay relevant to the organization and survive beyond its initial implementation.

To Conclude ...

There is a push among software companies to include talent management software systems in the pantheon of on-demand enterprise solutions like supply chain, accounting, and inventory software. While talent management is crucial to corporate success, organizations must beware of fitting talent management solutions around old software. Creating a talent management system that can be easily used at all levels of the organization and addresses management as well as employee requirements takes much consideration and ongoing development. When created properly, such a talent management system will be a critical component of long-term organizational strategic success.

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