Putting your leaders where it counts

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Companies that systematically and continuously put the right leaders in the right jobs outperform companies that don't – by a wide margin. In this article, the authors argue that chief executives must recognize and act on the consequences of how they deploy their best managers.

The subject of leadership doesn't get the attention it deserves. Granted, there's no shortage of literature on the need for better business leadership in general, but there's little to explain what it really takes to make it happen.

According to studies by management consultancy Bain & Company, chief executives must embrace three big ideas if they are to sharpen the caliber of their leadership teams. They must develop a clear idea of what really drives a company's value. They have to better understand what a fully developed leadership-development program looks like and how it creates value. And they must shine a bright spotlight on one aspect in particular: leadership deployment.

There are tough consequences to not getting it right. Earlier research by Bain shows that companies that wholeheartedly practice leadership management gave their shareholders a 10 percent per year better return than those that had done nothing and 5 percent per year better return than the firms that had made an average effort. It's one thing to have a brilliant strategy worked out, but it's all rather moot unless you have the right managers in the right roles to put the strategy into play.

Yet almost 80 percent of executives feel they spend less time improving their company's leadership than they think they should – with most admitting they spare no more than half the hours they think it should take.

There is broad agreement that top-notch leadership correlates with above-average corporate performance. But the standard responses tend to be loud calls for hiring "the best and brightest" from the world's premier universities and management schools, and more investments in training. (In some cases, training runs as high as 10 percent of payroll costs.) And some organizations – armed with thick reports from behaviorists and assorted human-resources experts – put extra emphasis on "performance management" to gauge ability and motivate for excellence.

Focusing upon leadership deployment as opposed to leadership development could produce more spectacular results.

Those responses are absolutely valid. But they're incomplete. There's much more to leadership development than a well-funded "corporate university" or a Harvard MBA recruitment program – as the struggles of many organizations to realise their full potential should indicate.

Let's step back for a moment and look at what a good leadership-development initiative entails. It is led and championed by the chief executive. (Nearly two-thirds of executives say that a CEO's top job is to ensure a steady supply of the best management talent, according to a recent Bain poll.) It must stem from a clear business strategy that helps establish the corporate vision and identify the key sources of value. Then performance objectives can be set, along with a plan for the resources needed to meet the objectives. The leadership strategy then breaks down into three elements, all of them necessary, and all working in concert:

1 Supply: identifying, developing, and retaining talent, through internal training and external recruitment.

2 Fulfilment: motivating individuals to perform and succeed in challenging roles aligned to the organization's strategic goals.

3 Deployment: positioning the right people in the right jobs, all the time.

The first element, leadership supply, has been the subject of big studies in recent years, and rightly so. But in our opinion, the spotlight on supply obscures two important points. Of the three elements, leadership supply does indeed have the greatest impact on value – but its impact becomes clear only over the long-term. Second, all the long, hard work of identifying, attracting, and developing quality leaders can be squandered if they're not in positions that add value.

The second and third elements yield faster results. The fastest payback comes from leadership fulfilment initiatives. They focus on four key drivers of value: aligning individual performance targets with the strategic direction of the firm; embedding objective measures of individual performance and development potential; giving the bigger rewards to the high performers; and creating a culture that drives high performance while strengthening individual loyalty to and affinity with the firm. Of course, the very best leadership fulfilment program is of scant value unless you have the right people to start with.

It's the third element – leadership deployment – that is most often overlooked. Deployment is essentially the continuous process that binds leadership supply and leadership fulfilment; it takes the best talent produced by a strong supply initiative, and positions the individuals in roles that create the greatest value and impact for the firm. It doesn't deliver results as quickly as fulfilment, but it pays back more rapidly than leadership supply programs.

Deployment acknowledges that things change; individuals' motivations and performance can shift significantly, and most companies' priorities change constantly. A top manager may have been the right person for the job yesterday – when the company was growing fast, say. But the manager, although

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holding the same title in the same role, may not be the right person for that role tomorrow as the organization confronts industry slowdown and consolidation, for example. Without an appropriate system of deployment and redeployment, having the "right people with the right intentions" will not ensure that the organization gets the results its shareholders require.

Why does deployment work so well? Because each individual can have a huge impact when matched to the right role. Businesses will often make the mistake of placing strong talent to shore up struggling operations that have little or no potential. Or they let weak players stick around in high-performance, high-potential divisions, where their mediocrity is obscured by the operation's success. If instead they placed the top talent in the high-potential operations – where real economic value is being added – they'd gain from a significant "swing factor."

Such mismatches conceal more worrisome effects. Misplaced stars will struggle in weak operations, typically earning smaller bonuses and getting so frustrated that they quit. On the other hand, misplaced mediocre performers in strong divisions will often earn rewards that they really don't deserve if their overall contribution to economic value-added is the benchmark.

Two stories are instructive. In the late 1990s, Marks & Spencer had an aggressive growth strategy and arguably the right team to deliver the results. But the UK-based retailer clearly positioned its top players inappropriately as its circumstances changed. Talented staffers were wasted on non-core ventures while the main business lost market share to new entrants. The poor placements helped chase away 15 of Marks & Spencer's top 16 executives in two years – and contributed to a 60 percent slump in shareholder value before the firm began to recover.

At about the same time, across the Atlantic, a high-caliber Motorola executive was particularly unhappy. He had been going nowhere as the general manager of a business unit that had limited growth prospects. Recognizing his potential, Motorola quickly "repotted" the executive, making him head of strategy for a new division and general manager for three of its businesses.

What are the right jobs?

So how do you know the "right jobs" when you see them? Essentially, it means that you identify your organization's most critical positions, and you determine whether those roles require ''generic'' leadership skill sets or ''spikes'' of special expertise.

The most critical positions are those with the greatest potential for adding to shareholder value (or for that matter, destroying value). But how do you identify such positions? The way to begin is to clarify which parts of your business have the potential to generate the most value in the immediate future. In their 2001 book *Profit from the Core: Growth Strategies In An Era of Turbulence*, Bain partners Chris Zook and James Allen note that value is created when an organization keeps up profitable growth over at least a decade. The research behind the book demonstrated that few organizations manage to achieve such growth, but most of those that do are highly focused on a core business. Coca-Cola, Wal-Mart, and Dell Computer all stand out for having well-defined core businesses and the concomitant results to prove Zook and Allen's point. The book highlighted three guiding principles for achieving sustained and profitable growth and thereby getting the most value:

1 Build market power and influence in the core business or in a segment of that business.

2 Next, expand into logical and reinforcing adjacencies around the core to propel further growth and keep strengthening the core.

3 If industry turbulence is severe, shift or redefine the core to defend the value created.

So it stands to reason that the critical positions are in the core business or core business units. Exactly which roles are critical will depend on what the drivers of profitability are in that core business. For example, in a fast-moving premium consumer goods company, the marketing director role is likely to be key. Clearly, the number of critical positions and the mix of those roles will be unique to every company, but the importance of deploying the right leader in each position will never lose its importance for them all.

But competitive pressures can force changes in how an organization supports its core, and the firm must be able to keep its talent in synch with the changes. If, for example, the market for the consumer goods company we described above is becoming more price-sensitive, then the top procurement job will likely assume more importance. Another example: in their industry's early years, managers in cellular-phone services firms had to be focused on building infrastructure and acquiring clients, so skills in technology, quality control, and sales were in hot demand. But in the last two years, the emphasis has been on differentiating the product offerings, so marketing is now key.

The second point: leadership deployment becomes even more challenging in a company whose core is running really well. When a mainstream business is operating at or close to full potential, it will spin off cash, and chances are good that the executive team will look to invest part of the resulting war chest in new ventures that they expect to fuel future growth. The appropriate strategic initiative will be to expand into logical adjacent businesses that reinforce the core. An example: moving from manufacture of sedan cars into sport utility vehicles or light trucks, or adding a luxury line, as Toyota has done so effectively with its Lexus brand.

But no senior executive should even think of starting up a new venture if there isn't an adequate supply of talent. Too often, companies try to expand more rapidly than their leadership supply. The consequences? A risk of leadership gaps at the new venture, or talent drain from the incumbent business as the new operation generates buzz. Worse: leaders forsake the old for the new venture without securing replacement talent at least as capable as they are.

Succession planning for a company's critical roles is essential to agility. (The key is not to add layers of HR process but to manage talent as a pool, and recognize specific areas where that talent pool needs to be strengthened.) It takes time to identify, place, and coach new talent in the event that existing leaders move on. An alternative to moving top talent from critical positions in the incumbent business is this: offer some of the top jobs in the adjacency to selected direct reports of the talent you want to keep in place. That way, a new generation of leaders gets the ''headroom'' to try out.

The third strategic situation – redefining the core business in response to market turbulence – is where artful leadership deployment is at its most crucial. The executive team has to maintain and make the most of the value of the ''old'' core while the new core gets on its feet; otherwise the company can be left exposed in both arenas. That's the situation Motorola faced in the late 1990s, when the communications giant found it needed to start a new division quickly to compete in fast-growing wireless markets. But it could not find enough top-quality people to lead the division.

Such situations call for twin-track planning and activities to identify the critical positions in both the ''transitioning'' organization and in the ''Future Co.,'' and to appropriately fill those roles with the right people. Managing the deployment of each organization's team, both during and after transition, will be immensely challenging but vitally important. Any ''old'' leader reluctant to leave the current core would be inappropriate for a key role in Future Co.; the reborn company must be led by true believers with new attitudes. The decline of the old core must be managed humanely and intelligently too; with its demise goes the demand for ''old attitude'' leaders who may once have excelled.

How to manage deployment well

Managing leadership deployment is not a one-time event. Nor is it just an annual procedure or something that happens only during a corporate restructuring. It should be a non-stop process that takes up a significant portion of any CEO's agenda. When he headed up General Electric, Jack Welch used to spend several hours every week teaching at Crotonville, GE's leadership-development institute. At PepsiCo, former chief executive Roger Enrico put a third of his time into a "war college" for developing the next generation of the company's leaders. And for his first two years as CEO at AlliedSignal in the early 1990s, Larry Bossidy would devote up to 40 percent of his day to hiring and developing leaders.

There are three elements to a comprehensive leadership-management process:

1 Strategic planning.

2 Talent management.

3 Continuous deployment.

The basis of all leadership management has to be the strategic plan. It will take stock of the organization's strategic position and direction, evaluating the performance of the core business and its adjacencies and identifying the key initiatives required to drive the business to full potential or into new areas of growth. The strategic plan should clearly articulate and quantify the results expected from the various parts of the company. As such, it must establish the relative value of every leadership role.

With strategic plan in place and understood, the leadership situation can be assessed and the required initiatives drafted. The first step is to identify and prioritize the critical roles – the positions that will add most value most quickly. Second, the requirements of leadership supply, fulfilment and deployment can be set out with a clear understanding of what is needed and when it must achieved. Finally, you run a classic gap analysis, looking for holes between the requirements and the leadership talent available, and building the plans to stop up those holes.

Next comes the talent-management element. Think of it as the process that actually closes up the leadership gaps we just talked about. Put another way, talent management is the development and maintenance plan for the leadership strategy. It involves a series of trade-offs, trying to balance the current "best performance" needs of the company with its needs in the future.

It's no easy feat. Conflict is common. A company looking for immediate results will be tempted to place leaders in jobs where they have experience and demonstrated talent. But that may run counter to the development requirements and personal needs of the individuals. If so, serving current needs may hurt those leaders' future abilities, or, if they sense opportunity elsewhere in the organization, it may soon drive them to look for opportunities outside. It's a classic short-term/long-term tug-of-war.

Talent management is one of the highest impact functions you can have. Knowing which positions are critical is in itself not enough to ensure "the right people are in the right jobs". Understanding the complexities of the role and the skill set required to successfully deliver the required results within that role is just as important. It's really not so very different than managing an orchestra or a pro sports team.

All the players are talented in their own right, but each position requires a "spike" of specialized talent that some players can deliver better than others. In business, all top leaders need to be generically capable leaders (or developed into being so), but each will have a "spike of excellence." It's important to play to that strength while continuing to develop the generic leadership skills or a secondary area of excellence required to be an outstanding leader. As top head-hunters know, it's all about matchmaking: it's always vital to acknowledge and accommodate the personal ambitions and circumstances of the top candidates.

Leadership deployment never stops. It can't. Today, the competitive environment of any industry changes rapidly, and companies that aren't nimble or flexible enough will soon know about it. Often, the twists and turns a business must make will shift the required skill set for a critical position. And key leaders may suddenly leave the organization, or develop a history of poor performance. There has to be a continuous process of deployment and redeployment to ensure that at all times "the right people are in the right jobs." Again, the sports analogy applies: an injury, a rainstorm, a shift in the opponent's strategy – all merit changes in key positions. And again, trade-offs must be made: there is value in leadership stability, and you can't expect full-potential results in the very week a new deployment is made.

However, the value of stability is often overestimated. Too often, businesses cheat themselves when they aren't proactive about deployment. When they do recognize that a mediocre manager is occupying a high-potential slot, most businesses simply wait for the opportunity to "upgrade" – when the manager leaves, for example. Although most businesses do face up to tracking and ousting their poorest performers, they generally don't act the same way with less-than-optimum talent. They must.

There are ways to find a balance between stability and agility. Bain finds that the companies that have broadly shared perspectives on results and core values do better at the balancing act. Likewise with the firms where the entire leadership team has the same wide knowledge of the business, and where there's a culture of teamwork and shared reward.

Those factors allow leaders to move more freely between positions, and to operate in similar environments with a consistent approach and philosophy, That way, there are fewer organizational waves, and results come faster.

Conclusion

The development of corporate leaders has been a hot topic in the business press for years. Recently, it's made for bigger headlines as CEOs' celebrity status and salaries have soared – and the tenures of many have become shorter. Unfortunately, few senior executives, and even fewer corporate boards, see much beyond immediate CEO succession requirements. They pay too little attention to the leadership skills needed several layers deeper, and several more years out. The standard management responses – superior training and more aggressive hiring – are only part of the answer.

The organizations that understand the nuances of leadership development – that see the huge potential of smart and continuous deployment strategies – are the ones with a better chance of outrunning their competitors and weathering business turbulence in all its forms.

Guiding principles

Eight guiding principles power successful leadership systems:

1. Focus on value – Leadership deployment becomes a top management priority when it is clearly linked to boosting business value.
2. CEO involvement – The entire management team – and in particular the CEO – must commit wholeheartedly to leadership management. That means getting involved and staying involved in the process.
3. Controlled autonomy – Good leadership management means finding the right balance between consistency of approach to people management and letting leaders use their own personal styles.
4. Corporate alignment – It's critical to align and integrate the leadership management system with the company's strategy and its overall objectives. That way, companies can more easily deliver consistent messages to employees and so reinforce the push to add value.
5. Immediate results – The ability to react quickly and deliver immediate results while staying on the path to long-term success maintains a "winners" culture and a belief in the aligned vision and objectives. Leadership fulfilment and deployment often have the most rapid impact; the gains from leadership supply programs take longer.
6. Measure to manage – Develop a solid platform of objective performance data collection and reporting to reward strong performance and to manage underachievement. "If you don't measure it, you can't manage it."
7. Differential investment – Invest more in individuals who will provide the highest return, and less in those who underperform. The investment in a leader should tie to the value you expect the person to add.
8. Complete system – Effective leadership management calls for all three elements – supply, fulfilment, and deployment – to be in play all the time. ■