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On

“Human Capital Succession Planning: How the Federal Government Can Get a Workforce to Achieve Results”

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Madame Chair and members of the subcommittee: thank you for the opportunity to testify before you today on the challenges of succession planning and human capital management.

Effective succession management is a system, a process, a set of practices, and a way of operating and managing an enterprise. It can not be accomplished simply by adopting someone else's best practices.

For decades, leaders in all walks of life have understood that people are their organization's only source of lasting competitive advantage. Everything else can be replicated—products, services, infrastructure, but not people. The great industrial leader of General Motors, Alfred Sloan, once said, "Take my assets, leave my people, and in five years I'll have it all back." Bill Gates of Microsoft once said, "Take our 20 best people and virtually overnight we become a mediocre company." And more recently, Jim Collins, in his book, *Good to Great,* emphasizes the importance of getting the right people on board first and then setting the strategy.

In spite of this knowledge and deep-seeded understanding, many organizations do not operate by this principle. They are characterized by tenure-based systems rather than those based on contribution; they hire and develop "B" players as opposed to seeking and identifying the best; and they have a high tolerance for mediocrity and sub-standard performance.

Driven by fierce competition, demographics, and prevalence of better models to follow, the last decade has brought with it much more rigor and sophistication in regard to managing talent. Still, we are on the edge of a leadership crisis in both the public and the private sector. The demographic challenges alone are daunting. Aging Boomers are beginning to retire or at least think about it. As this Boomer bubble bursts, we will see a 15 percent drop in the number of men and women of "key leader age"—those in the 35- to 44-year old range. Since peaking in the late 1990s, the numbers for this group have decreased markedly and will continue falling until approximately 2015 when they will once again begin a slow upward climb.

The leadership crisis exists for more than demographic reasons. Institutions are too complex. Confidence in leaders has declined. The lack of integrity by a few has tainted the integrity of all. Temptations abound. Uncertainty is too great. And too many institutions have underinvested in identifying and developing talented leaders. What does this mean for the future? From where will our needed leaders come? What do organizations today do to build and sustain talent quality and depth?

In 2001, Hewitt Associates initiated the Top Companies for Leaders research. We set our sights high—to identify the combination of factors that allow financially successful organizations to consistently produce great leaders. Inspired to conduct this study by the dearth of fact-based, well-researched information in the marketplace focusing on how successful companies develop great leaders, we started by surveying CEOs and human resources executives at 240 of the world's top 500 multinational companies. Then, we conducted hundreds of in-depth interviews with leaders at more than 50 companies to gather anecdotal information for our book. In 2003 we added a global perspective to the study, surveying not only 320 U.S.

companies, but hundreds in Europe and Asia as well to explore the organizational levers that contribute to leadership strength and depth and identify the companies that consistently produce great leaders and deliver superior financial results.

Based on Hewitt's consulting experience and this extensive research in the area of leadership, we have found that there are three fundamental elements that differentiate the Top Companies for Leaders from all others. These leadership "truths" are essential for an organization to build strong leaders and have strong succession:

1. Top Executive Leadership and Inspiration

Without the passionate and visible commitment of the top executive, developing great leaders is not possible. It seems intuitive that top executive involvement would be a critical success factor. But, "top-down support" has become such a catchphrase in recent years; the real impact and meaning have grown fuzzy. "Involvement" takes on an entirely new meaning in the realm of growing great leaders.

It is imperative that top executives not only support the development of future leaders, but also actively participate, communicate frequently about it, and provide the inspiration, passion, and the necessary resources. It must have their stamp, their imprint. For example, CEOs at the Top Companies are intimately involved in their talent review processes—reviewing top candidates, ensuring their teams conduct thorough, fair reviews of their direct reports, and that the process is used to fill key roles with top people.

Leadership development workshops in many companies have a "guest appearance" by the CEO—at Top Companies, CEOs are not only present much of the time teaching, learning, engaging, and observing—they believe it is their forum. They own it. This is not head-nodding, passive support. It is often a passionate, "in-your-gut" belief that it is one of the single most important roles for the top executive. And it is the way to better results. For CEOs of the Top Companies, that means spending at least a quarter of their time and, in some cases, over half their time devoted to leadership. Jack Welch, former chairman of GE, used to say he spent 50 percent of his time on people issues. His successor, Jeff Immelt, spends 15 to 16 full days just during the months of April and May when GE conducts its famed Session C—talent reviews—for each of its 13 businesses. When things were running well, Larry Bossidy, former AlliedSignal and Honeywell CEO, would spend 20 percent of his time on people—hiring, providing developmental opportunities, and really getting to know them. When he was rebuilding an organization, he'd double his time investment. At times, Roger Enrico, former CEO at PepsiCo, would spend 25 to 30 percent of his time just coaching and developing emerging leaders off site in his largely self-designed leadership development program "Building the Business." They spend the time because they know there is a direct link to results; running an effective organization is building *leadership capability*.

2. Maniacal Focus on High-Potentials

It begins with a strong talent pipeline. Many of the Top Companies have built a respected marketplace image, reputations for developing talent, and innovative and selective recruiting processes, ensuring a full and powerful pipeline. These companies are not recruiting and not hiring the best and the brightest "out there," but they are hiring the best for them and they spend time and care doing so. Once hired, they spend the same time and care identifying and developing the best.

Learning that Top Companies focus on developing their high-potential talent should not be, in and of itself, particularly surprising. But they not only spend considerable time identifying and evaluating their high-potential people, they also focus heavily on matching leaders with jobs, providing cross-functional experiences and global or regional assignments that promote strong development. They invest in discovering what matters in preparing people for certain roles.

3. The Right Leadership Practices, Done Right

Many institutions have common elements of leadership development and talent and succession management programs. What sets the best firms apart from the rest is not just careful design of the right process but a relentless dedication to executing these flawlessly. And that means ensuring what they do is integral to the business.

All of the Top Companies for Leaders have a formal succession planning process in place compared to 68 percent of all others. But what we learn from the Top Companies is that succession planning done in isolation of other performance systems is a waste of time. Organizations need to have find the right combination of the best talent, challenging job assignments, dedicated coaches and mentors that hold employees accountable to deliver but also provide a safety net to facilitate learning, and well-established and structured processes to evaluate talent and manage succession process.

Succession management at Top Companies usually includes some assessment of potential development of high-potential pools, lists of successors for key jobs, and a structural talent review process.

At Top Companies, managing and developing talent is running the business. Strategy—where the organization is headed, the products and services offered, and markets served—and operations—how decisions are made, the infrastructure, systems, and processes to support the strategy—are inseparable from the talent needed to do both.

As we look to the future, the challenges are daunting and the opportunities are great. Top Companies are well on their way to preparing themselves—and their people—to meet these challenges head on. They are a step ahead of the rest and they are not complacent.