CHAPTER 1

The Looming Leadership Crisis

Leaders aren't born, they are made. And they are made just like anything else, through hard work.

—Vince Lombardi

SURVEYING THE *crowd at the first meeting of IBM's Senior Leadership Group in 1996, Lou Gerstner, the blunt-talking chief executive charged with saving Big Blue from the brink, issued an edict: Go back to school! The directive must have surprised and likely angered more than a few of the 300 senior executives—including Gerstner's own direct reports—many of whom had been with the tech giant for decades.*

But Gerstner hadn't been recruited from R. J. R. Nabisco to make friends. His immediate challenge was to save an institution that had quite literally been placed on a 24-hour deathwatch. Those in the room that day understood they had been hand selected because they were critical to IBM's recovery. So, when Gerstner told them they would be participating in a program focused on developing their own leadership capabilities, they knew they'd better listen.

That's not to say that everyone had confidence in Gerstner's ability to breathe new life into IBM. A downward spiral had taken the company's $6 billion profit in 1990 and quickly turned it into an $8.1 billion loss by 1993. In an industry that was rapidly expanding, IBM had lost half of its *market share since 1985. They ranked 11th in customer satisfaction among companies in the computer industry, trailing several companies that no longer existed. IBM's stock price stood at an all-time low, and competitors like Hewlett-Packard and EMC clawed at its market share. On April 1, 1993, the day Gerstner took charge, IBM's stock had dropped from a high of $43 per share in 1987 to $13 per share.*

The organization that had long held court as America's most admired company was forced to abandon its practice of lifetime employment, sending tens of thousands of workers in search of new jobs. Many of those workers found employment within the legions of new dot.coms and undoubtedly snickered at IBM as a soon-to-be-extinct dinosaur. However, it wouldn't be the dot.com millionaires but Big Blue that would ultimately have the last laugh.

Just as Wall Street was preparing to throw the first shovelful of dirt onto IBM's casket, something miraculous happened: The giant rose from the dead. In 2001, profits reached over $8 billion on revenues of $83 billion, and shares hit an all-time high. The company once credited by The Washington Post *for inventing the computer industry was back—with a vengeance. And, in an instance of ultimate irony,* BusinessWeek *declared IBM the largest dot.com in the world. Gerstner and his team had pulled off the turnaround of the century, leading IBM back to profitability—without chopping the company into separate operating units, a plan that had been in the works when he took over as chief executive.*

While Gerstner himself has been given much of the credit for IBM's amazing turnaround, Big Blue's boss clearly recognized that the company's leadership strength extended far beyond his office.

On his watch, a comprehensive approach to building great leaders was crafted, including careful selection, development, and rewards for IBM's best talent. Leaders were held accountable for growing other leaders, and good leadership was viewed as a critical asset to be carefully managed for the best possible return.

Gerstner's mandate accomplished much more than saving IBM. It posi-

tioned the company for the future by building a deep bench to ensure that Big Blue's dramatic turnaround wasn't just a passing phase. The fact that the transition from Gerstner to new CEO Sam Palmisano in 2002 was flawless in the eyes of the hypersensitive stock market and critical business press drives that point home. And with IBM facing likely retirement of as much as 75 percent of its senior management team by the year 2007, Gerstner's investment in a powerful leadership-development and succession-management process will prove to be an absolute necessity if IBM is to retain its regained crown and Gerstner's turnaround legacy is to last.

REACHING THE BOILING POINT

As Gerstner's story demonstrates, it is the development of a strong leadership team, rather than the actions of a single individual, that sets one organization apart from the rest. The facts are indisputable: Great leadership teams build trust and confidence among their people. They motivate and inspire. They anticipate challenges and redirect the enterprise in timely and appropriate ways, unifying the workforce behind a single cause and driving the kind of performance that allowed a Southwest Airlines to soar or an IBM to reboot itself. Simply put, they deliver better business results, and the opposite is true as well: An incompetent leadership team wreaks serious damage and creates inflexible bureaucracies, often destroying shareholder value and dooming the organization to failure. The corporate landscape is littered with hundreds of overly managed, poorly led institutions.

Tales of leadership successes and failures have served as juicy fodder for the likes of *The Wall Street Journal,* CNN, and Fox News. They've put leadership on the map, awakening many sleeping corporate giants in the process. It's clear now that there is a cause and effect—great returns for those organizations that invest in leaders and failure for those that do not. After decades of largely paying lip service to building great leaders, executives everywhere have begun to think more seriously about their own leadership processes.

This new awareness arrives at the right moment as two daunting demographic trends loom. Those trends will forcefully challenge how companies develop their leadership talent. In the 1970s, 1980s, and 1990s, companies became spoiled by the enormous baby boomer generation—the pig moving through the python—which provided millions of talented, dedicated workers. While efforts were made to increase the capabilities of this group, the mindset that you could "buy" a leader when needed became ingrained in many firms. Revenue at executive-search firms nearly tripled in the seven-year period from 1993 to 2000 as companies tried to find outside what they could not or did not develop inside.[1] "Twenty years ago," says Jeff Sonnenfeld, associate dean at Yale's School of Organization and Management, "only 7 percent of major firms hired CEOs from the outside. Now it's over 50 percent."

In the late 1980s, one *Fortune* 50 company was so concerned about the inability to grow leadership talent and the shortage of qualified leaders inside the company that it began to identify and track executives *outside* the company. The CEO and senior vice president of human resources undertook a confidential, but rigorous, process to review exceptional executives from other firms—the company even developed tracking mechanisms on their growth and development. They went so far as to structure forums—industry task forces, board presentations, golf outings—to observe targets firsthand.

The shortage will worsen. Aging boomers are beginning to trade the workforce for the golf course, trading corner offices for porch rocking chairs, company cars for golf carts. As this boomer bubble bursts, we will see a 15 percent drop in the number of men and women of "key leader age"—those in the 35- to 44-year-old range. Since peaking in the late 1990s, the numbers for this group have decreased markedly and will continue falling until approximately 2015 when they will once again begin a slow upward climb. It's a fundamental economic principle that, when supply of a product decreases, its price increases. Companies looking to pay the "market price" for an executive may soon find the quality they want is not in their range.

The second key trend was more difficult to predict. For nearly 50 years, the percentage of women entering the ranks of the American workforce rose steadily. The growing numbers made up for the declining number of men in the workforce. Since 2000, however, an increasing number of women have chosen motherhood or other pursuits that keep them out of the workforce. In fact, female leaders have been departing *Fortune* 500 companies at twice the rate of their male counterparts.[2] So in addition to the overall leader pool's shrinking, women are no longer making up for the number of men leaving the workforce, further exacerbating the leader shortfall.

But that's not all. Boards of directors and shareholders have grown increasingly impatient with leadership teams that do not produce results. In 2001, a record 555 CEO departures were recorded.[3] In 2002, nearly 100 CEOs of the world's largest 2,500 companies were replaced for *performance* reasons, almost four times the number asked to leave in 1995.[4] The challenges of running complex, global enterprises are immense. Modern leaders must carefully manage organizations with large cultural differences, be able to draw out multiple perspectives, and lead diverse teams. Leaders who can do all these things effectively will be a rare, valuable commodity through the "boomer trough."

There is a third pattern—too early to call a trend—and that is the midcareer metamorphosis: would-be leaders exiting the corporate world for lifestyle reasons. This phenomenon is not new ("downshifting" has been discussed and observed by the media over the last decade) but in the post-9/11, post-Enron world, it appears to be accelerating. Fifty-four percent of *Fortune* 1,000 executives surveyed last summer by Burson-Marsteller, the public relations firm, said they did *not* aspire to become CEOs of their companies, compared to 26 percent a year earlier. People no longer see the top as enviable. Career workshops that train people to make the transition from the corporate world to the nonprofit world are overflowing.[5]

As companies recognize the value that superior leaders deliver, they're fighting harder than ever to recruit and retain the best. When Hewitt Associates asked its clients about their plans regarding external leadership hires, more than half indicated they planned to upgrade the quality of leadership talent they bring into their organizations. A McKinsey study on talent found four out of five companies did not have enough talented leaders to pursue their company's business opportunities.[6] So, with the one-two punch of a declining leadership pool and greater competition for those who remain, *how will organizations win the battle for leadership talent?*

Focusing on the Facts

The combination of demographics and economic challenges means that companies no longer have the luxury of taking a trial-and-error approach—or of having no approach at all—to building leadership quality and depth. They want fact-based, tested methods and tools that fit with their organization's culture and support their business goals. They need clear guidance on how to build a diverse, highly qualified leadership team today and how to plant the seeds for great leadership tomorrow. Unfortunately, many companies find that fact-based, clear guidance is in short supply.

Anecdotes and case studies abound when it comes to companies that are known for developing leaders. Every consultant has a model, every conference a seminar, and every leader a story about how a company can build great leaders. But no clear answers exist about what exactly enables an organization to continually produce a stream of great leaders. Why is it that GE had three CEOs in waiting when Jack Welch decided to retire—a situation that would throw many other companies into a crisis? How is it that Procter & Gamble can fill all leadership positions for a growing $43 billion business without a single executive hired from the outside and, at the same time, have 60 P&G alumni in CEO positions elsewhere?

The answers are elusive. Our research discovered that narrowly focused studies on topics like succession planning, executive education, and performance management were widely available, but that no study looked broadly and systematically at the combined factors that enable companies like GE, IBM, or Colgate-Palmolive to be so successful in growing great leaders. And that combination of factors seems to offer the best possible explanation for the consistent stream of great leaders at top firms. After all, it was more than great leadership development programs that produced GE's three CEOs-in-waiting.

When you look at many of the existing studies on leadership, they cite companies that consistently underperform their industry or the marketplace. It makes one wonder: *If a firm can't beat its own peer group, what can it teach others about growing great leaders?*

Our Process

We set out to tackle the issue in a fundamentally different way. We wanted to understand holistically the organizational characteristics that provide the sustained capability to create leadership quality and depth. In other words, how do great companies combine culture, performance management, coaching, compensation, job assignments, leadership support, and more in a way that enables them to consistently deliver business results and create a strong pipeline of leaders for the future?

We started our research in 2002 by surveying CEOs and human resources (HR) executives at 240 of the world's top 500 multinational companies, posing questions about a broad variety of topics that would influence how leadership strength is built. We conducted hundreds of in-depth interviews with leaders at more than 50 companies. We then sought the input from 25 of the world's leading HR and leadership experts—Dave Ulrich, Jeff Pfeffer, Rosabeth Moss Kanter, Jon Katzenbach, and others—who provided their own thoughts about which organizations develop leaders well. In 2003, we added a global perspective, surveying not only 320 U.S. companies, but almost 300 more in Europe and Asia as well.

To avoid a common pitfall of previous studies, we maintained the basic premise that there had to be a relationship between great leadership and superior financial results. So we passed all data through a financial screen. In our 2003 study, we used the five-year compounded growth rate of earnings before income and taxes (EBIT) as this screen. Companies that failed to perform at or above their industry medians over a five-year period from the study date were eliminated, surprisingly knocking out many well-known firms with reputations for strong leadership programs. Other factors considered included nominations by peer companies and leadership experts in addition to how many leaders from that company were now executives at other *Fortune* 500 companies.

As a final checkpoint, we asked *Chief Executive* magazine (where the initial results of our study were published)[7] to assemble a judges panel to independently evaluate our research. In both 2002 and 2003, they impaneled a group composed of world-renowned authors, business executives, professors, and executive coaches, such as

Jay Conger, Rakesh Khurana, Marshall Goldsmith, Jeff Sonnenfeld, and Steve Drotter. This team studied our findings and made the ultimate selections for the *Top 20 Companies for Leaders.* The lists for 2002 and 2003 are included in Appendix A.

In the second phase of our study, we went back to the Top Companies and interviewed nearly 100 senior executives and high-potentials, including a number of CEOs, to better understand—from their perspective—what makes the difference in companies that build great leaders. These in-depth interviews provided the nuance and subtlety that separated one company's programs from another's and reinforced what we heard in the survey process.

We want to be clear: We know all lists have problems. This book is not about the *list.* This book is about discovery, about understanding what Top Companies do to develop leadership talent. We weren't interested in comparing companies ranked 15 through 20 with those ranked 1 through 5. Rather, we were interested in defining the best. This process was our best attempt at identifying a sample of Top Companies. This book is about understanding what makes them so.

We learned a great deal, and this book is all about sharing what we discovered. Many of our own preconceived notions about leadership were challenged. There are no silver bullets. No formulas or prescriptions. No best practices to steal and embed in your organizations. There are patterns, however, and the patterns are what we were after. The Top Companies share a combination of beliefs and values and results-oriented practices for identifying, nurturing, and rewarding future leaders. These elements form the cornerstones of their programs and set them apart from the vast majority of organizations today. Although specific practices differ from one organization to the next, these common characteristics can be gathered into three broad truths:

- CEOs and boards of directors at Top Companies provide leadership and inspiration.
- Top Companies have a maniacal focus on the best talent.
- Top Companies put into place the right programs, done right.

The remainder of this introductory chapter previews our key findings—the three Truths and more—but before turning to these, a word about best practices.

The Myth of Best Practices

Managers everywhere are obsessed with the quick fix. Fads and gimmicks abound. The next new thing often promoted by academics or, yes, consultants promises easy solutions to difficult challenges. And this is understandable. Faced with daunting competitive pressures, global complexity, and a nanosecond world, who wouldn't want to steal from the best?

But it doesn't work. Cultures are different. Values and beliefs that leaders hold are different. Strategies, customers, history, and other embedded practices are different. These differences make it difficult, if not impossible, to graft someone else's programs onto your own. It is far better to learn how great companies think—as Jeff Pfeffer, Stanford University Business School Professor says—than to copy what they do.[8]

Best practices, as many people think of them, simply don't exist in the area of leadership. In looking for the easy answer to leadership challenges, all of us have been seduced by books, buzzwords, and even a few consultants into believing that the best way to figure out what action to take is to look to your left and your right, and do whatever they're doing. That's not good advice if you're trying to build leaders. Success in growing leaders is realized by understanding what your strategy demands and what your culture will support and then developing practices and processes specific to your company's needs.

Take it from Larry Hirsch, chairman and CEO of Centex, an $8 billion diversified building and related services firm. Centex is a large purchaser of products from a number of leading companies, and because of that Hirsch occasionally gets the opportunity to visit with the top leadership development people. Many have discussed their best practices with him. Some insist that what they do is universally applicable—all firms can apply these specific practices and be more successful. Hirsch doesn't buy it. According to him, "it's a matter of saying, here is a best practice. Let's take that best practice and really think how it fits our people, and what the needs of our people are." He adds, "We need to 'Centex-ize' it."

So what about all those books, conferences, and consultants saying they've found the universally best way to do "X"? Is there no truth in the concepts they present? Our perspective is that these sources offer many insights into how companies should conduct succession planning or assign leaders to developmental assignments or identify and compensate high-potentials. The challenge in sorting these out is twofold.

First, are they looking at practices consistently used by high-performing companies? We started the Top Companies for Leaders research because we saw too many examples of best practices coming from underperforming companies. One study on succession planning released a few years ago described the practices of eight large companies. Of the seven public companies on that list, all had underperformed the marketplace during the three years prior to that publication and have for the two years since. We can understand that maybe one or two companies have great practices but are showing poor financial results for other reasons. We think it's fair to ask, *if their practices for building leaders are so good, why isn't that translating into better financial results?*

Often "best practice" examples are a matter of convenience. A consultant or academic works with a number of companies over the years and decides to write a laudatory book on them. No tough questions. No rigorous analysis of financial performance. No interviewing line executives to see if any of these great processes ever made a difference to the business. Just a recitation of what these companies do. These stories might sound compelling and worth imitating. But, while drawing inspiration from them is fine, they aren't the place to look for clear direction.

The second challenge is identifying which practices are appropriate for *your* organization, *your* strategy, *your* business challenges. If you're not going to terminate, demote, or aggressively counsel the bottom 10 percent of your leadership population every year, then modeling your succession practices on GE doesn't make a lot of sense. Are you rapidly growing and likely to continue to grow for the next two to three years? Then your strategy for sourcing leaders needs to be much different than that of a more stable business. You have to find what will work for your organization and focus on executing that.

The Three Fundamental Truths of Building Great Leaders

Through our Top Companies research, we have identified a number of processes that differentiate the best from the rest. These aren't best practices per se, but they capture what we call a leadership Truth. A Truth can be thought of as an inviolable rule of building leaders—a foundation element of Top Companies. We believe that all three

Truths must be in place for a company to consistently build leadership quality and depth.

In addressing these Truths, we go beyond broad conclusions about what makes companies successful, but stop short of declaring any specific tactic the best. Instead, we provide guidance about the fundamental building blocks necessary to build a great company for leaders and provide examples of how some of our Top Companies have done this. We hope the result is a book that provides you with focused direction about the vital few processes you should build, and guidance on how to build them.

Leadership Truth #1: CEOs and Boards of Directors at Top Companies Provide Leadership and Inspiration

It seems intuitive that CEO involvement would be a critical success factor. After all, the support of senior management has proven to be critical for a wealth of corporate initiatives to succeed. But "top-down support" has become such a catchphrase in recent years, the real impact and meaning have grown fuzzy. "Involvement" takes on an entirely new meaning in the context of growing great leaders.

We heard a clear message from the Top Companies: "Without the CEO's leadership, you will not be successful." It is imperative that chief executives not only support the program, but also actively participate in it, communicate frequently about it, and provide the inspiration, passion, and necessary resources. It must have their stamp, their imprint. For example, CEOs at the Top Companies are intimately involved in their talent-review processes—reviewing top candidates and ensuring their teams conduct thorough, fair reviews of their direct reports, in order to fill key roles with top people. Fred Smith, founder and CEO of FedEx, literally "wrote the book" on leadership at FedEx, and he continues to rewrite and update it every year. When we met with Bob Nardelli, CEO at The Home Depot, he was preparing to visit every division for several days each to conduct business and talent reviews. Leadership development workshops in many companies have a guest appearance by the CEO—at Top Companies, CEOs not only are present much of the time teaching, learning, engaging, and observing, they believe the workshop is *their* forum. They own it.

This is not head-nodding, passive support. It is often a passionate, in-your-gut belief that it's one of the single most important roles for the top executive. And it is *the* way to ensure better results. For CEOs of the Top Companies, that means spending at least a quarter of their time and, in some cases, more than half their time devoted to leadership. They spend the time because they know there is a direct link to results: *Running the business is building leadership capability.*

What's more, the financial consequences are compelling: When a CEO is actively involved in leadership development, the organization averages a 22 percent total return to shareholders (TRS) over a three-year period. Without direct leadership from the top, the numbers drop to an astonishing *negative* 4 percent. Even in down times, these companies consistently outperform the market by 1 to 2 percent. Although that may not sound like much, when you look at market capitalization, it equates to billions of dollars.

Perhaps that's why board members are so dedicated to leadership development at the Top Companies. And you can bet boards will be even more active in the future, coming on the heels of legislative and regulatory reform and shareholder pressure. Highlighting a key difference between the Top Companies and others, fully 74 percent of the boards are involved in the process at these firms, meeting with high-potential leaders, getting to know them both personally and professionally, and learning to understand their career directions and how they think. This enables members to come to the next board meeting and honestly say, "I have a better understanding of the quality and depth of the leadership talent in this organization." Getting the board involved not only gives high-potential people better coaching, but it also keeps pressure on the CEO to continue doing the same.

Leadership Truth #2: Top Companies Have a Maniacal Focus on the Best Talent

It begins with a strong talent pipeline. Many of these companies have built a respected marketplace image, reputations for developing talent, and innovative and selective recruiting processes, ensuring a full and powerful pipeline. Southwest Airlines receives more than 200,000 unsolicited applicants per year; they may hire only 5,000—2 percent of those who apply.[9] Procter & Gamble brings in hundreds of interns every summer from leading business schools and hires 1,200 new grads globally each year. And they've done this for decades. The Home Depot receives several hundred thousand applications a year. They have the ability to screen applicants online or at computer kiosks in their stores and determine whether to interview the candidates even before they leave the premises. GE sells careers—not jobs—and their reputation as a leadership factory ensures them a strong talent pool from which to select several thousand recent grads annually and hundreds more from competitors, consulting firms, and the military.

These companies are not recruiting and not hiring the best and the brightest out there, but they are hiring the *best for them* and they spend a lot of time and care doing so. Once they've hired their people, they devote the same degree of time and care identifying and developing the best.

Learning that Top Companies focus on developing their high-potential talent should not be, in and of itself, particularly surprising. But they not only spend considerable time identifying and evaluating their high-potential people; they also focus heavily on matching leaders with jobs, providing cross-functional experiences and global or regional assignments that promote strong development. They invest in discovering what matters in preparing people for certain roles. IBM, for instance, not only understands the critical experiences needed for developing candidates for key jobs, but also understands the *sequence* in which these experiences should occur.

On-the-job development is preferred over traditional classroom training because it's rooted in the company's culture (how things are done) and because the learnings are practiced by definition (it's not theory if you're actually doing it). Leaders are matched to new jobs based on development needs identified in the performance-management or succession-planning process. These firms don't just put leaders into jobs, they explain the rationale behind an assignment, describing the specific skill or capability being developed. The company also provides an on-boarding plan that plots out what the high-potential employees need to accomplish at 30, 60, and 180 days and tells them what relationships they need to build during that time period. On-boarding is a popular tactic among Top Companies (74 percent), but used infrequently by others (33 percent).

Sometimes when we explain these developmental moves to others, people get the wrong impression. Make no mistake—these are tough, challenging assignments with difficult goals. These companies intentionally take leaders out of their comfort zone and stretch them to test their capabilities and their capacity to grow. And while support is provided—unlike the Darwinian sink-or-swim models we see in some companies—there is tremendous challenge and pressure to succeed. Being a high-potential in the Top Companies often means you're held to a higher standard.

Top Companies don't pull any punches. Nearly all tell their best talent that they are, in fact, their best talent. While some organizations prefer to keep quiet when it comes to telling high-potentials that they are high-potentials, Top Companies are often up-front with this key population, informing them not only of their status and its benefits, but also of what the designation *doesn't* mean. It doesn't mean they're on the fast track to CEO, for example, or that their status is carved in stone. "Potential" means just that.

Top Companies also recognize the immense value these people bring to the organization. Studies have consistently shown that top performers produce in value at least 100 to 150 percent more than average performers in similar jobs. People who fall into this category should have compensation opportunities significantly above their lesser-performing peers. If they see only 5 percent pay increases, it isn't particularly motivating. In fact, a recent Hewitt study showed the average differentiation for high performers was a relatively insignificant 10 percent. Better compensation isn't an option—no pun intended—it's critical. All of the Top Companies differentiate pay between high-potentials and average performers in the same role. This frequently entails at least 75th percentile pay and perhaps even as high as 90th percentile pay. While that may sound excessive, it's still quite a bargain when you consider the value that these star performers bring to the table.

Leadership Truth #3: Top Companies Put into Place the Right Programs, Done Right

Many firms can build good leadership development programs. However, even the most soundly designed leadership practices can be undermined by inconsistent implementation or lack of integration with other leadership processes. What sets the best firms apart from the rest is not just careful design of the right processes but a relentless dedication to executing these processes flawlessly. From selecting leaders to developing and rewarding them, organizations known for consistently producing great bench strength ensure that every piece of the leadership puzzle fits with the next. In doing so, they create interlocked leadership practices that reduce HR costs, create less cynicism around the process, and make them stronger competitors for leadership.

The best firms also align leadership processes to reinforce the same core behaviors. The behaviors emphasized to a potential leader during recruitment are the same ones reinforced in performance management, professional development, and annual incentives. They understand the vital few behaviors in their company and use every leadership practice they have to reinforce those key behaviors.

Even more importantly, many of these processes are integral to running the business. At companies like GE, IBM, Honeywell, and The Home Depot, talent assessments, development, and succession planning are intertwined with discussions of strategy and operations. It's no tangential exercise.

In our book *Human Resources in the 21st Century,*[10] which we edited with Marshall Goldsmith, several contributors posited that the future value of HR—indeed, the very viability of the function—rests in its ability to integrate its activities more directly into the heart of the business much like supply-chain, technology management, and customer-relationship management have done. Each of these critical processes is a reinvention of a predecessor function that was necessary but of marginal value. Over the last decade, using technology and revamping tired, disconnected systems, these processes have become core to the modern enterprise.

At Top Companies, managing and developing talent is *running the business.* Strategy—where the company is headed, the products and services offered, and markets served—and operations—how decisions are made, and the infrastructure, systems, and processes to support the strategy—are inseparable from the talent needed to do both. In Top Companies, HR builds the systems and processes, but the line *drives* it.

"One of the real differences between Colgate and other companies is that the whole leadership-development program is facilitated by HR but driven by the line," says Colgate-Palmolive's chief operating officer Lois Juliber. "I think that's very important . . . The line owns leadership development, we work with HR to get all the tools, and they put in place the mechanisms. But if the line doesn't own it, it's not going to happen."

These firms have found that the secret to a functionally great design is to design for executives. Including line managers in design sessions, keeping bureaucracy to a minimum, and focusing on getting the results you need dominate these firms' practices.

The result is a company with a reputation as a place where leaders want to work—a leadership brand that will ultimately separate the winners from the losers in the battle for leadership talent. The fact is, for the best talent, it's always a seller's market, and they can pick and choose from the best available opportunities. Those organizations that have cultivated a strong leadership brand will be far better positioned to attract and retain top leadership talent.

But There's More

The three Truths are important, but they don't quite capture all of it. There's more. There are a number of subtleties, nuances, an intensity and pervasiveness of feeling, small patterns that account for some substantial differences between Top Companies and those below them. In Chapter 2 we describe the importance of the CEO and the board in developing great leaders, but it goes well beyond them—everywhere you turn, the importance of finding and developing talent permeates the organization. It's a way of operating. Leaders and managers willingly give up their best people to grow the organization, to build capability. They regularly take calculated risks—individually and organizationally—to move people out of their comfort zones to test new skills, strengthen others, and build the confidence needed for senior executive roles. This movement of talent across businesses, functions, and geographies creates a powerful web, a network that facilitates learning, a connectivity that fuels speed and communications, and a pride in the larger whole, not just its parts. Individuals develop strong ties and a desire to give back to the organization and to the people who helped them and took the time to coach, support, and provide opportunities for them. In Chapter 5 we attempt to capture these powerful and enduring intangibles.

Commitment 1, Size 0

Some readers may feel they simply don't have the resources needed to build strong leaders—they may not have the deep pockets of a *Fortune* 500 company, for example. One of the findings from our research is that company size has little to do with the ability to successfully build leaders. In some ways, being small is an advantage.

Succeeding is more a matter of commitment than resources. The involved CEO and board have little to do with the size of an organization. In fact, in a smaller company, board members may have more time to spend getting to know high-potential leaders. In many of the mid-sized organizations we work with, the CEO is much more involved with high-potential leaders because there are relatively fewer of them. Large or small, at the end of the day, a company's success is a factor of the CEO's and the board's commitment to making this work.

Growing high-potential talent at a small or mid-sized firm may not involve global assignments or formal rotation programs—the organization may not be large enough. The goal is to broaden a leader's perspective on the business and its environment. Leaders can get experience through special assignments, through greater exposure to customers or suppliers, or by ensuring the leaders' jobs are as broad as possible. Larger firms may have a few more opportunities to provide richly challenging assignments, but that leaves plenty of other options for smaller and mid-sized firms to grow their top talent.

One area where smaller firms hold a competitive advantage is in the design and integration of leadership practices. It's likely that the level of complexity and the number of approvals needed to roll out a new process are significantly less in these firms. In addition, there aren't likely to be entrenched bureaucracies in any of the HR functions advancing their parochial views of best practices.

In short, not being a *Fortune* 500 company provides as many advantages in the quest to build great leaders as disadvantages. What allowed the Dells, FedExes, and Microsofts of the world to each establish a beachhead in their industries when just starting out was not sophisticated programs, but the commitment and high standards to have the best possible leaders.

Translating Strategy into Action

In the chapters that follow, we will delve into these Truths in far greater detail, supported by rich, real-life experiences of organizations known for producing top leaders. You'll go behind the scenes and learn what strategies have proven successful for companies like IBM, Microsoft, GE, Colgate-Palmolive, and Johnson & Johnson, as they've built their capabilities—and their reputations—for growing great leaders. However, this book was not written to provide inspirational reading or serve as another collection of best practices. While case studies provide valuable information that can aid other organizations in their own efforts, the fact remains that there is no such thing as a one-size-fits-all leadership development program.

Chapters 2–5 focus on what we learned from Top Companies.

These chapters are organized around the three Truths and the intangibles that are so powerful in making Top Companies effective at building leadership capability. In Chapter 6, we shift to providing more direction for identifying the leadership capabilities you need and the process for building them. Chapter 7 is a peek into the future—the challenges, opportunities, and solutions that lie ahead. And in Chapter 8, we tie much of the book—its themes, the future, and action—together. The Toolkit in Appendix B provides more tools, checklists, and strategies for turning ideas into action.

Rather than suggesting readers copy what other companies have done, our advice is to read and understand the essence of each leadership Truth, thinking about how you would apply this Truth in your organization. Use the stories and case studies to stimulate your thinking and identify possible challenges. Then use the Toolkit to start creating concrete action plans to lead your company down the road to building and sustaining great leadership talent.

IN SUM

The Gist of It

Growing great leaders has become increasingly important, but clear guidance doesn't exist for organizations with this goal. Our extensive research clearly shows that three leadership Truths separate the companies that consistently grow great leaders from those that don't. These Truths are as follows:

1. CEOs and boards of directors at Top Companies provide leadership and inspiration.

(continued)

2. Top Companies have a maniacal focus on the best talent.
3. Top Companies put in place the right programs, done right.

Facts

- The population of “key-leader-age” individuals will drop 15 percent from 2000 to 2015 in the United States; similar trends will affect most developed countries.

- Companies where CEOs are involved in leadership processes delivered a three-year TRS of 22 percent versus a TRS of –4 percent where they weren’t involved.

Quote

> *“Let’s take that best practice and really think how it fits our people and what the needs of our people are.”*
>
> *—Larry Hirsch, chairman and CEO, Centex*

Consider

- What changes are foreseen in your industry and how does this impact the capabilities you’ll need from your leaders?

- Are your practices for growing leaders specific to your company’s needs versus “best practices”?

- How committed are you and the top leaders in your organization to creating a sustainable flow of great leaders?

NOTES

1. Jennifer Reginald, "Headhunting 2000," *BusinessWeek,* 17 May 1999, 74.

2. Women in Leadership & Learning, "Why WILL," http://www.leadershipforwomen.com/whywill/index.html (accessed by 2003).

3. Challenger, Gray, and Christmas, "CEO Departures Increase, Survey Says," *East Bay Business Times,* 1 July 2002.

4. "Study Finds Number of Chiefs Forced to Leave Jobs Is Up," *The New York Times,* 12 May 2003, p. C2.

5. Eileen Zimmerman, "To Veer in Midcareer, Away from the Money," *The New York Times,* 18 May 2003, sec. 3, p. 13.

6. Ed Michaels, Helen Handfield-Jones, and Beth Axelrod, *The War for Talent* (Boston: Harvard Business School Press, 2001).

7. "The 20 Best Companies for Leaders," *Chief Executive Magazine,* June 2002, pp. 25–31 and "In Search of Leaders," *Chief Executive Magazine,* October 2003, pp. 24–30.

8. See Jeffrey Pfeffer and Robert I. Sutton, *The Knowledge-Doing Gap: How Smart Companies Turn Knowledge Into Action* (Cambridge: Harvard Business School Press, 1999).

9. Selena Maranjian, *"Southwest Airlines: A Stock for Mom,"* http://www.fool.com/specials/2001/sp010508b.htm (accessed by May 2001).

10. See, e.g., Stan Davis, "Is This the End of HR?" in *Human Resources in the 21st Century,* ed. Marc Effron, Robert Gandossy, and Marshall Goldsmith (Hoboken, NJ: John Wiley & Sons, 2003).