

# The strategic development of high potential leaders

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**A** key task for every senior executive is the development of the next generation of leaders, and in the current stressful recessionary environment increases the need for highly effective top managers who can operate effectively with fewer resources and successfully innovate and improvise in dynamic markets. In a severe downturn, when resources are limited and risks multiply, the performance bar for such leaders keeps rising. Making the problem more urgent, surprisingly few organizations have highly effective development programs. So how are best-practice firms managing succession planning and leadership training?

## Linking high potential leadership development to business strategy

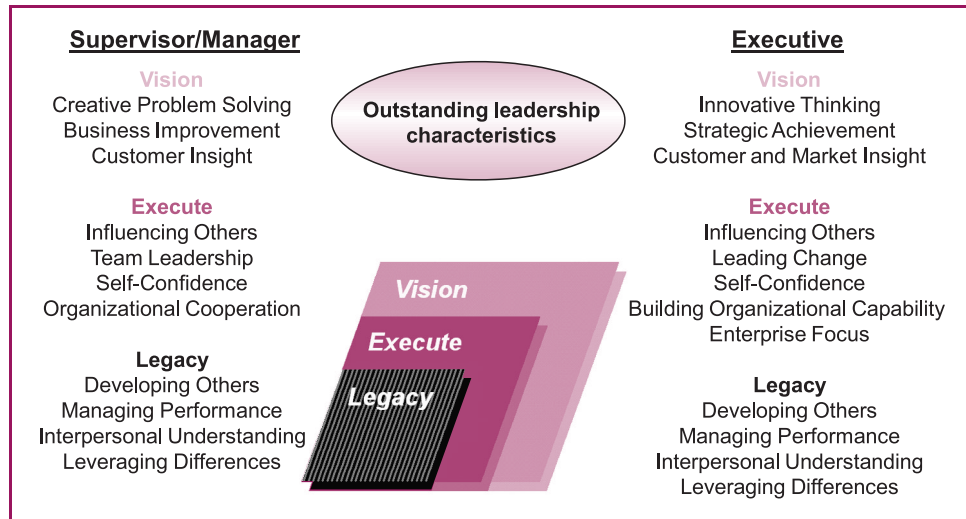
Perhaps a starting place for successful implementation is to understand what is required of high-potential employees if they are to meet the leadership challenges of the next decade. To ensure that the talent pool supports the company's overall strategy, the abilities of promising individuals should be shaped to correspond with the emerging leadership needs of the future.

Senior management and HR professionals typically create alignment through an implicit, if not explicit, needs analysis. This should begin with a sense of the future challenges and strategy of the firm. Effective talent selection alone is not the sole success factor for businesses of the future. Caterpillar's entire succession planning process began with a definition of a future leader. This definition was achieved through the identification of leadership competences for vision, execution, or legacy for managers and executives (see Exhibit 1).

## The vital role of senior leaders in developing the next generation

Companies that have the best leadership development programs follow strategies that include:

- A high profile "Talent Management Conference" or "Leadership Summit" that directly links strategy and talent development.
- A curriculum of education or action learning for key transition points.
- Coaching of senior executives to allow them to practice "leading as teachers."
- Asking the Board to meet and assess "rising stars."
- A comprehensive plan for accelerating development and linking it to developing business needs.
- Alignment and linkage of talent development and other HR initiatives to business strategy.



**Identifying potential future leaders – entering the talent pool**

A disciplined succession management program offers many guidelines that can assist organizations in the design and implementation of a system for identifying high potential employees. The following succession management practices may serve as a starting point for high potential talent identification:

- Create a time frame for achieving planned development actions.
- Build in flexibility to change in response to changing strategic business plans.
- Share information with candidates involved in succession planning.
- Provide visible support by senior management.
- Involve line leaders in identifying and developing succession candidates.

Both human resources and business line managers should be involved in the talent identification process to ensure that assessments reflect both empirical data on performance and the organization’s culture and vision.

Success should be linked to rewards. Firms that showed the highest shareholder return frequently link compensation to a leader’s future potential. In the Hewitt studies as well as the American Productivity and Quality Center (APQC) projects succession planning was universally practiced by the best firms and by a majority of the comparison companies. Linking competency development to base pay, annual incentive pay, and long term incentive pay was much more common for the top companies than for the comparison firms.

**Techniques for developing high potential leaders**

Providing access and exposure to senior management for high potential managers is almost universal among the best practice firms, as are ample internal training opportunities and special development assignments. Both Caterpillar and PepsiCo involve their senior leaders in the delivery of high potential programs. Mentoring and coaching for high potentials is done by a majority of the top companies, but by less than a quarter of the total. The “best firms for leaders” are typically twice as likely to use a variety of developmental techniques for “the best and brightest.” What these firms do isn’t particularly unique. They just do more of it and do it more consistently.

Some of the more cost- and resource-efficient practices for implementing a successful early-stage high-potential program include:

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- **Specialized leadership development tracks:** All of the firms identified as “best practice” or “top firms for leaders” have programs in place to identify and provide special development opportunities for managers identified as “high potential.” Less successful firms are less likely to have a well-developed program for high potentials and are also less likely to use the key techniques to accelerate development.
- **Developmental/stretch assignments:** Perhaps the most important tool for the development of high potentials is the rotation of managers across disciplines, divisions, and geographies. Top Human Resource Development professionals support the axiom that 70 percent of career development takes place on the job. Practically all of the best firms consciously espouse this axiom, broadening and stretching the most promising of their mid-level managers. Less than half of the comparison firms use rotational or developmental assignments as a regular component of their leadership development efforts.
- **Specialized learning opportunities:** All of the best practice firms report having specialized, highly customized, “by nomination only” leadership development programs for their high-potential employees. These programs typically involve a heavy commitment by senior executives in the sponsorship and delivery of the program, often supplemented by facilitation and coaching by outside specialists. Limiting admission to these programs helps to control costs and to reserve coveted development opportunities for peak performers at critical stages in their careers. High-potentials tend to seek out and take advantage of opportunities for behavioral skill building at a much greater pace than their peers. Consequently, top-performing organizations provide them with almost unlimited access to programs that accelerate their growth.
- **Leveraging technology:** Because it is virtually ubiquitous, technology is more democratic than other developmental tools and is used in two ways by many firms. Technology-enhanced learning improves business knowledge – especially for transitional assignments. Additionally, most firms use simple technology to allow all managers, but especially high potentials, to maintain up to date individual developmental plans (IDPs) that include relevant experiences as well as developmental targets.
- **Action learning:** Because it brings development initiatives outside of the classroom and asks employees to solve real-world business problems, action learning is taking over as the learning organization’s predominant real-time interactive simulation. In action learning, groups of high-potentials and mentors are put into a situation and must solve a real, important challenge. Many organizations are migrating to this approach as a way to expand high-potentials’ perspectives on how the business operates. By offering a group of high potentials an educational program that provides a set of tools that might be used by outside consultants, and by asking high potentials to confront a corporate challenge of real significance, a firm can get an informed recommendation, provide a unique developmental experience for the participants and embed the capacity for critical analysis and decision-making into the organization. While action learning is typically associated with a specific learning initiative and accompanied by classroom time, high potentials may also be assigned to special projects or Six Sigma teams to address important issues and be observed by top management.

- **Coaching/mentoring:** A majority of leading firms use internal mentoring programs to develop high-potential employees. Through pairing with internal senior mentors, high-potentials are introduced to years of knowledge and experience. Leading firms use both internal and external coaches to address specific developmental needs (often revealed by multi-rater feedback) or to help action learning groups as they grapple with complex challenges.
- **Less common techniques:** Interesting, but less common, approaches discovered in the current and previous research included:
  1. Texas Instruments employs “re-recruiting” in which special attention or perks were provided to outstanding managers who had not received a recent promotion or who might be vulnerable to approaches from other employers because of a difficult boss, unpleasant assignment or limited promotion prospects.
  2. Saudi Aramco uses an assessment center to provide feedback to large numbers of managers. Such a facility is especially useful in a culture in which providing constructive feedback is not a comfortable or common experience.

### **An overview of two successful talent development systems**

Despite having well-defined leadership attributes and leadership development programs, many organizations may fall short of meeting their objectives. Here are two corporate examples of integrated high potential talent development programs that seem to be meeting the objectives of their designers. These cases were collected as part of a benchmarking project conducted with APQC, Duke Corporate Education (DukeCE), and Center for Creative Leadership (CCL)

**PepsiCo:** In the next five years, a significant percent of PepsiCo’s current executives across several different levels will be eligible for retirement. The organization has a long and strong history of developing and promoting talent from within, but its bench strength is never as deep as it would like. PepsiCo has a goal of being “two deep” for all critical roles.

PepsiCo recently clarified its talent development process by updating its talent development model to focus on three key components: “identify, develop, and move.” Each of the three elements of talent management focuses on certain tools and approaches. To develop readiness, the organization uses experiences, on-the-job training, coaching/feedback/mentoring, and formal training. The third component, movement, focuses on individual developmental needs that will allow employees to accumulate experience and contribute to the talent pool for the organization’s senior-most roles.

Formal learning is an important and powerful element of PepsiCo’s overall development process. Another primary focus of PepsiCo’s talent management model is on cross-divisional talent movement. To create a compelling vision for the future and to address the organization’s emerging needs for additional leadership capability, the HR organization realized that it needed to shift perceptions on the part of some senior leaders about how best to fill jobs.

Although historically well-known for building bench strength, PepsiCo emphasizes cross-divisional talent movement for the purpose of building experiences. This emphasis represents a desired culture change within the organization.

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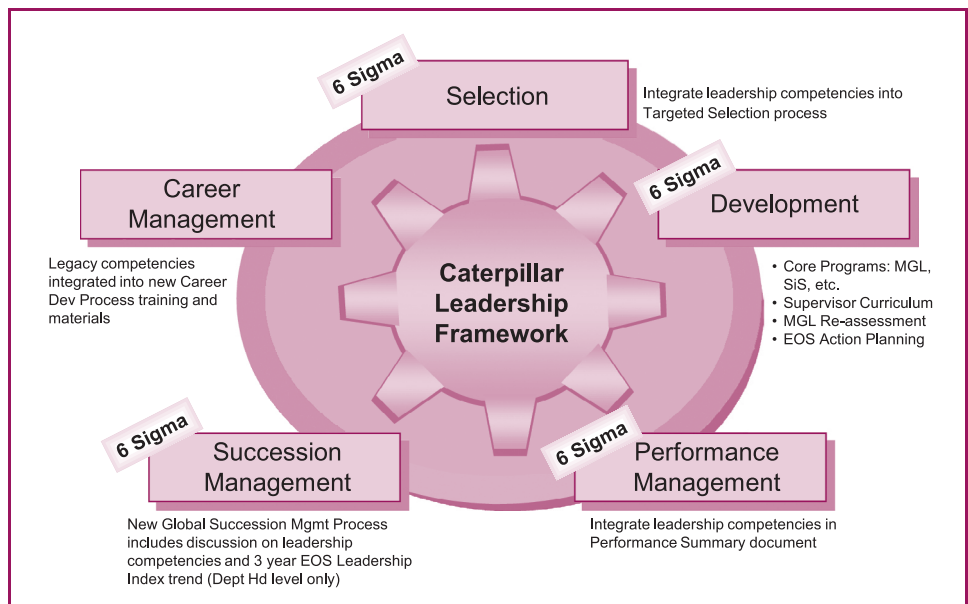
**Caterpillar:** The succession planning group works closely with the College of Leadership within Caterpillar University to provide high potentials with the experiences and opportunities needed to succeed. This group is involved in the nomination of individuals to attend the Leadership Quest program for high potentials. The Quest program is offered twice each year and is typically taught by 15-18 corporate officers (and only 2-3 outsiders). The program attempts to help participants think strategically about longer time horizons and more broadly than their current assignments. CAT ties its assessments and developmental planning to the same set of key competencies emphasized in Caterpillar's educational program. Caterpillar's succession planning group lays the framework for all future leaders. Succession planning within Caterpillar is apparent at all levels and across business units. Selection, development, performance management, succession management, and career management are all aligned with and oriented about the Caterpillar Leadership Framework, which provides the core of the firm's leadership strategy. (See Exhibit 2 for an overview of the alignment between the various processes involved in the development of Caterpillar leaders.)

For middle managers and above, Caterpillar's annual talent assessment process involves the employee's manager, the business unit management team, the officer team, and the executive office. The conversation focuses on the individuals recommended three next moves and what career experiences he or she needs. This is followed by an assessment of the person's long range potential (10 years or more) and whether the employee is promotable one, two, or more levels higher in the organization.

### CEO advisory

Organizations cannot develop tomorrow's leaders with a fragmented approach. A substantial body of research and best-practice experience demonstrates the effectiveness of an integrated leadership initiative. Employees with high leadership potential need to be systematically identified and tracked by line managers as part of an overall strategic succession planning process. Success in developing the next generation of leaders requires creating a talent management system in which selection, development, performance management, succession and career management are aligned, reviewed and supported by senior management.

**Exhibit 2** The Caterpillar leadership framework – integration into core HR processes





### Recommended reading

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