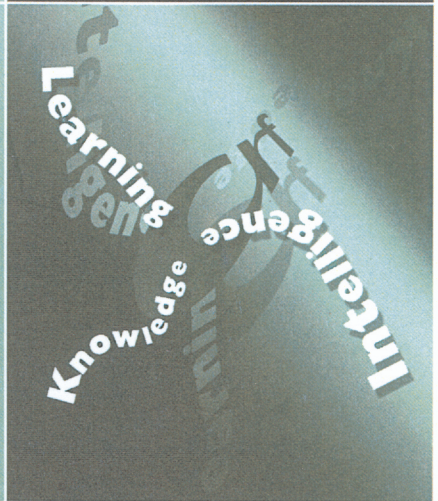




HIGH PERFORMANCE LEADERSHIP

Leaders Who Inspire and Deliver



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EXECUTIVE SUMMARY

- 1.** Leadership is becoming the central challenge for organisations in their quest for sustained competitive performance. Arguably, it will be the 'critical practice' theme for the first decade of the 21st century. Research studies confirm this, as do experts and case organisations in this report. A failure to recognise the importance of leadership and leader performance will increase an organisation's vulnerability.
- 2.** Collective drivers are causing this challenge. Economic conditions, business turbulence, competitive change, situational factors and surprising events are five examples. All contribute to a further driver of improved leadership – public scrutiny, increased by scandals and executive excesses. Declining internal morale may be a further factor.
- 3.** These drivers are creating often complex sets of impacts on organisations. On the one hand, they require more focused effort to respond adequately to external challenges but, on the other, they reveal internal shortcomings in how leadership is interpreted, built, practised and delivered. Testing internal issues face leaders and leadership enablers like HR and OD.
- 4.** Multiple constraints and general business complexity are creating intolerable pressures for leaders. Juggling strategic options in real time with inadequate information, excessive workloads, or resolving ethical dilemmas, are examples. Personal qualities such as resolve, tenacity, toughness, etc, are becoming differentiators between leader success and failure.
- 5.** Leader performance is a critical issue in four aspects of the role – suitability of style or capabilities for the job, what a leader must do and deliver, how performance is evaluated and the rewards/penalties attracted for outcomes. Performance shortcomings are common, exacerbated by heightened, or even unrealistic, expectations of leaders from different stakeholder groups.
- 6.** Shortcomings are also evident in board-CEO-top team relationships. Strategic differences, intra-team politics, a lack of adequate checks and balances, executive selection and directors lacking corporate knowledge, are examples. Board and top team development – or greater congruency between individuals – appears to be a vast improvement opportunity.

7. Endemic to leadership are myths and perceptions, which can influence organisational actions. Examples include the supposed greater contribution of 'super leaders', celebrity leadership, heroic leaders and leaders as the 'masters of destiny' or the sole deliverers of results. All are challenged in this report, though some are absurd in contemporary business.
8. The quality of organisations' data on leadership appears to be inadequate. Leaders at risk of defection, their replacement or succession costs, the costs of leader underperformance or an ROI on the efforts to improve leadership are examples. Though these exercises are difficult, some fledgling approaches are useful – leadership audits and reviews have possibilities.
9. The enablers of leadership – HR, OD, senior line executives, etc – may need to rethink their perspectives and work considering the points above. Principles of leadership tailored to the organisation, how leadership is structured, knowing the real levers of leader performance and understanding core leadership processes are common inadequacies.
10. Having a validated success model for leadership is a rarity, tied as it should be to business success factors, strategy, organisational capability, internal and external relationships, organisational effectiveness/performance delivery and core leadership capabilities. Where organisations tackle this, the outcome tends to be overly theoretical, too neat or too optimistic.
11. The commonly used approaches to leadership – competency models, coaching, succession planning and development – could benefit from retesting the original assumptions behind their adoption, or from fresh thinking. Are they still valid? Are they fit for purpose in new circumstances? Reviews in the Appendices guide these efforts.
12. HR displays a programme or practice mentality too much without conceptually-sound thinking or foundations. Interviews with some organisations revealed a lack of clarity over the policy implications of leadership. An initiative focus is widespread, encouraged by good marketing from third party providers, conference take-aways, or astutely repackaged tools.
13. Where leadership issues are being effectively tackled, the best enablers or initiators were individuals of unusual background, experience and drive. Though in HR, or allied to it, they are unconventional in thinking, outstanding relationship builders, deliver what is promised and often, are mavericks at heart – the very stuff that good leaders are made of.

- 14.** Of many conclusions in this report, three are critical. First, to avoid challenging the leadership status quo will put the organisation at peril. Second, the best leadership efforts are always organisation-specific – taking into account ambitions, circumstances and resources. Third, future leadership considerations should be on leader and HR agendas now.
- 15.** Case study organisations confirm that rethinking these many aspects of leadership is testing, tough at implementation and is a long-term challenge. Leadership represents a complex agenda, which will certainly change as the organisation’s circumstances continue to change. However, perseverance is bringing sustainable leadership improvement in these enterprises – the irony being that this is often the glue that begins to explain or bind other historic shortcomings.
- 16.** The featured case study organisations are: Allied Domecq; BAA; BT Group plc; Camelot Group; CMS Energy Corporation; Credit Suisse First Boston; First Data Corporation; Hillenbrand Industries; Karlee Company; NHS Leadership Centre, Modernisation Agency, Department of Health; Pal’s Sudden Service; St Luke’s Communications and Vodafone Group plc.

Hillenbrand Industries: Executive Recruitment

As a separate report to this section's case study, Indiana-based Hillenbrand Industries has devised a Talent Capability Development model to integrate its four core leader processes of assessment, recruiting, performance and development. The needs of, and outcomes from, these processes are always tied to business objectives by being aligned with the organisation's strategic management process for running Hillenbrand Industries' three operating businesses.

Senior executives, HR and the Executive Leadership Development Team take both 'inside' and 'outside' views on how the right kind of leadership talent is secured for specific position requirements of leadership roles – be that at managing director/VP levels, general management or functional heads. If leaders are not available or cannot be developed internally, as revealed by Hillenbrand Industries' Leadership Talent Reviews and Processes, then they are hired externally.

"Unlike many organisations, we do not adopt the 'not invented/developed here syndrome' in believing that the most obvious candidate in our own village will be the best in class replacement we need, nor would we be satisfied or comfortable with only selecting the talent we might know," explains Steve McMillen, VP executive leadership development and performance improvement.

"Executive recruitment is a rigorous process. It has shifted from a 'fill the vacancy' mentality to viewing executive leadership as a driver of organisational growth." This rigour is exemplified by the effort invested in how executives are hired since rethinking the recruitment process three years ago.

- Detailed specifications which flesh-out broad role profiles – as identified by business needs – are drawn up between operating company HR staff, senior executives in the area concerned, the hiring manager and a retained search firm for specialist appointments such as finance

- All 150 top executives go through two-day intensive courses in interviewing/selection processes and methods, especially to develop probing skills, attributes/traits analysis and interviewing 'real people' on behalf of recruitment agencies
- Substantive series of interviews for candidates with hiring managers, area executives and other leaders around three aspects of the position – competencies, capability for results and personal qualities

“It is a mark of the rigour we put into executive hiring that successful candidates remark on how intimidating, insightful and tough the experience was,” adds McMillen. “They also comment on the good feeling this gives them about the company – if you are searching for the best, you’ve got to be very serious about it.”

McMillen’s point of ‘being serious’ about executive recruitment is confirmed by Hubert St Onge, CEO, Konverge and Know. His view is that organisations should continuously develop a leadership pool from within, rather than mainly seeking external replacements – some sources suggest that executive cadre successors come from purely external recruitment and headhunting in 40%-50% of large organisations.

Should this be the case, he reasons, it conveys career messages to existing talent who might have executive ambitions, with adverse impacts.

“Potential talent is likely to go elsewhere as they see their capabilities being devalued by an unbalanced succession system,” St Onge says. “External hiring will be interpreted as the logic of the organisation, with two further consequences. If talented people leave in sufficient numbers, a major replacement programme will have to be initiated which then brings discontinuity to the enterprise. To ensure a continuous supply of good leaders, hiring and succession has to be tackled selectively.”

Asked to take an overview on these issues, John Fleenor, director of knowledge management, Center for Creative Leadership, stresses that there is more to ensuring leader supply than just growing or hiring.

“What is not understood is the need to be the kind of organisation that nurtures and reinforces the enactment of desired behaviours in leaders. A major shortcoming also is organisations’ narrow conception of who has leadership potential because senior leaders are usually most comfortable with individuals similar to themselves.”

Fleenor's point is that the leadership supply line should be more inclusive. "Given the increasing demands for leadership talent today, the potential of diversity in organisational populations that does not fit the traditional executive mould cannot be overlooked when succession opportunities occur. Building an inclusive leadership capacity involves individuals but also groups, teams and across organisational networks."

Recap ... leader replacement is a big issue because of possible market shortages, weak recruitment/selection processes, a reliance on outsourced services or a failure to see the importance of 'home-grown' talent. Also, are hiring managers clear on the qualities they are looking for? Replacing top leaders, especially directors, may be little more than cosy practice or using connections. Selection should be rigorous, objective, testing on candidates and quality assured for effectiveness.

CASE STUDY: HILLENBRAND INDUSTRIES

Theme: Building Leadership Capability

Hillenbrand Industries is a \$2.2 billion public holding company in Batesville, Indiana, for three diversified operating businesses in healthcare, burial caskets, cremation urns and funeral planning/financial products. Leadership positions have been achieved and *Industry Week* has cited Hillenbrand Industries as 'one of the world's best-managed companies'. With over 10,000 employees in many locations, shareholder value has almost doubled in two years.

This case study details:

- the business context and challenges
- Talent Capability Development for executives
- leadership development roles and capabilities
- Leadership Talent Reviews
- an overview with key learnings.

Though successful, Hillenbrand Industries is a restless organisation, keen to move forward by building sustainable leadership capability. "We deliberately messed with success," explains Steve McMillen, VP executive leadership development and performance improvement. "Being known as a best-managed company was gratifying in the past, but our new expectation is to also be acknowledged as a best-led enterprise."

Business Context

Hillenbrand Industries was founded in the 1860s as a sawmill business by German immigrant, John Hillenbrand, who was attracted by the prospects of rich timberland across south-eastern Indiana. Though the company has grown and diversified beyond recognition, his descendents are active board members and significant investors. In some organisations, family leadership can act as a rein on ambition with a preference for maintaining the status quo.

Hillenbrand Industries is not that type of organisation. “We have a history of success, built on the foundations of innovation, customer relations, fiscal responsibility and diversification,” explains Steve McMillen, VP executive leadership development and performance improvement. “Successes have far exceeded any mishaps in our 140-year history. But, success can often cloud judgement and tricks people into thinking the past is prologue.”

Hillenbrand Industries Companies

The holding company comprises three businesses, all headquartered in Batesville, Indiana.

- Hill-Rom Company is a leading manufacturer and provider of patient care products, specialized therapy rental products and related services. Hill-Rom products are designed to improve patient outcomes and reduce total delivery costs
- Batesville Casket Company is a leading manufacturer of burial caskets, cremation urns and caskets, and related support services
- Forethought Financial Services is the leading provider of funeral planning financial products and marketing in the United States

McMillen’s point is that, when he was appointed four years ago, senior leadership felt frustrated that the success factors for where the group wanted to go were unclear. “Enough was changing for us all to step back and examine what it would take to move to Hillenbrand Industries’ next level of success,” he recalls. “We reasoned that great leaders, and more than our fair share of them compared with other organisations, would take us there.”

This need for ‘new leadership’ was guided by contextual factors – including expanding into new businesses at home and abroad, ensuring cross-business synergies, anticipating legislative impacts on the healthcare business and continuously improving shareholder value. It was also shaped by three realisations within the top team.

- First, however expertly a business is managed, it is not a guarantee of success
- Second, more dynamic executive leadership is a driver of organisational growth and capability

- Third, successful business development and leadership development usually have much in common

A different paradigm for leadership development emerged between 1998-99, guided by a single question – what does the business need in its leaders to drive growth and shareholder value?

“Our goal is to create an organisation that is highly effective in both managing and leading,” adds McMillen. “We are making the shift through a new Executive Leadership Development Process which has Talent Capability Development at its core based on four rights – right people, right roles, right skills and right time.”

Talent Capability Development

At Hillenbrand Industries, talent is conceptually interpreted as these ‘four rights’ for leaders and managers because investments in workforce development have proven recently to increase shareholder value.

For example, between 2000-2002, the company’s stock price increased from \$31.25 to \$57 – the very period when the internal effects of the new leadership process were being felt. Though obviously many factors interplay in stock price performance, improved leader effectiveness, as described below, can correlate well with this kind of result.

Talent also became a board issue because even well-managed businesses can have too much bureaucracy and overhead costs, and too many people – but specifically not enough talent to execute new strategic initiatives.

Circumstances have driven how Talent Capability Development (TCD) is deployed. Over the last three-to-four years, the talent focus has been primarily on the top 150-200 executives and their successors because these efforts often convert more readily to the strategic goals of faster growth and improved business performance. The three populations in this cadre are as follows.

- Executive management team
- ‘Mission critical’ positions
- High potentials

“By balancing an infusion of new talent and developing existing leaders, we’re building a talent pool for the top cadre first to move forward through organic growth, as well as mergers and acquisitions,” explains Steve McMillen. “The focus will eventually cascade to developing a consistent set of leadership capabilities as far into the organisation as possible to strengthen alignment to strategy and execution.” Examples of required leader capabilities include the following.

- Visioning
- Strategic thinking
- Business acumen
- Pace-setting
- Action orientation
- Understanding talent issues

It is the task of McMillen’s three-member Executive Leadership Development Team (ELDT) to head these efforts in attracting, developing and retaining leaders, and managing their performance. All the team’s work is tied to business strategy, supported by an appropriate organisational structure and processes. As detailed below, the TCD process is used to exert leverage and exploit leader potential through four closely inter-related elements.

Assessment	Recruiting	Performance	Development
<ul style="list-style-type: none"> • Leadership competencies • Assessments 	<ul style="list-style-type: none"> • Structured behavioural interview process • New manager assimilation • Executive on-boarding process • Executive recruiting process • College recruiting 	<ul style="list-style-type: none"> • Individual development plans • Performance management process • Retain and reward 	<ul style="list-style-type: none"> • Leadership talent reviews • Executive management team development • Cross-company functional movement • e-learning • Performance coaching • Peak Performance Center • Foundations of leadership programme

“Each main element of TCD is a core leader process which links with other proven management processes,” he explains. “The challenging part of mapping TCD was not necessarily what to

include but how to link the various processes together and consistently execute them. We strive for this by systemic leadership thinking based on the supply and demand realities of leader talent.

“We are now more aware of the type of talent and capabilities required to execute strategy, or where the gaps are, which then drives decisions about how we ‘build and buy’ leaders. TCD helps create a sustainable path for leadership which is more sustainable than just having lots of development programmes that many organisations seem to prefer.”

Top Grading

Critical to building and developing this capability is Hillenbrand Industries’ desire to fill every key position with ‘superior talent’, which requires that the organisation knows what it is looking for in these positions. Three criteria are used to define ‘key’ in order to flesh-out specific role requirements – strategic importance, leadership accountability for critical business initiatives and significant P&L responsibilities. Role needs are then met through hiring, developing, deploying and retaining top talent.

An important tool used to support this kind of position analysis and placement is a self-devised matrix which differentiates between leadership and ‘managership’, as shown below.

		Leadership/Managership	
Managing the Business Planning and Budgeting Organising and Staffing Controlling and Problem-solving	High	<ul style="list-style-type: none"> • Short-term results • Orderly and predictable • Resistant to change • Over-managed, under-led • ‘Steering the ship’ 	<ul style="list-style-type: none"> • Sustained results • Produces change • Highly committed people • Leadership highly valued • Well-managed, well-led • ‘Charting the course’
	Low	<ul style="list-style-type: none"> • Poor results • Unstable • Uncommitted people • Reactionary • Under-managed, under-led 	<ul style="list-style-type: none"> • Mixed results • Under-managed, over-led
		Low	High
		Leading the Business Establish Direction Aligning People Motivating and Inspiring	

The essential differences are to lead the business – establish direction, align people, motivate and inspire – or to manage the business. This concerns planning, budgeting, organising, staffing, controlling and problem-solving.

McMillen notes that this matrix helped the executive team understand the type of change it was contemplating. For example, historic success has come from the upper left hand quadrant in *managing* the business, whereas the priority now is a capability for *leading* the business as well – and for getting as much talent as possible in the upper right hand quadrant.

“A dynamic issue for us is profiling the leader roles required – current year and going forward – for the different, and changing, contexts of each of the three businesses. Then we match individual profiles to these roles to see the calibration for executing the role requirements in a superior way.” Questions include the following.

- How long have they held the position?
- What are their capabilities?
- What development needs do they have?
- What is their career experience?
- What is their future potential?

When role and individual profiles are aggregated, the executive leadership team and the ELDT can evaluate the organisation’s total talent portfolio to judge whether the best talent is aligned with current strategic initiatives and the key positions. Different levels of intervention might be used to address mismatches or gaps – accelerated development, e-learning, performance coaching, mentoring, job rotation, redeployment internally or externally, are examples.

McMillen emphasises that the focus is first on the role and not the person since, in his view, not doing so often results in the misallocation of talent. “Role analysis avoids having top performers in non-critical positions and identifies precisely what we want for positions such as general managers, senior sales executives, operational leaders and so on. It is enabling us to get better at ‘cranking out’ world class leaders who are experienced in critical business areas.

“However, this process was not initially a ‘burning platform’ issue because of our past success – more that we have changed our focus towards future success at a different level. This is painstaking work requiring perseverance, a willingness to engage with the top team and adopting an 80/20 approach to role/individual judgements rather than waiting to develop the perfect model.”

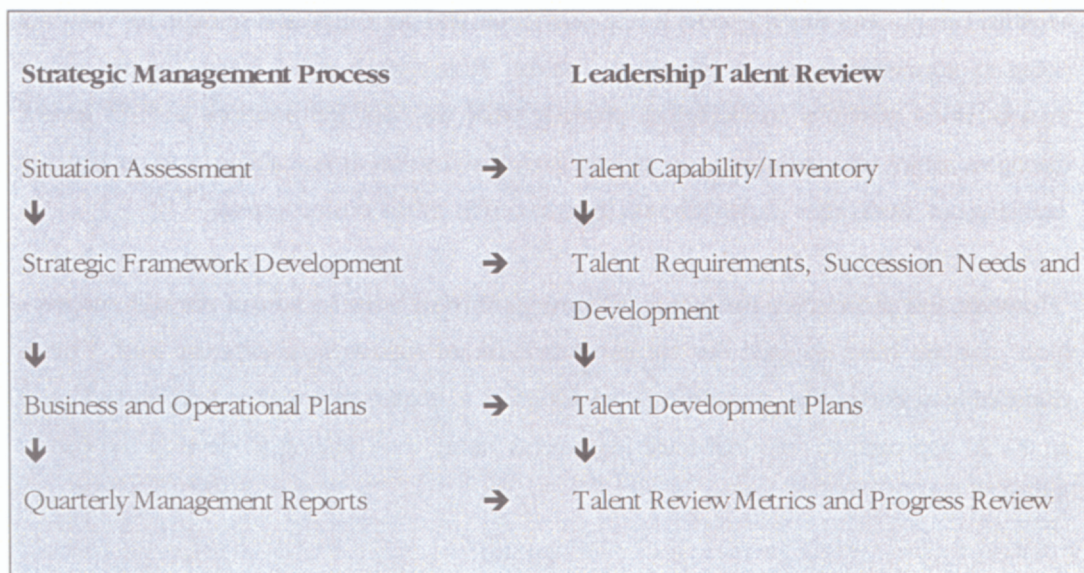
Leadership Talent Reviews

Two points are worth emphasising about the way Hillenbrand Industries approaches building leadership capability. First, for any aspect of the TCD model, there is always a thread between strategy, leadership and results. Second, once role requirements are defined, people are then identified for them based on a 'build or buy' analysis. Leadership Talent Reviews using the role questions above assess the effectiveness of this approach and forecast future needs, by aligning reviews to the organisation's strategic management process.

However, these reviews have taken some time to evolve. At one time, they were periodic, cumbersome events, usually initiated by a vacancy as a set of tasks rather than a defined process. They also suffered from limited metrics, accountability and forecasting. Leadership talent tended to move vertically up the separate businesses or through their functions with a resulting wastage of potential.

"The review process is now stapled to our strategic management process for running the business," explains McMillen. "It describes the type of changes we are instituting to ensure our view of human capital is linked to strategy. Every time we evaluate the current business situation, it is followed up with an assessment of talent capacity and inventory. Given what is happening in the business, we always have to ask whether we have the right type and breadth of talent."

The sequential linkages between the two processes are as follows:



“Each step we take to better understand and plan strategy requires the next step in identifying and developing the leadership talent we need to drive that strategy,” he adds. “We continually cycle through these process steps to ensure we keep pace with our organisation and its business contexts.”

Alignment between strategy and leader talent has also enabled defining features of the talent review process to emerge.

- More balanced talent supply and demand
- Strong metrics with leading as well as lagging indicators
- Cross-organisation talent ‘calibration’ and movement
- Greater optimisation of the talent portfolio

Significantly, talent review process results feed up to executive levels. Monthly talent updates tied to balanced scorecard business results are provided for the executive leadership team and every quarter, the President’s board review features top-page talent assessments. Key metrics are the numbers of so-called ‘A’-players in post and ready for accelerated development or promotion, or those with potential to improve either their leadership competencies or performance outcomes.

McMillen stresses that Leadership Talent Reviews are just one part of TCD and the overall Executive Leadership Development Process. “Everything that needs to be integrated to ensure that assessment, recruiting, performance and development feed into one another can be overwhelming. But, it is this organisational and management capability that will distinguish leadership efforts in an organisation since most of us are after the same leader qualities.”

Overview

Asked to succinctly describe the ELDP task that an organisation faces based on his experiences at Hillenbrand Industries, Steve McMillen likens it to creating a ‘high art form’ or, indeed, getting the best combination of capabilities from 11 players on an English Premiership football pitch from a core first team squad of 25-30, in addition to opportunities in the transfer market.

“It’s a challenging task which requires being crystal clear about what you need to get the job done. For leadership, the question is – do we have the internal capability to execute strategy? If not, how do we get it? Build, buy or redeploy? What does any leader role require? Step One is to

devise this kind of specification through inside and outside views of talent. Most organisations appear reluctant to do that.”

On balance, he and colleagues in the Executive Leadership Development Team have enjoyed advantages which serve as learnings.

1. A compelling business case based on future success drove developments
2. Integrally linking strategy, leadership, talent and business results
3. Backing from the executive leadership team, including personal commitments from the president/CEO
4. Strong ELDT relationships with executive teams in subsidiaries, operational managers and senior HR people
5. Setting early on the ‘four rights’ – people, roles, skills and time
6. Getting the top 150-200 executives focused on the sustainability of the organisation through Talent Capability Development
7. Defining four core leader processes: assessment, recruiting, performance, development
8. Ongoing communication to keep people informed and on message
9. Planning and phasing leader capability roll-out

However, building leadership capability is a work in progress. “We’ve generated a tremendous amount of organisational energy from our efforts, but challenges remain,” McMillen adds. They include the following.

1. How to accelerate the individual development process to keep pace with actual business growth and growth plans
2. Identifying leader talent earlier in a potential ‘A’-player’s career than currently occurs
3. Allowing time for people to get ‘up to speed’ through skills acquisition, assignments, etc
4. Helping leaders manage organisational transitions and continual change more effectively
5. Deciding how to deploy Talent Capability Development further into the organisation, and at what levels

“But, as a whole, we have the right pieces in place and are moving in the right direction. One indicator is our stock price which is trading at twice what it was two years or so ago. While hard to quantify, one of the many contributors to this success has been the focus on leadership excellence. A second indicator is that 20% of leadership moves in the last two years have been to cross-organisation assignments by uncovering latent talent. Leadership change doesn’t come easy, but it is well worth the effort.”