

Growing global executive talent

FROM THE ECONOMIST INTELLIGENCE UNIT

Around the world, the demand for talent outstrips the supply, and the problem is growing. Global companies are aware that they need to improve their ability to find and develop better executives—and it must happen soon—or business performance will suffer. Yet awareness of the problem is not resulting in actual progress towards resolving it.

That was the most dramatic conclusion of a global online survey of 412 executives conducted by the Economist Intelligence Unit in late 2007. In the survey, 55% of respondents said that their firms' performance was "likely" or "very likely" to suffer in the near future due to insufficient leadership talent. This perception cut across executives of different ranks and from companies of vastly different sizes and regions. With one exception, the top executives from eight large, publicly traded companies whom the EIU interviewed separately concurred with this view.

"I always say, 'Show me a good leader and I'll show you a good business,'" says David Novak, chairman and CEO of Yum! Brands Inc, which owns well-known restaurant chains such as KFC and Taco Bell. "People get excited by working around great people. The best thing you can do in a company is build an A-team. Our whole focus is building and developing and retaining people."

The survey asked executives to assess their leadership, pinpoint important leadership qualities, and specify the obstacles to effective talent management. It also asked them to describe their own role in talent management. The interviewees said effective talent management benefited their organisations' performance, but they generally did not specify the impact.

Many observers believe there is a link between effective talent management and corporate performance, although it is only in recent years that studies have been trying to measure the connection. In this survey, CFO respondents were the most likely to link success to leadership with nearly 70% saying their organisation would suffer in the near future due to insufficient leadership talent. Meanwhile, 51% or more of business unit heads, vice-presidents and chief information officers agreed. Only about 20% of all these executives said the connection was unlikely. Respondents from companies with less than US\$5bn in revenue were equally likely as firms with revenue of US\$10bn or more to see close ties between their organisations' success and leadership talent.

Clearly, concerns about leadership are widespread. Moreover, they underscore the importance of effective talent management. "I can only succeed in making my business work with a really good set of people who can understand the issues and make things

happen,” says Simon Machell, CEO of Aviva Asia Pacific, a division of the UK-based insurance company Aviva.

Many of the executives surveyed indicate that their companies don't have the right person in the right job and that this shortcoming has repercussions. About two in five said this was their biggest obstacle to executing business strategy. Mr Machell and other CEOs interviewed said a person in the appropriate position is going to be more productive: “If you have the right people with the right attitude and the right capability, the overall ability to get things done is there.” Mr Machell says he rates his executives on their ability to recruit, develop and retain excellent people for more senior roles. “My challenge is always—can you recruit somebody who can do your job quickly? Then you're providing the future talent stream for the organisation.”

The global business environment and talent management

Still, managing talent isn't always easy in today's complex, global business environment. Fast-growth situations, increasing opportunities in emerging markets, mergers and acquisitions, and downturns may send companies in search of a different expertise than they anticipated only months earlier.

Organisations that fail to find and prepare executives who can handle these types of situations do so at their own risk. “You think about leadership in today's environment and what will happen over the next five years, it's very dynamic,” says Joe Hogan, the CEO of General Electric's US\$17bn healthcare unit. “Leadership to me implies change.”

In some emerging regions, firms may encounter a lack of qualified candidates. In particular, China and other Asian countries still lack qualified middle and senior managers. This has led to stiff competition and high turnover as managers leave one company for higher-paying positions at other firms. Mr Machell said he's had to recruit expatriates for key roles in Asia, but they may be at a disadvantage in understanding local regional business practices and culture. “My challenge over time is to reduce the number of expats and have more locals running businesses,” Mr Machell says.

Some firms have had to pursue far-reaching strategies to ensure that they have enough capable executives to meet their needs. Yum! Brands' CEO Mr Novak holds two- to three-day leadership conferences called “Taking People With You” in different parts of the world. Mr Novak lectures on such topics as communication skills, strategising and motivating employees. Mobile electronics and transport systems manufacturer Delphi and Australia-based mining, consumer products and chemical services company Orica send senior executives to multi-week, executive development programmes. All of the interviewees said their firms use some form of mentoring or executive coaching, often with professionals outside the organisation.

Global leadership qualities

Organisations need multifaceted leadership qualities. When asked what leadership qualities will be important over the next five years, the most frequently selected choice was the ability to motivate staff (35%), followed by the ability to work across cultures (34%) and the ability to facilitate change (32%). Other options such as integrity and ethics (16%) and the ability to “bring in the numbers” (10%) were found in the bottom half of responses.

The ability to manage across borders and cultures has become increasingly important. This holds true especially in Asia, where companies may have one hub covering several different countries. When asked to identify his company’s biggest leadership gap, one survey respondent said, “Not enough qualified people with global knowledge and knowledge of local markets”. Another said that “maintaining quality and innovation across an international workforce” was his firm’s main management problem.

Majdi Abulaban of Delphi Packard, Asia Pacific, said that his firm has been assigning promising executives to more global projects and increasing training on international business issues. “Functioning globally is becoming more and more prominent,” Mr Abulaban says. GE Healthcare’s CEO Mr Hogan agrees: “You have to be a citizen of the world and be able to motivate people, understand different cultures and be able to lead in the right way.”

Talent management as a core strategy

Overall, Economist Intelligence Unit research shows that many executives have made talent management part of their core business strategy. Two-thirds of survey respondents said talent management was “equal” or “more important” than other business priorities. Moreover, about four in five respondents said members of the senior executive team agreed at least moderately on the importance of talent in ensuring success and on the type of leaders their organisations will need. Such agreement would not exist unless talent management initiatives are central to their culture. Only one in three participants said they didn’t have enough resources, such as technology and money, to find and develop people.

Similarly, the interviewees said talent management was a major focus for them, underlined by the comprehensive nature of their activities and own involvement. Clearly, many CEOs are playing an increasingly hands-on role in expanding and fine-tuning their talent management initiatives. The interviewees said they feel personally responsible for setting the tone for talent management within their companies. Indeed, Mr Abulaban of Delphi Packard Electrical/Electronic Architecture, Asia Pacific, says he is now spending 50% of his time on talent management, up from 35% two years ago. Mr Novak of Yum! Brands said that he continuously focuses on talent management “because every opportunity is a chance to coach, develop, share what you’ve learned with somebody else, get a perspective on somebody, assess their potential, assess their

development needs. Any time I go into a meeting, I'm always looking at the people and thinking about what I can do to develop them, improve their skills, give them the coaching they need."

Disconnect between focus on talent management versus actual performance

Yet the survey respondents and interviewees also revealed some troubling trends, including a fundamental disconnect between how executives rank the importance of talent management, how they rate their performance in this area, their actual involvement and the success of their companies in developing executives.

Only 3% of those surveyed said they were doing "an excellent job" in talent management. Another 24% said they were doing a "very good job", which leaves about three in four executives who felt they had to improve.

Meanwhile, merely about one in nine respondents said they often championed strategic management of leadership talent. Only one in five said they often spent time on managing leadership talent or involved their human resources (HR) department as a strategic partner. Furthermore, just one in ten said they often reviewed leadership talent with their board.

It's no surprise then that only two in five respondents said they were "satisfied" or "very satisfied" with the rate at which their firms were developing talent to meet their business needs. Also, less than half the survey participants rated their current leaders and internal candidates for key positions as "very good" or "excellent".

This comes at a time when most firms insist that they won't settle for anything less than excellence. Moreover, one in two participants rated their organisation's talent strategy and formal leadership development efforts as "fair" or "poor". About the same percentage said their organisations weren't doing a good job in linking compensation to performance.

Nearly 55% of participants said their firms were "fair" or "poor" at identifying talent and communicating about promotions. Simultaneously, the executives interviewed said that strong talent management depends on clear communication. Potential candidates must understand where they need to improve and how they can put themselves in line for advancement. Clearly, these findings and comments by some of the executives interviewed demonstrate that companies could be doing significantly more to improve their talent and performance management systems.

What is preventing companies from adopting the right approach? Some surveyed executives attributed the problem to HR, but at the same time they acknowledged that they weren't engaging HR enough in strategy. Others are facing intransigence in the workplace. At Aviva Asia Pacific, Mr Machell has had to reshape the attitude of

executives who are fearful that the subordinates they develop will outshine them: “People who have been around tend to be concerned about bringing people in who are better than them, who would show them up.” He has tried to make it clear to executives that bringing in people who are excellent can “make them look good”.

Measures to improve talent management

Although each organisation faces its specific set of challenges, there are some common strategies that can be implemented to improve talent management. Of course, companies must first be committed to improvement, which requires an honest appraisal of current practices. Among the main recommendations:

- **Start with the end in mind—your current and future business needs.** Effective talent management requires that your business goals and strategies drive the quality and quantity of the talent you need. Define what it will take for your organisation to succeed globally over the next three to five years. Ask: Do we have enough leaders with the right capabilities to tackle these challenges? If not, how can we identify those with the greatest potential and accelerate their development? Then ask: What will be the measurable indicators of talent growth? A well-known management axiom is that “you can’t manage what you can’t measure.” Keeping the end in mind is the most central tenet to great talent management.
- **Craft an integrated talent strategy.** Some companies follow an ad hoc approach to talent management, patching together different programmes that may vary by division or region. They may achieve some success in developing leaders; however, this method lacks sustainability and may be especially inefficient for large, global firms whose success depends on their ability to set consistently high standards throughout their enterprise. Instead, companies need to adopt one comprehensive strategy, which requires senior leaders to serve not only as executive sponsors and champions of the strategy, but also as active participants in the development and growth of talent.
- **Own talent management at the top—and at all levels.** Talent management demands that the CEO, and the entire senior leadership team, play a significant role. It is this group that must own the outcomes of talent management, much like a sales leader would own the sales growth of his or her unit. But ownership can’t stop with the senior team. While the CEO and senior team must own and drive the organisation’s focus on talent, champions are equally essential among frontline and mid-level leaders and managers. Yet organisations routinely thrust people into leadership roles without the requisite talent management skills. These skills include interviewing and hiring effectively, driving team performance, retaining talent, handling performance issues, and coaching and developing others. Establishing accountability and cultivating skill development are essential to sustaining ownership and ensuring long-term growth.

- **Identify leader potential early on.** The demand for strategic leaders is rapidly outpacing the supply, resulting in the need to identify and invest in internal leaders with the greatest potential for growth. Ensuring long-term leadership continuity requires an effective identification process that finds people who will grow into strategic leaders capable of driving business performance at the top.
- Recognising that less-experienced leaders with high potential do not become ready overnight, it is essential that organisations identify talent early, before the urgent need arises. This requires a routine for scanning the organisation and isolating leaders who are showing a combination of strong performance and leadership potential. Providing these leaders with heightened access to key learning experiences and developmental support helps to accelerate the organisation's readiness for emerging business challenges.
- **Accurately diagnose leader skills.** There are few HR decisions more important than assessing the readiness of high-potential candidates for leadership positions. Of particular note is that this is very different from assessing potential. A robust assessment helps organisations accurately to assess and develop new, aspiring or experienced leaders relative to the ideal success profile for a particular role. With an in-depth evaluation of a leader's strengths and development needs in hand, these deeper insights can be leveraged in several ways. In the short term, the results enable better hiring and promotion decisions, thereby increasing the probability of successful executive performance. In the mid- to long term, assessment data can be used to target and accelerate development, so that high-potential leaders are ready when business opportunities or challenges arise.
- **Build a strong HR function.** In the survey, only one in ten respondents said HR was doing an effective job of bringing in outside candidates. This corroborates evidence that by and large, HR is regarded as having room to improve its impact on talent growth. Before too quickly criticising HR, however, it must be recognised that its success depends on its presence in an organisation's business framework. Bringing the HR agenda and its stakeholders into the boardroom are essential elements to successful talent management. This implies a healthy tension between senior leadership, which should hold HR accountable for its guidance, and HR leadership, which should hold senior leadership accountable for owning the organisational goals associated with talent growth.
- **Take risks and be innovative about executive development.** There are a number of new programmes and tailored approaches to accelerate the development of leaders. To build strategic thinking skills, for example, some companies have employees working on real organisational challenges using an action learning approach and presenting the recommendations to the CEO. While many unique approaches are available, one thing is certain: conservative approaches yield little to no change. True talent growth requires that learners experience the excitement of new challenges, new ways of thinking and the risk

of occasional failure. With the appropriate support, these risks can pay off and translate into new leadership capabilities.

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