How executives grow

Talent can be bought, but the best companies develop their own.

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Most companies are poor at developing their executives, and most of them acknowledge this: only 3 percent of the 6,000 executives occupying the top 200 positions at 50 large US corporations examined by a recent McKinsey survey strongly agreed that their organizations developed talent quickly and effectively. In no area of executive development—job rotation, traditional internal and external training, or mentoring—did a majority of these executives believe that their employers were doing a good job (Exhibit 1).

Exhibit 1

Jobs and feedback drive development

Percent of top 200 executives in 50 large US companies

<table>
<thead>
<tr>
<th>Effectiveness of company: rated “excellent” or “very good”</th>
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<tr>
<td>Importance to personal development: rated “absolutely essential” or “very important”</td>
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Formal training | On-the-job training | Feedback and mentoring

- Traditional external training
- Traditional internal training
- Nontraditional learning programs
- Outsid testing
- Individual learning
- Formal performance evaluation
- Development plans
- Special projects
- Way jobs are structured
- Speed of job moves
- Role models
- Told strengths and weaknesses
- Informal coaching and feedback
- Mentoring
- 360-degree feedback
- Job rotation
- Development plans
Some companies feel that their high performers will rise to the top naturally, like cream. Others, believing that talent can be bought, try to recruit executives from such sources as General Electric, a famous developer of people. In fact, though businesses should look for senior-level talent outside their own organizations, they themselves must also be good at developing it. In the first place, as talent becomes scarcer—and demography suggests that it will—the "buy-only" strategy becomes risky and expensive. Moreover, recruiting all of a company’s senior executives externally sacrifices cultural cohesion and institutional memory. In any case, companies that can’t develop their own talent find it hard to attract good people from the outside.

**Job experience drives executive development**

Companies develop executives in various ways: by giving them feedback, coaching, mentoring, and training. But more than anything else, executives need on-the-job experience in appropriate positions. What makes positions appropriate? Four considerations are crucial.

The first is the way a job is structured: the executive who holds it should have both headroom (authority and responsibility) and elbow room (scope and variety). Organizations that are decentralized or that have many "P&L jobs"—in which the holder’s decisions are linked to, and measured by, the company's profit or loss—therefore create more opportunities for development than organizations that do not.

Second, people with high potential should move through a series of challenging jobs, for after two or three years the learning curve in any position tends to flatten out, and capable people start to chafe. How long any one person should stay put varies with the business, the extent of the challenge, and that person’s ability to grow. One company’s line executive held 18 positions in 24 years, and though not everyone can or should move so quickly, companies tend to leave executives in jobs much too long.

Third, this series of jobs should provide a range of challenges. Working in different geographic regions or with a variety of bosses requires executives to master new contexts. Leading a turnaround, stimulating a stagnant business, and influencing a company from a staff position draw on different skills.

Finally, executives need to learn their craft from highly skilled colleagues as well as superiors. The ability to lead can in part be acquired through apprenticeship, and apprentices learn more from world-class experts and leaders than from mediocre ones. Success, moreover, breeds success, so good people are likelier to stay with an organization that has many other good people.

The role of job experience in driving growth is fairly well understood. Thus, it is striking that only 10 percent of the 6,000 executives McKinsey surveyed thought
that their companies used job assignments effectively. The problem is that the people who control the process—senior line executives—don't adequately factor development into their decisions. A division president naturally finds it safer to appoint an experienced, highly qualified candidate to a key position than to take a chance and stretch a possible future leader. Furthermore, that division president might not know how to use job experience to develop people: in the McKinsey survey, 48 percent of human-resources executives said that most executives think development is simply a function of training programs.

Except for action learning and early training in managerial skills, training programs just are not capable of producing truly great executives

Such programs are often favored because they are highly visible, as well as simple to create and run, and by establishing them an HR department can show that it is doing its bit to nurture people. But with two exceptions—action learning, built around real work projects, and early training in managerial skills to provide basic tools and knowledge and to facilitate career changes—training programs don't produce great executives. To be effective, action learning should involve a high-profile project important to a company, be limited to a small group of promising people, and in fact result in action. One project in a GE executive development course required a team to assess the company's investment strategy in South Korea. After four weeks partly spent in that country, the team presented its recommendations to GE's top 28 executives, who based the company's investment decisions largely on those recommendations.

Other kinds of training programs may be worthwhile as well. First-class corporate universities such as Motorola University and GE's Crotonville can help create strong corporate cultures, align companies with their strategies, disseminate best practices, build personal networks, and spur programs for corporate change. But these are not the engines that drive the development of individual capabilities. The kind of training that really makes a difference has nothing to do with programs and everything to do with the informal training that goes on within companies in the form of feedback, coaching, and mentoring.

Improving feedback isn't hard, but it does take commitment and candor. Every year, Lawrence Bossidy, the CEO of AlliedSignal, writes assessments of the people who report directly to him. On one side of a sheet of paper he explains what they do well; on the other side he notes deficiencies he would like to see corrected. In addition, AlliedSignal conducts detailed annual assessments of 20 up-and-coming people, dispatching two HR professionals to interview 15 to 20 subordinates, peers, and bosses of each, and this feedback is regarded as enormously helpful. Perhaps more important, executives say that the exercise has changed the company's culture: "It legitimized development," commented one; "now it's OK to have development needs and work on them."
It is harder to improve coaching and mentoring—inherently informal processes that depend on the chemistry between two people. The formal assignment of mentors can help, especially if a company explains what it expects from the relationship, and an effective performance evaluation process can prod bosses to provide better advice. But it is more effective to build a culture that values coaching and expects it as part of the daily routine.

Several McKinsey offices now regularly ask associates which partners they view as mentors.

At McKinsey, for instance, mentoring is regarded as a vital part of the development culture but is still not as common as it should be. To encourage it, several McKinsey offices now ask all associates at regular intervals which partners they view as mentors. Although a small number of partners were named by as many as a dozen associates, most partners were surprised to find that fewer than five had so honored them. These results were monitored for a year and shared openly at partners’ meetings. Attention to mentoring has increased substantially.

**Five principles**

Companies should take action on five fronts to help executives grow quickly through job experience, the main force that drives executive development.

1. **Make development a fundamental part of organizational design**

The foremost influence on executive development is the way jobs are structured, so the design of an organization determines the extent of its growth opportunities. Some companies are constrained by the narrowness of their portfolios, but even single-business firms can provide highfliers with diverse opportunities.

Harley-Davidson, for example, is a single-business company organized around three teams: one to create products, another to create demand, and yet another to provide support services. Each of the company’s top 24 executives belongs to one of the teams, which manage themselves and make decisions collectively, thus helping their members broaden their scope, learn more about the company, participate in big decisions, and benefit from feedback from and coaching by teammates.

The Home Depot offers individual managers wide degrees of freedom to run their businesses. Unlike other retailers, the company gives store and department managers the freedom to hire their own people, order products, and set prices. "This is my $50 million business," says one manager. "I can double it or run it into the ground. Where else could I get that independence and challenge at 33?"
SunTrust, another company that gives many managers rich development opportunities, has resisted the general tendency in the banking industry to centralize by line of business (mortgages, for example), instead leaving revenue generation, cost control, and talent management in the hands of local banks. The company believes that big jobs help it attract, keep, and develop strong, broad-gauge executives and teams at the local level.

2. Spotlight the best talent

Not surprisingly, the McKinsey survey found that executives regard certain kinds of jobs as better at promoting development than others (Exhibit 2). Since virtually all of the positions that executives regard as most valuable for promoting growth tend to be in limited supply, the most challenging jobs should go to the most talented people.

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Of course, a company can't provide a fast track for highfliers if it doesn't know who they are. Since only 14 percent of the executives at medium-performing companies say that they can identify their high- and lowflyers, such businesses need to create a more effective system for that purpose. First, the whole senior management group should review each of a company’s top 200 executives and identify the best 20 percent or so. This won’t be easy, and mistakes will be made, but the assessment is likely to be more insightful if it is founded on a candid discussion involving a number of different viewpoints. To promote better
feedback, coaching, and mentoring, the discussion should focus on each executive’s strengths, weaknesses, and short-term development needs—including what job should come next, and when.

3. Broker talent across the organization

Imagine the pool of people and jobs across a company’s executive ranks. How much development potential is lost if each executive job in a division must be filled only by people who already work for it! Yet this is exactly what happens in many companies: division presidents and department heads fill vacancies by looking solely at inside candidates. Consider also the natural tendency of those same division presidents to hoard their best people, and you get some sense of the scale of the missed opportunities.

Sharing talent across an organization doesn’t come naturally and can be risky, but it is possible. The most common (and easiest) approach is the centrally managed one practiced by GE, AlliedSignal, and Arrow Electronics. At GE, staffing decisions for the top 500 jobs begin at the corporate center: HR executives work with the CEO, Jack Welch, to develop a slate of candidates from all parts of the company. Managers with jobs to fill can then choose any candidate they please. At Arrow Electronics, the CEO, Steve Kaufman, says, "The business units have enormous autonomy to make business decisions, but I guide the people decisions."

Others companies, such as Hewlett-Packard and Enron, use a kind of "free-market" approach supported by deeply embedded values and one or two simple processes. Hewlett-Packard has a tradition of moving people across business units to tackle different kinds of challenges. Everyone receives performance ratings from one to five so that managers can find the best people relatively easily. All managers also have access to the names and resumes of the high-potential people chosen for the company’s advanced training program. Since there is a job-posting system for every position below the top 100, it is easy for employees to find attractive opportunities.

4. Don’t choose the best-qualified person

At present, the people who make staffing decisions in most companies focus, quite naturally, on getting the best-qualified person for the job. But the best-qualified person may not be the one who can learn most from it. Instead of focusing entirely on proven competence when appointing executives, companies should be prepared to take risks by considering the needs of executive development.

Ninety-one percent of the corporate officers in the McKinsey survey agreed that their companies should "take risks sometimes by putting a high-potential person in a job before he or she is ready." Although only 49 percent of these officers...
thought that their companies actually did so, 80 percent of the officers at three very strong companies said that they sometimes took developmental staffing risks. More generally, 64 percent of the HR executives at top-performing companies (as compared with 48 percent at their medium-performing counterparts) agreed that they "actively and explicitly make development happen through staffing decisions."

Mobil Oil, for example, developed a "matching" process cataloging the jobs each executive has held and the development experience every job or special assignment offers. The objective was not only to place people who already had some of the required competencies but also to round out the experience of those who had not yet developed them. Experiences were described in two dimensions: the nature of the business challenge (a growth business, a turnaround, a joint venture, a large-scale task force, or negotiations with unions, for example) and the business function (such as marketing, portfolio management, and shared services). People looking for a change were given the option of searching the database for jobs or projects that offered the type of development challenge they needed; likewise, managers with vacancies to fill could look for people who needed that type of experience. The formality or complexity of the process may not be to the taste of some companies, but the concept is straightforward and can be applied in simpler ways.

5. Move mediocre people out of key jobs

Perhaps the greatest boost a company can give its development effort is to remove from key jobs those who produce mediocre results, lack the potential to grow much further, and make uninspiring bosses, role models, and coaches. Allowing even a small number of these people to stay in a company's top 200 jobs drains power from the whole system.

If 20 percent of a company's management positions become vacant when the managers with the lowest potential are pruned out, a whole range of development opportunities suddenly opens up. Half of the companies studied in depth in the McKinsey survey—particularly those known as development powerhouses—regularly refresh the development system in this way.

It will never be possible to know everything about creating great executives. But if companies can implement what actually is understood about the role of job experience in driving development, they will dramatically increase the pace at which their executives grow. There isn't any particular magic to making this work. But the senior leaders of a company must commit themselves to managing its executive talent pool with much more deliberate and explicit attention to developing the leaders of the future.
About the Author

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Notes


2 The War for Talent project ranked companies by industry in quintiles according to their ten-year returns to shareholders. "Medium-performing companies" thus refers to companies in the middle quintile.