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Make Your Company a Talent Factory

by Douglas A. Ready and Jay A. Conger

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Despite all that is known about the importance of developing talent, and despite the great sums of money dedicated to systems and processes that support talent management, an astonishing number of companies still struggle to fill key positions—which puts a considerable constraint on their potential to grow. We conducted a survey of human resources executives from 40 companies around the world in 2005, and virtually all of them indicated that they had an insufficient pipeline of high-potential employees to fill strategic management roles.

The problem is that, while companies may have talent processes in place (97% of respondents said they have formal procedures for identifying and developing their next-generation leaders), those practices may have fallen out of sync with what the company needs to grow or expand into new markets. To save money, for example, some firms have eliminated the position of country manager in smaller nations. Since that role offers high-potential employees comprehensive exposure to a broad range of problems, however, the company's initial savings may well be outweighed by the loss of development opportunities.

Even if a company's practices and supporting technical systems are robust and up to date, talent management will fail without deep-seated commitment from senior executives. More than half the specialists who took part in our research had trouble keeping top leaders' attention on talent issues. Senior line executives may vigorously assert that obtaining and keeping the best people is a major priority—but then fail to act on their words. Some managers still believe they can find talented employees by paying a premium or by using the best executive recruiters, while others are distracted by competing priorities. Passion must start at the top and infuse the corporate culture; otherwise, talent management processes can easily deteriorate into bureaucratic routines.

The challenge of filling key positions has, in a sense, crept up on businesses, many of which used to view development almost as an employee benefit. Today, demographic shifts—notably, the impending retirement of baby boomers—along with changing business conditions, such as significant growth in largely unfamiliar markets, like China, have combined to produce something of a perfect storm. Leadership development has become a much more strategic process, and faulty processes and executive inattention now carry a tangible cost. We've attended multiple executive committee meetings where companies have been forced to pass on hundreds of millions of dollars of new business because they didn't have the talent to see their growth strategies through to fruition. One London-based real estate finance and development firm, for instance, was gearing up for a major reconstruction job in Berlin—an effort that would represent not only a €500 million boost in revenues over two years, but also an opportunity to get in on the ground floor of many other projects in that part of the world. When the executive committee reviewed the list of people who might be ready to take on such an assignment, the CEO noticed that the same names appeared as the only candidates for other critical efforts under consideration. And when he asked his business unit heads for additional prospects, he was told that there weren't any. The firm's growth strategy hinged on these projects, but the company had failed to groom people to lead them.

Some companies, by contrast, face the future with confidence because they don't just manage talent, they build what we call "talent factories." In other words, they marry *functionality*, rigorous talent processes that support strategic and cultural objectives, and *vitality*, emotional commitment by management that is reflected in daily actions. This allows them to develop and retain key employees and fill positions quickly to meet evolving business needs.

Consider, for example, how one talent factory, consumer products icon Procter & Gamble, found a leader for a burgeoning joint venture with an entrepreneur in Saudi Arabia. The role required someone with emerging markets experience, who had worked in other countries and in the laundry detergent business, and who was ready and willing to relocate on short notice to Saudi Arabia. For most companies' HR departments, finding and hiring such a senior manager would entail protracted dialogue with internal and external candidates and might well end in failure. P&G, however, searched its global database of talent profiles and came up with five very strong potential candidates in just a few minutes. In the end, they found just the right fit, and the new manager was fully on board three months after the start of the search.

In this article, we look at the people processes in two talent factories: Procter & Gamble and financial services giant HSBC Group. We selected these companies because even though they approach talent management from slightly different directions, both illustrate the power of a twin focus on functionality and vitality. P&G has established a plethora of elaborate systems and processes to deploy talent; HSBC has worked mightily to incorporate talent processes into the firm's DNA. Both companies can claim a free-flowing pipeline of current and future leaders.

Functionality: Effective Execution

Functionality refers to the processes themselves, the tools and systems that allow a company to put the right people with the right skills in the right place at the right time, as P&G did in Saudi Arabia. Good design isn't just a matter of technical excellence; clearly linking processes to the company's objectives is equally important. In particular, processes should support most CEOs' top concerns: driving performance and creating an effective climate.

So, for example, after years of growth through acquisition, HSBC in 2002 shifted its strategy to focus on organic growth. The goal was to strengthen local resources in multiple geographies for the firm's increasingly global customers. Achieving this objective required an accompanying cultural shift, since HSBC had always operated as a confederation of fiercely independent, stand-alone businesses. As part of the move, the bank committed to a new brand promise: to be "the world's local bank," guaranteeing the availability of a local resource for customers, wherever they do business. Stephen K. Green, HSBC's chair, views performance and climate as inextricably linked: "If we don't create the proper climate internally and live up to our brand promise, we won't be able to achieve our strategic objective—managing for growth."

To develop local talent while maintaining global standards, HSBC centrally designed its human resources practices and policies but

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built in some flexibility to accommodate local variations. The firm now has companywide processes for assessment, recruiting, performance and career management, and leadership development, but local offices can adapt them (within limits) to their own resource capabilities and cultural requirements. When making assessments, for example, each office must choose at least two from a menu of tools, such as psychometric tests, individual interviews that probe people's aspirations, and 360-degree feedback. They must also use a standard rating scale and include performance data from the most recent three years. This way the company can ensure a degree of objectivity and establish a common measurement language across all the businesses and locations.

To help instill a global mind-set, HSBC created a system of talent pools that track and manage the careers of high-potentials within the firm. After those employees have been identified, they are assigned to regional or business unit talent pools, which are managed by local human resources and business unit leaders. Employees in these pools are then selected initially for new assignments within their region or line of business and, over time, are given positions that cross boundaries. They are viewed as having the potential to reach a senior management role in a region or a business. Managers of the pools then single out people to recommend for the group talent pool, which represents the most senior cadre of general managers and is administered centrally. These managers are considered to have the potential to reach the senior executive level in three to five years and top management in the longer term.

Leaders maintain talent relationship dialogues with members of each pool, in face-to-face conversations where possible, to address their development needs and concerns. In new relationships, the dialogues are time intensive and available to the employee on demand; in established relationships, the conversations tend to occur two to four times a year, as needed. The aim is to structure a set of experiences that leads to a deep knowledge of all aspects of the business as well as an understanding of the many different cultural environments in which HSBC operates.

In fact, people are told that if they want to reach the highest levels of management they must expect to work in at least two very different cultural environments. The number of people making such moves has increased exponentially over the past few years. "We have a Brazilian working with one of our affiliates in China, our insurance affiliate," Green told us. "We have an Armenian working in India in the IT function, a Turk working in New York. There are…hundreds and hundreds of examples of this." Green acknowledges that this approach is expensive—it's nearly always cheaper to fill a role with someone local—but considers it a vital investment in achieving the firm's global goals.

HSBC is still tweaking the process. The bank learned, for instance, that assessing each employee on a scale of one to five was demoralizing for some people, so it modified the process to rate only people in the top two levels of some areas. Feedback for the rest is framed in terms of development needs and support, rather than "you haven't made it into a talent pool." This change takes into account early-stage career development, which entails gaining a certain amount of expertise before a person is ready to advance.

HSBC also learned that, talent pools notwithstanding, leaders of the local units still behaved as princes of their domains—they weren't connecting across units in ways that would benefit the firm overall. In short, the model of international teamwork was still more an aspiration than an operating principle. To close this gap between aspiration and reality, HSBC resolved conflicts in its reward system and took steps to build relationships on a more personal basis. So, for example, the top executive team launched what it called collective-management conferences, where employees could learn about the company's strategic objectives and operations around the world—another way to help people feel like part of an organization that extends beyond their own unit or locale. Each conference is attended by about 40 senior managers, who have been nominated by their country, functional, or customer group leader because they've demonstrated a potential for growth and because their roles have policy implications across the enterprise.

These meetings, which are held twice per year, have become a vehicle for senior people in the company to share knowledge and ideas across corporate borders and customer groups. During one conference, the general

Mapping Functionality and Vitality

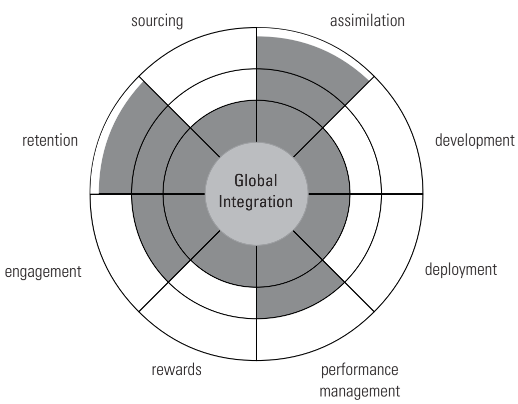
The functionality and vitality of your company's talent management processes determine how well you can groom your high-potential employees to fill strategic management roles. To show how to assess these processes, we've mapped the strengths and weaknesses of a typical, though hypothetical, company. In this example, the organization is pursuing a "one company" strategy, hoping to achieve better global integration. In other words, it wants to be able to serve its customers anywhere they do business. Clearly, this requires a talent pool that can easily move across regional, functional, and unit boundaries, as well as the capacity to find and develop local talent "on the ground."

The Functionality Wheel shows that this firm is weak on sourcing, deployment, development, and rewards; better at retention, assimilation, performance management, and engagement. The firm may be able to keep its local talent happy and productive, but it struggles to place people in key positions or move them across unit or geographic borders.

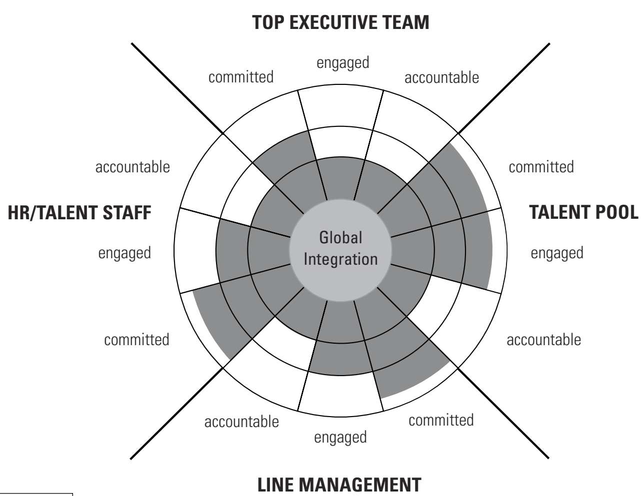
Corporate vitality is manifested by the passion for talent management among four constituencies: the top team, line management, human resources, and talent itself. As the Vitality Wheel shows, this company neither champions the process nor holds other key stakeholders accountable for developing talent. Despite high commitment, all the segments in this firm are weak on accountability, and the top team is weak on engagement as well. Since a company's talent management process is only as strong as its weakest link, and vitality falls apart without mutual accountability, this company plainly has a lot of work to do.

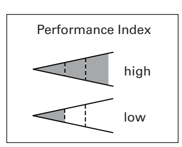
Identifying weaknesses in functionality and vitality can help a company clarify its talent management agenda. If this organization wanted to grow in China, for instance, it could improve its sourcing by developing relationships with Chinese universities.

The Functionality Wheel



The Vitality Wheel





The Functionality Wheel, on the left, shows that this company's processes are weak on sourcing, development, deployment, and rewards; better when it comes to retention, assimilation, performance management, and engagement. The Vitality Wheel, right, demonstrates a high level of commitment, but engagement—the inclination to dig into the work of talent management—is low among top managers. As for accountability, the company is weak across the board.

manager for Mexico told his colleagues how he managed to rebrand a recent acquisition, Grupo Financiero Bital, literally overnight. His story shed light on the value of collaborating across company boundaries. At another gathering, one of HSBC's senior executives explained how acquiring the U.S. firm Household International gave the organization much deeper capabilities in customer analytics and buying behavior. During yet another meeting, a couple of general managers explained how they built on their preexisting relationship to ease the transfer of a client from commercial banking to private banking. (In the past, the client would have been jealously guarded because his profitability would have been attributed to whichever group "owned" that customer.) After each conference, participants are asked to commit to doing one or two things differently to strengthen the firm's collaboration capabilities.

The company also established networks across countries, so that, for instance, the head of personal financial services in Hong Kong knows her counterpart in Mumbai, in Mexico City, in São Paulo, in Vancouver. These networks allow executives to participate in important virtual meetings on a regular basis for each line of business and provide them with opportunities to gather face-to-face in occasional off-site meetings.

Like HSBC, Procter & Gamble has tied its talent management processes to its strategy for growth, which means a focus on winning in the emerging markets of China, India, Latin America, the Middle East, and Eastern Europe. The company is building what amounts to a global talent supply-chain management process, coordinated worldwide but executed locally. Hiring and promotions are the responsibility of local managers, but high-potential prospects and key stretch assignments are identified globally.

New hires tend to be local talent. Line managers in China, for instance, hire Chinese recruits. That's been the case for some time, but it used to be that key corporate roles in emerging markets went to expatriates. Now, local hires are considered growth prospects for the firm; those Chinese recruits are expected to become managers in that market. Key stretch assignments and senior positions, however, are managed globally, at the executive level. The emphasis on hiring nationals translates into a diverse pool of leadership talent for the entire corporation, especially at more senior levels: At the geography and country leader level, there are almost 300 executives who come from 36 countries, and 50% are from outside the United States. The top 40 executives come from 12 different nations, and 45% are from outside the United States. As high-potential employees advance, they move through a portfolio of senior-level jobs that are categorized according to strategic challenges, size of the business, and complexity of the market. Leadership positions for businesses or countries are earmarked for either novice or experienced general managers. A relatively small country-manager position—in Taiwan, for instance—is considered appropriate for first-time general managers. Such assignments then set up the incumbents for placement in larger countries, like Italy or Brazil, which in turn can lead to roles in clusters of countries, such as Eastern Europe or the United Kingdom. Those last roles then become springboards or crucibles for leaders who demonstrate the potential to become senior executives.

P&G offers formal training and development programs and sometimes sends managers to external executive education programs. The lion's share of development, however, takes place on the job, with the immediate manager's support and help from mentors and teammates. A typical marketing manager, for example, will have worked with a number of different brands over a period of time. A finance manager will have gone through various assignments, ranging from financial analysis to treasury to auditing to accounting. Most managers are also placed on important multifunctional task forces or project teams from time to time. New postings and task force participation are expected to challenge employees, and they signal to managers that P&G will always offer new opportunities.

Consider the career progression of Daniela Riccardi, who has been with the company for 22 years. She started as an assistant brand manager in Italy, where she stayed for six years, advancing to brand manager. A three-year stint in Belgium as a marketing manager for cleansers and bleach followed. She then spent seven years in three Latin American countries, holding the positions of marketing director, general manager, and vice president of ever-larger divisions. From there, she became a vice president

Assessing Your Company's Overall Capability

To get a sense of your company's current capability, rate its strength on a scale of one to ten in the following areas. Then, write down one thing you will do to address any weakness. Your ratings will give you an idea of the areas you need to focus on.

		We're poor performers			We're OK, but nothing to cheer about				We're at or near benchmark status		
1	Do you know what skills your company needs to execute its growth objectives?	1	2	3	4	5	6	7	8	9	10
2	Does your company have a process for identifying, assessing, and developing its next generation of leaders in all its businesses and regions?	1	2	3	4	5	6	7	8	9	10
3	Do you have specific development plans for your high-potential leaders?	1	2	3	4	5	6	7	8	9	10
4	Are you able to deploy the right people when emerging opportunities arise, quickly and without significant disruption to other parts of your organization?	1	2	3	4	5	6	7	8	9	10
5	Do you have diverse and plentiful pools of talented employees who are ready, willing, and able to be deployed to new opportunities at the technical, managerial, and leadership levels of your organization?	1	2	3	4	5	6	7	8	9	10
6	Do you have a diverse and plentiful pool of leaders who are capable of moving into your organization's most senior executive roles?	1	2	3	4	5	6	7	8	9	10
7	Do you offer managers and executives developmental experiences specifically aimed at preparing them for the unique challenges of leading large, complex, global organizations?	1	2	3	4	5	6	7	8	9	10
8	Have you, as a leader, used words and deeds to unequivocally demonstrate that you are fully committed to developing talent globally in your company?	1	2	3	4	5	6	7	8	9	10
9	Would the people around you consider you actively engaged in your company's talent management initiatives?	1	2	3	4	5	6	7	8	9	10
10	Do you hold your managers and leaders accountable for identifying and developing talent in their businesses, functions, and regions?	1	2	3	4	5	6	7	8	9	10

After each question: What will you do to strengthen your company's capability in this area?

Unlike processes, which can be copied by competitors, passion is very difficult to duplicate. Nevertheless, there are measures that companies can take to build it into their cultures.

of Eastern Europe, and in 2005, she was promoted to her current position—President, Greater China. When the development of a career like Riccardi's has to be managed across business units and countries, the planning process is led collaboratively from the center by the company's CEO, A.G. Lafley; the vice chairs; the global HR officer; and the global leaders of the various functions for their people. All this is done in partnership with the president and human resources manager at both ends of the reassignment.

People and positions are tracked in a technology-based talent management system that is sufficiently robust to accommodate all the company's more than 135,000 employees but is primarily used to track 13,000 middle- and upper-management employees. The system captures information about succession planning at the country, business category, and regional levels; includes career histories and capabilities, as well as education and community affiliations; identifies top talent and their development needs; and tracks diversity. It also makes in-house talent visible to business leaders, who no longer have to scour the company to find candidates by themselves. To keep the systems relevant, P&G has instituted a global talent review—a process by which every country, every function, and every business is assessed for its capacity to find, develop, deploy, engage, and retain skilled people, in light of specific performance objectives. For example, if the company has stated diversity hiring objectives, the review is used to audit diversity in hiring and promotions. Determinations made in these reviews are captured in a global automated talent development system and can be accessed by decision makers through their HR managers.

The company also pays close attention to the effectiveness of its recruiting processes. P&G interviewers record detailed assessments of each candidate and assign them a quantitative score, using uniform criteria. The company then regularly assesses performance against the baseline set during the interviews. P&G also evaluates the success rate of its key promotions, using quantitative and qualitative measures that cover a three-year period. Managers who improve the business and its capabilities are deemed "successful"; the company has a success rate that exceeds 90%. When derailments occur, P&G conducts a thorough "lessons learned" review.

Vitality: The Secret Weapon

If functionality is about focusing your company's talent management processes to produce certain outcomes, vitality is about the attitudes and mind-sets of the people responsible for those processes—not just in human resources but throughout the line, all the way to the top of the organization. Unlike processes, which can with some effort be copied by competitors, passion is very difficult to duplicate. Nevertheless, there are measures that companies can take to build it into their cultures. Our research shows that the vitality of a company's talent management processes is a product of three defining characteristics: *commitment, engagement,* and *accountability*.

Fostering commitment. P&G hires and develops people through a set of principles—such as the rules to hire at entry level and build from within—that are specifically designed to foster commitment. While people typically have long careers with the company, the average age for all employees is only 39; 38 for all managers. More than half the organization has been with P&G for less than five years. That's because the company constantly pumps in new talent and has integrated huge numbers of people through its acquisitions of Clairol, Gillette, and Wella. So, even with the relatively low attrition rate of 7.5% (including retirements), more junior managers are always coming in. P&G hires 90% of its entry-level managers straight from universities and grows their careers over time. (The relative youth of the workforce may also reflect that this approach often allows for retirement earlier than usual.) All the vice chairs and corporate officers either joined the company from universities or arrived via acquisitions. Lafley himself joined P&G right out of Harvard Business School and, over the subsequent 25-plus years, went through numerous assignments before becoming CEO.

To gain commitment early, the company also established a college intern program that offers the chance to assume real responsibility by working on important projects with the full resources of the company. Extensive intern programs can be a drain on an organization because of the time that managers must spend sponsoring, coaching, and advising the interns. P&G, however, converts former interns to full-time employees at a percentage well above that of most competitors, so the company is compensated for its investment with high-quality hires who can hit the ground running. It also assigns interns to multifunctional teams that work on business and organizational issues and present solutions to the CEO and senior management sponsors. The company often ends up implementing the suggestions those teams come up with. One of the four ideas presented in 2006, for instance, may result in accelerating the launch of a new brand; two other projects have been partially implemented.

At HSBC, commitment to talent is personified by Green, who explains, "There is nothing more important than getting this right…all the way from intake through the most influential senior positions." Line executives participate directly in the process, partnering with the central and regional HR functions to fill important positions.

Building engagement. Engagement reflects the degree to which company leaders show their commitment to the details of talent management. P&G engages employees in their own career development the day they start with the company. They work with their hiring managers to plot moves that will build what the company calls "career development currency." For high-potentials, P&G identifies "destination jobs," which are attainable only if the employee continues to perform, impress, and demonstrate growth potential. The purpose is to view job assignments through a career development lens. For instance, a manager whose destination job is to become a president of one of P&G's seven regions will go through assignments in different locations to acquire international experience and work in a global business unit with responsibility for a major product category.

University recruiting is a line-led activity at P&G, and many senior managers personally lead campus teams at top universities around the world. These executives are held accountable for hiring only graduates with outstanding track records in both academic and nonacademic performance (such as summer jobs, clubs, and entrepreneurial activities). To bolster ties with these institutions, the campus team leaders also fund research, make technology gifts, participate in the classroom, and judge case study competitions.

As for HSBC, a conversation with Green makes his engagement immediately clear. Green has a remarkable knowledge of the company's day-to-day people processes and can speak at length about how the company approaches recruitment, where managers are deployed, how their careers are progressing, and what they will need to do to continue advancing. Down through the ranks, line engagement in talent management is ensured by specific policies and practices, such as the requirement that each unit have a talent implementation strategy. These plans explicitly link a unit's growth objectives to its people development, so the company won't be surprised by any deficits. Barbara Simpson, HSBC's group head of talent, works closely with each unit to develop its proposal and presents the aggregated plans to the group head office, highlighting any gaps in talent to meet the firm's growth objectives. This process keeps talent management high on the agendas of line and corporate leaders and prevents them from getting distracted by seemingly more pressing problems. What's more, talent management, succession planning, international moves, and senior-executive development are standing agenda items at meetings of business executive committees and the group's board.

The bank fosters engagement in new hires by sending them to the United Kingdom for a seven-week training program, typically in groups of 30 to 40, whose members represent about 20 nations. At these sessions, held several times a year, new employees have a chance not just to meet one another and members of the leadership team—Green or his most senior colleagues spend some time with them—but also to share their own ideas about the bank.

Ensuring accountability. Talent factories hold all stakeholders (including talented employees themselves) accountable for doing their part to make systems and processes robust. At P&G, Lafley claims ownership for career planning of all the general managers and vice presidents and for the talent pools that comprise what he refers to as the company's "top 16s": P&G's preeminent 16 markets, 16 customers, and 16 brands. He reviews the top talent assignment and succession plans for each business and region annually.

Any company aiming to grow—and, in particular, to grow on the global stage—has little hope of achieving its goals without the ability to put the right people on the ground, and fast.

Along with the company's vice chairs and presidents, he personally sponsors and teaches all the leadership development courses for the company's most senior 300 leaders, signaling that talent management is both a leadership responsibility and a core business process. All of P&G's managers and executives understand that they will be held accountable for identifying and developing the firm's current and future leaders. They are evaluated and compensated on their contributions to building organizational competence, not just on their performance.

HSBC's Green holds his group management board, which comprises about a dozen executives, accountable for the company's talent pools. Each member is responsible for a region, a customer group, or a product. Members oversee the list of people in their own business in the regional talent pool as well and select managers for the group pool.

Executives are also held accountable for maintaining honesty in the talent management process, which is easier said than done, says Green. "We've had people who got into talent pools who shouldn't have. You can either let it ride, or you have that hard conversation saying, 'Sorry, this wasn't right,' or 'You were a legitimate member of the talent pool but you started to coast and lost it a bit.' You don't do people a favor by being nice all the time."

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Leaders have long said that people are their companies' most important assets, but making the most of them has acquired a new urgency. Any company aiming to grow—and, in particular, to grow on the global stage—has little hope of achieving its goals without the ability to put the right people on the ground, and fast. Companies apply focus and drive toward capital, information technology, equipment, and world-class processes, but in the end, it's the people who matter most.

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