The European Business Review

January - February 2013
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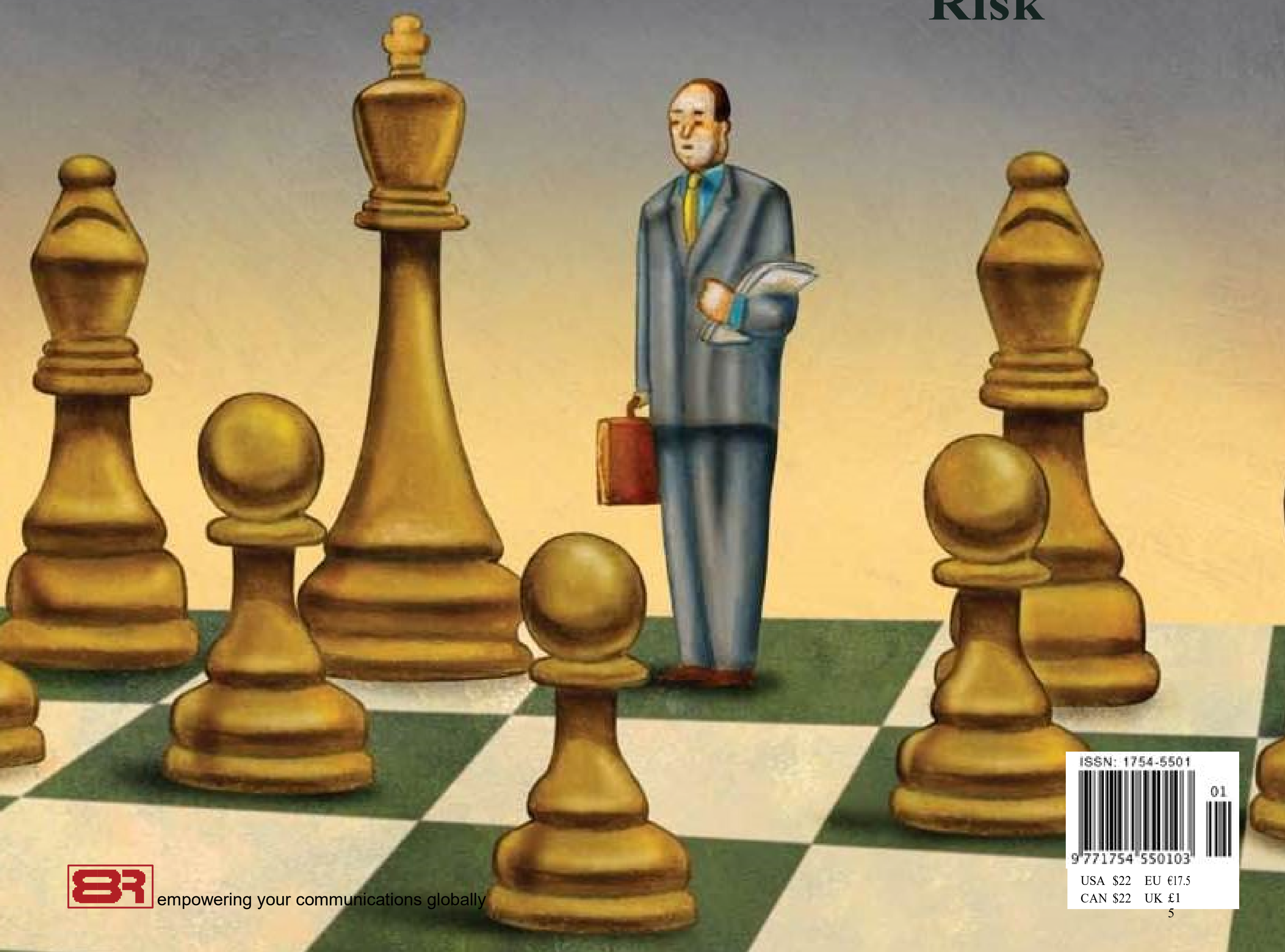
Board of Directors Oversight of Leadership Risk



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ISSN: 1754-5501
01
9 771754 550103
USA $22 EU €17.5
CAN $22 UK £15

Board of Directors Oversight of Leadership Risk

By Patrick R. Dailey & Charles H. Bishop, Jr.

> ***"This article is a must-read for executives and Board Members."***
>
> Dailey and Bishop present the world's best thinking regarding the focus and tactics needed by a Board to oversee their company's leadership succession planning process. By following their advice, Boards will avoid risk and mismanagement of their talent pipeline; and,leadership will more likely be a competitive advantage.
>
> The ideas contained in this article challenge the standard mindset whichcurrently operates with most Boards as they fulfill their fiduciary role within the talent management area.
>
> Throughout the article, the authors provide astute and highly pragmatic questions which directors should add to the repertoire of probes into executive values about talent and their company's succession processes.
>
> **Clare Chapman**
> Group People Director,BT Group plc

The practice of Enterprise Risk Management [ERM] was born as a consequence of the Enron collapse in 2001. Regulatory safeguards were enacted with the passage of Sarbanes-Oxley legislation in 2002. More recently, the U.S. financial sector meltdown beginning in 2008 which triggered global recession and yet more U.S. legislation, including the 2011 Dodd-Frank legislation, also safeguards the interests of share holders. And more recently in the face of the sovereign debt crisis which continues to grip the European Union along with "fiscal" negotiations occurring in the U.S., risk management is a matter of growing global importance to an increasingly interconnected world.

Leadership is an organization's most central risk

Rarely is leadership elevated to the level of a risk "hot topic" in the minds of Boards or their primary committees. Figure 1, Risk Hot Spots, adapted from KPMG presents the broad scope of risk factors which most every enterprise faces today. It is a well-conceived, comprehensive taxonomy of risk. Yet, we have added leadership as the centerpiece of the model because every strategic and tactical decision formulated and implemented within the enterprise relies on leaders who recognize opportunity or threat and mitigate strategic and implementation risks. We suggest that leadership dwarfs all other factors in determining organizational performance and long-term survivability. It is decisive in creating a market leader or market laggard. And, it is a clearly a topic which has largely been overlooked by Boards.

Regrettably, leadership and talent management matters never quite rise to the top of the issue list as do audit, strategy, and compliance matters. While Boards do focus on CEO selection and succession events, they often cede oversight responsibility for the bulk of talent management and renewal processes to management teams or the organization's human resource function.

Then operating problems emerge--- a strategy runs out of gas, the enterprise is "leap frogged" or a business investment

Figure 1

disappoints. And the spotlight is reactively fixated on executive leadership capability or depth. In retrospect, the proper steps to understand leadership depth and capabilities were not considered by the Board; a mitigation plan was never enacted, and the organization falls into to full-scale reactive mode. Boards then conclude “We have a leadership problem!”

We argue that leadership risk assessment and mitigation should be a primary matter of a Board’s oversight. And, we offer diagnostics and tactics of mitigation for leadership risk.

A Board’s oversight of leadership risk should begin with the simple question:

“Do we have the leadership to create our strategic agenda and successfully* implement *it?”

An accurate response to the question is challenging. Leadership excellence and a robust leadership pipeline requires candid organizational assessment, sound renewal processes, and dogged oversight from Boards coupled with consistent implementation from executive management downward through middle management. It is necessary to ensure a “talent focused” mindset is solidly in place, rewarded and the metrics of talent management are tracked in an uncompromising manner.

We acknowledge that this article is an outlier in ERM literature as financial and operational matters tend to dominate attention. Leadership topics have clearly been “back burner”. Yet the payoff from superb leadership and a strong leadership pipeline is truly compelling.

The ongoing Harvard study on the Profit Impact of Marketing Strategy [PIMS] reported by Gary Loveman[2] offers convincing evidence of the central importance of the Leadership factor to a company’s performance record. With these data, it is easy to encourage Boards to be more vigilant in monitoring the leadership and talent programs of the companies they serve.

The Figure 2 below presents a top line summary of the results of the study as it relates to differing qualitative levels of organizational leadership. Clearly, top tier leadership delivers significant value creation; in contrast, weak leadership destroys value. The percentage swing approaches a 45 point differential—this substantial differential is simply not a risk most Boards would feel comfortable leaving unmonitored and unmitigated.

Succession planning processes are commonly used by executive management in most large companies to plan and orchestrate leadership development objectives. But a report in the Wall Street Journal by Jay Conger and Doug Ready[3] reveals a discouraging picture about the outcome of this work done by companies. Conger and Ready report that:

- 97% of organizations engage in formal succession processes, however, only
- 7% of C-Level executives feel that processes were effectively to produce the talent needed for the future.

This gap is a clear indicator of significant deficiency in the leadership development processes of these companies.

When the performance gap between top tier versus weak leadership teams is considered, along with deficiencies in process, leadership risk easily ranks as one of the more critical matters which a Board should seek to understand, more actively monitor, influence and mitigate the associated risks.

How does a Board gauge leadership risk? Certainly Boards do measure performance outcomes, but the assessment of risk regarding senior leadership is new ground. We suggest process-based risk factors, which Boards should monitor and mitigate. We argue that attention to these risk factors mitigate leadership risk and offers the promise of elevating the leadership competency to a competitive advantage.

We have identified seven leadership risks. These are:

1. Loose accountability
2. Inept Assessment
3. Misalignment of executive compensation
4. Inadequate bench-strength
5. Playing it too safe with development
6. 'Once a year' mind-set, and
7. Settling for '*just* good enough'

About ***good*** and ***bad*** questions. Throughout the article, we offer questions for Directors to pose to senior leadership about leadership and talent matters. We believe questions are vital “tools” for Directors to use to monitor leadership processes. We believe there are *good* questions and there are *bad* ones. Good questions are targeted inquiries, which constructively challenge prevailing perspective and lead to reconsidered or changed opinions and onward to prudent decisions. *Good* questions always teach wisdom. They open doors that lead to fuller insight. On the other hand, *bad* questions are *wandering around* queries which fail to expand issues or advance a topic. These are too often fishing expeditions by ill-prepared, but perhaps well intentioned directors wishing to lead management teams and staff to invest substantial energy with, at best, dubious returns. Answers may benefit the ill-prepared inquirer with facts or historical information but issues are not expanded or advanced. These question/ answer episodes typically end with a brief “thank you” and not much more.

We feel the questions we pose are good tools for discovery and robust board-management discussion of leadership.

1. Loose Accountability

One of the most unforgivable sins an operating executive can commit is underestimating the future leadership needs for his/

Level of Leadership	Common term	% Profit Growth	Outcome
Top Tier Competency	Game Changers Pace Setters	+37%	Value Creators
Market Performer	Technical Leaders Journeyman	+4%	Keep pace with competitors
Low Competency	‘By-Standers’ Spectators	-7.5%	Value Destroyers

Figure 2

her business or function—either in terms of quantity or quality. The consequence is allowing the organization's downstream talent pipeline to go dry and not able to fund their unit's growth needs with "ready now" leadership. This oversight traditionally goes unmentioned in annual reports and not questioned during analysts' meetings. Yet, this oversight will surely compromise an organization's competitive future.

Historically, the scope of a typical Board's oversight of talent matters rarely has extended beyond CEO succession. But the confluence of research identifying leadership talent as a prime differentiator between leading companies and laggards plus opinions of seasoned corporate leaders in conjunction with experts such as Jack Welch, Ram Charan, Jeff Sonnenfeld, David Nadler and others is now a force for broadening the scope of a Board's oversight of leadership and talent. The matter is moving from back burner to front. For Boards, there is too much at stake to neglect its stewardship of leadership and talent management matters. Arguably, leadership matters sit at the same level of importance as strategy, capital structure, compliance, and operational performance[4].

Questions that lead Directors toward a fuller understanding of the impact of loose accountability include:

- Is leadership talent acquisition and development a personal priority of executive management or is it delegated to staff groups such as Human Resources?
- Do we hold our operating executives accountable for candor about talent and the accuracy of their promotability assessments? Does this impact their compensation?
- Are metrics annually tracked for judging the of the talent management processes and pipeline depth/ readiness?

Tactics to mitigate the risk of loose accountability

• Score the organization's talent management process. We offer the outline of an measurement system which Boards may adapt for fulfilling their oversight role of talent management. Boards should request the operating organization evaluate leadership and talent management processes across five primary factors:

Leadership at the ….i.e., senior leadership competency and effectiveness

2. Talent throughout the organization…from the top down, does the organization out perform its competitors
3. Bench strength…depth and readiness of talent that can step up especially in pivotal positions

Compensation … measuring the prudent allocation of rewards for short and long term contribution.

5. Effective renewal processes…programs and activities which continuously elevates competency and serves to keep the leadership pipeline operating to produce the talent required to meet the strategic agenda.

Measurement sends strong signals, which are heard deep inside the organization regarding the importance of leadership and talent development. Ultimately, those leaders better at talent management should be rewarded; those leaders not willing or able to build the pipeline should be recognized with negative discretion.

• Bring attention to *brewing* talent management problems. There is a short list of leadership problems which the board has line of sight. These include key performer attrition, high potential talent reporting to a mediocre leader, compliance issues, stagnation of promotable talent in jobs for too long, and concerns about executive values and ethics. Taking time to spotlight these matters and provide corrective oversight sends messages throughout the organization about the Board's attention to talent management matters.

2. Inept Assessment

Each day, leaders throughout the organization make judgments, or "calls," to select talent for more challenging and complex jobs. When these decision-makers fail to make astute talent assessments and predictions, a little bit of a company's future is chipped away. Most organizations will have some great talent "judges". While laudatory to be able to cite those leaders who make solid calls, the goal is to have in place a disciplined, consistent enterprise wide process that delivers talent consistently. The best performing companies have a rigorous process and demand excellence in this essential area.

The stakes are high. Boards and Wall Street don't often have the patience for the uncertain adventure of evolving good teams into great ones when the individual talent does not measure up to winning. Better to start with great in the process of building high-performance teams. And the starting point is having competent and highly skilled leaders making those important calls.

Questions that enable Boards to gauge the ability and motivation of senior leadership to differentiate top tier talent from "false positives" and cultural misfits:

- Can our operating executives articulate the differences between top tier talent, the game-changers, versus market performers?
- Is there consistency among executives in the use of a behavioral competency model for the assessment and development of talent?
- Are our senior executives good judges of talent? What's their batting average?

Tactics to mitigate the risk of inept assessment

• Adopt a common competency model for senior level talent assessment. The adoption of a competency model among the Board and senior executives for the assessment of senior executive leadership competency is a major step in improving a company's talent management IQ. A well-constructed model assures consistent and comprehensive coverage of those skills and abilities, which are pivotal to the success of an executive. A common model introduces consistent talent management language and standards for assessing executive capability and development needs. The model aids in the differentiation of talent with game changing potential, market performer potential, or laggard potential.

The model can be fully "home grown" or adapted from professionally developed competency models. The model presented below, Executive Success: Key Competencies, is a leading competency model.

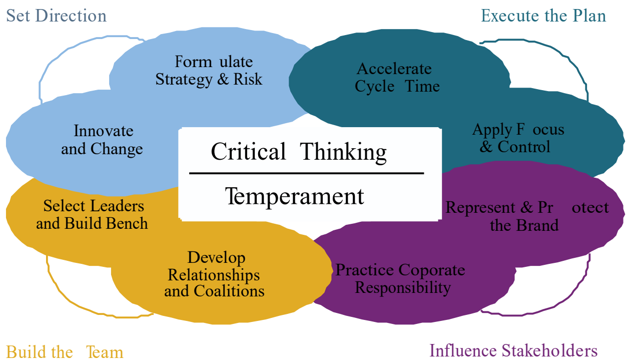

Figure 3. Excutive Success: Key Competencies [5]

• Coach senior officers to sharpen their assessment standards. The ability to size up talent is a critical skill for an executive. Certainly, these talent "calls" largely determine any leader's fate and often their legacy. All senior executives must master this skill and ensure other leaders in decision-making roles conform to high standards. As a Board member, taking a personal interest with a senior executive who might not have a good track record in talent assessment signals your interest and importance in this area.

• Demand candor and open dialogue from senior executives during talent discussions. During confidential talent review sessions, candor and open dialogue is an essential ground rule. Candor is a quality control factor necessary for improving the accuracy of assessment of each emerging leader. Open dialogue creates a categorically different atmosphere than a formal one-way talent presentation from one executive to the board. Candor in these settings helps the silent voices to be heard and to wipe out pocket vetoes.[6] The quality of the assessment is dramatically enhanced with an open dialogue.

• Use high quality assessment tests to supplement your decisions. There are many assessment tools and tests in the marketplace—something approaching 35,000. Many are poor predictors of executive success and are regrettably used by untrained, unqualified practitioners. The few and better tools do improve prediction—often in the range of 35-40% better "hit rates" than without the use of an assessment tool. The better tools are used by the better practitioners.

We highlight three tools for Board consideration: the Hogan Assessment personality test[7]; a tailored in-depth behavioral interview; and a conversational-based assessment technique, called the Human Asset Inventory®[8]. In the broad field of assessment, we feel these are distinctive tools and improve prediction.

1. The Hogan Inventories (Hogan Assessment Systems) are suite of well-validated personality focused tests for predicting job performance.
2. Behavioral interviews are constructed to elicit data each factor of a competency model.
3. The Human Asset Inventory® is a discussion based approach, and uses an expert facilitator to draw competency information about an individual from a panel. This information provides a comprehensive view of a company's bench-strength.

3. Misalignment of Executive Compensation

Executive compensation has earned its place as one of the more crucial areas of enterprise risk due to a small number of highly publicized abuses that have occurred over the last decade.

Concerns by shareholders, regulations, advisory groups and compensation experts are that compensation plans were, and still are, poorly aligned with the interest of long-term shareholders. In too many cases, there are concerns that compensation plans are simply too rich, that plans induce executives to pursue high-risk, short term business strategies that—if unsuccessful—can lead to catastrophic shortfalls in operational and financial and performance, threaten the company's viability and result in major damage to the company's reputation, that payout guarantees or "sandbagged" incentive targets are ever present. Shareholders are perplexed that executives often earn astonishing payouts as a consequence of disappointing business results and executive failures and removals.

It is also the case that executive compensation plans are complex and difficult to decipher unless one is a compensation expert or experienced executive or director. So, the opportunity for confusion and suspicion is large and is fueled by media and activists motivated by something other than pay for performance ideals.

Questions to avert misaligned and controversial compensation plans and payouts include:

- Are targeted [and aspirational] compensation payouts affordable?
- Is executive compensation clearly aligned and risk against the achievement of business goals and long-term strategic objectives?
- Is 'negative discretion' demonstrated by the Committee in formulating bonus payout decisions?

Tactics to mitigate misaligned executive compensation

• Operate an independent Compensation Committee supported by an independent compensation consultant. Independence allows the Committee to formulate compensation policy and pay plans which are unbiased by the interests of management. Effective compensation policy and plans motivate management to set and achieve goals that are in the interest of long-term shareholders and plans which remove short-term incentives for management to "game the system' for short-term gain.

• Avoid single metric measures for long-term incentive compensation. Build senior executive compensation plans with a balanced blend of internal and externally-gauged metrics with payouts contingent, in part, upon peer company benchmarks and comparisons.

• Preview executive compensation philosophy and plans with key shareholders and shareholders advisory firms [such as ISS, and etc.] This work is largely preemptive. Its intent is to solicit feedback and ultimately acceptance. Boards should proactively share their compensation philosophy and plans with board advisory firms and key shareholders to eliminate confusion or confront disputes with them regarding the design parameters of compensation plans. With the growing clout advisory firms have with major investors, it is wise to market your compensation philosophy and plans to advisory firms and major investors to avoid unfavorable opinions which tend to alarm shareholders.

4. Inadequate Bench-Strength

Adequate bench strength is a Board's most effective antidote against leadership shortfall.

An adequate bench protects the organization against defection and failure by current incumbents. Perhaps, the bench may even motivate current incumbents to behave and perform at higher levels with the understanding that great talent awaits on the bench if performance disappoints. Bottom line: risk is averted or mitigated and the business doesn't miss a beat. This resource availability means that the organization's development and renewal systems have worked effectively to build a designated successor or a pool of ready now talent that can smoothly step in to replace executives exiting for any reason.

Additionally, an adequate bench funds leadership needs during organic or inorganic growth events. Organizations can more confidently contemplate growth opportunities with knowledge that their bench can be deployed in opportunistic ways. Referring back to the Risk Hot Spots schematic, a strong bench averts or mitigates many of the risks portrayed there.

A strong bench is characterized by talent that is most likely better prepared and differently skilled than current incumbents—these 'new model" leaders are equipped with and tested for future-focused skills, insights and instincts, and sound values during their development and ascendancy. A strong bench also reflects an organization's preference for promotion from within, but not a prohibition from recruiting "best in class" talent from other sources.

A Board often applies three tiers of focus to matters of bench strength:

• CEO succession. The Board typically takes full responsibility for a replacement plan for the CEO which considers a "normal" service duration for the top executive plus an emergency plan for mitigating crisis events including death, termination for cause, or defection. This is often a matter of high importance.
• Named Executive Officers and Section 16 Officers. The Board may oversee and monitor the performance, promotability readiness, and defection risk of its more senior officers—these may be direct reports to Named Executive Officers or further down the organization chart. Skill, judgment, integrity, stretch, and cultural fit are the frames of reference Boards find helpful in assessing the promotability of officers and their backups. This is typically a matter of moderate importance.
• Succession Processes. Boards are wise to understand and monitor the discipline and resources devoted by senior management to renewing and replenishing an adequate and ready bench. Admittedly, financials are the language of global business; however, they are lagging indicators. On the other hand, talent management metrics are highly predictive leading indicators, important, but too rarely tracked on corporate dashboards and other reporting systems. This is a matter most often left to the responsibility of senior management with little board oversight. We feel that this 'hands-off' approach is a mistake.

Questions to gauge if your company has an adequate and ready bench:

• Where does promotion from within occur? When and where does the organization regularly recruit for outside "take your breath away" senior talent?
• Does the Board know and have confidence in Section talent and their ability to step in and step up??
• Are there realistic back up plans which allow operating units and functions capable to quickly respond to leadership replacement needs? Or, are the back up plans just a "paperwork exercise"?
• Does every senior executive leader have a 'ready now' back-up that board members feel quite positive about?

A Board would be prudent to insist that the company have a process in place to identify and develop leadership talent for the future.

Tactics to mitigate inadequate bench-strength

• The full Board designates a committee, most likely Nominations or Compensation with lead responsibility for talent and succession planning work. Their responsibilities should be incorporated into a committee's charter. A Board would be prudent to insist that the company have a process in place to identify and develop leadership talent for the future. Their tasks include challenging the criteria for selection, providing collective opinions and views on key insiders, and developmental suggestions. The Board can expect Human Resources to design the process for talent management with executive management taking the lead to operate the processes. And the Board can monitor both process excellence measures and outcomes.

• Devote Board time to review the Section 16 succession planning and its bench. Directors may have planned interactions with high potential leadership a couple of levels down in the organization annually. This type of contact provides “feel” for the talent proposed on the Section 16 'bench'; however, there must be a planned review of the suggested successors to those key positions. This combination of periodic contact and the review should provide a collective confirmation or concern about the Section 16 talent pool. The Board’s wisdom about talent provides a unique “lens” that offers significant value.

• Review the list of leaders most vulnerable for defection. Understand management’s mitigation plan. If your organization has a solid reputation in developing leaders a sure bet is that those individuals are well known by the executive search community and receive feelers about their interest in moving to another company; many times a competitor. The mitigation plan is a step, not a guarantee, which a surprise loss of great talent should not happen. The Board should request that management consider vulnerability of defection throughout the Section 16 officer cadre and perhaps lower in the organization. Human Resources staff has a good feel for this issue at the ground level.

5. Playing it Too Safe with Development

Inadequate leaders are readily noticed: their teams consistently fail to achieve expected goals; organization culture is not tuned to high performance; outsiders must intervene to solve problems and clean up messes; great emerging leadership talent seeks a way out and no one from other units wants in. At one time, these “failed' leaders may have been highly valued high potentials. But, what happened when these high potentials were asked to step up or step in to positions of larger scope and challenge? Why do they fail? Many times the answer stems back to their development agenda—it was too safe, too protected, and too guaranteed. The organization failed to stretch, test and ultimately develop the competency to perform at expected levels. Meaningful lessons of experience were not learned. And when the call came for them to lead and perform, they did not have the mettle to do so. The organization most likely reacted with surprise at this failure. Bottom line: development was too safe and the development “bars” never placed high enough. The organization has unwittingly set the individuals up for failure.

Better leaders are challenged early and often at various levels, learn the lessons of experience and incrementally build the perspective and skills to achieve. If the organization’s developmental activities are inadequate, its leaders will be inadequate.

Questions to understand if development is too easy and fails to deliver executive values, instincts and competencies are:

- Can and do high potentials ‘fail' development? Is the organization’s safety net too safe?
- In which operating units and functions do our organization’s best emerging leaders 'get lost' or leave?
- Are we designing our learning and development that build leadership competencies for the future within a changing world of customers, suppliers, governments, and employees?

Tactics to mitigate playing it too safe with development

• Adapt philosophy and practices from best in class talent development companies. Study companies such as GE and PepsiCo to learn what they are doing with leadership and talent management. Gauge your company’s commitment and activity.[9] Assure that you are appropriately developing people. For example, GE uses the Organization and Personnel Committee to bridge the gap between line management and the Board. The Management Development and Compensation Committee (MDCC) members are given a thorough review of the company's leadership each June and a board-abbreviated version is given each December.

• Review results for officer-candidate action-learning projects. Action-learning assignments test individual’s learning ability, often their team leadership skill, and expose them to the bigger picture issues. These assignments provide those involved with insights, perspectives and tools and involve a variety of venues. What is unique about these assignments is that the participants are tasked with solving a real business problem. Board members should interact with these emerging leaders to learn about the company’s future opportunities and challenges as well its emerging talent.

• Assure that the 'best' talent gets the most challenging jobs. Everyone gets developed—but the best jobs should go to the best talent. It is a well-known fact that the richest experience and the best developmental experiences are to be found in the most challenging environments. Regularly ask four talent management questions of senior management[10]:

- Is the practice that our best emerging leaders be assigned the most challenging business conditions?
- Which of our leaders are most underleveraged?
- Is it time to move up some of our highly promotable talent?
- Do we understand why we lose highly prized talent?

6. A Once a Year Mindset

It is generally accepted that there are three elements of a successful strategy implementation:

- The What: Strategy formulation; defining the future direction;
- The How: Business Planning; developing how the organization will resource, align, track/measure and fund its direction, and
- The Who: Talent planning; assuring that the organization has the human resources to implement its direction today and renewal capacity to sustain itself over time.

Corporate strategy and business plans are set and then there is constant attention to their execution; they are the focus of everyday conversations and analytics; however, in the 'people area' this is not the case. Thus, that critical link between corporate strategy and the talent base is rarely made. If that lack of attention cascades down to the operating units no wonder we have so many failures because of people issues.

Why does this occur? Because the linkage of strategy with people is not made at the organization's highest levels.

Our view is that this occurs because of the "once a year mindset" common in too many organizations. During the talent planning and review sessions, which is common within operating organizations, the SOP is for leaders to 'present their people'. The expectation is that the audience; peers, their boss and the leaders' boss, will offer input and discussion about individuals reviewed. Candor should be the order of the day. But the candor and interaction is missing on many occasions. There is an unwritten rule of, "let's all be civil and polite here and not embarrass each other with penetrating questions". The session becomes a Kabuki event. And as a consequence, solid data and confidence to support planned personal moves is not developed. These sessions are perhaps interesting but lack insight and impact. Regrettably, line managers leave these types of sessions proclaiming, 'let's get back to the real world' [10].

So crucial personnel decisions are sadly too often built upon faulty data which are not stress tested by senior management.

Questions that help bring leadership and talent management into the regular ongoing discussion between boards and senior management are:

- How is the operating unit's talent plan directly to the strategic plan?
- Is 'talent' on the Board's agenda for every meeting?
- Is information available to quickly answer talent management questions posed by the Board? Or, does every question require a staff member to study the question and report back?

Tactics to mitigate the Risk of 'Once a Year Mind-set'

• Insist on a dashboard of leadership talent information. After talent review processes are held, the traditional problem of follow-up emerges. Advanced technology touts leadership dashboards as being 'the' solution. Most human resource IT applications in the talent and succession planning space are costly and focused on the transactional and operational aspects of people, but woefully short on the strategic and predictive information required to support talent optimization. Most fail to connect talent capabilities with operational decisions and then to financial outcomes. Certainly, boards and senior executives would be prudent to adopt dashboards that provide strategic and predictive information to drive the talent issue and affect the financial bottom line. The Leadership Pipeline® Dashboard [11] is the leading tool for strategic insight into the talent of an organization.

• Place four talent agendas on the standing board calendar each year:

- Senior Leadership development and assignment options: performance and retention
- Pipeline analysis: business unit, functional and geographical depth and readiness
- Developmental programming: successes, derailments, future plans
- Compensation planning and alignment: affordability and shareholder agreement

7. Settling for Just Good Enough

Organizations can lose their fitness edge when not challenging themselves to attain market share or functional excellence. In the early stages of decline, signs of "organizational dry rot" [12] can be detected when *just good enough* leaders are appointed to key roles and steer their operating units toward incremental improvements and are expected to deliver strong results.

These *just good enough* leaders work harder and manage to win—for a period of time. Often, they have chosen to keep score using internal measures of success and performance—year-to-year metrics, for example, as opposed to external metrics that score against best-in-class performance comparisons. But soon, as competitive tactics change and innovation occurs, these leaders are over their heads—overworked, overwhelmed and they simply run out of gas. Their reputation slips, and emerging great talent becomes difficult to attract and retain. Predictably, the competition begins to win.

Questions to gauge if your leadership team is leading or lagging its sector:

- Does this organization regularly outwit and the competition? What are the results of competitive benchmarking in the area of talent?
- Does the operating organization have more than their share of 'game-changers'?
- Does the organization deal decisively with derailed and underperforming talent?

Tactics to mitigate settling for just good enough

• Assure that there is recruitment of more than your fair share of "game-changers." Great talent attracts great talent. Companies that manage to acquire more than their fair share of great talent will have the edge in the war for talent. To win this war, managers must be able to recruit, develop, deploy, and retain great talent, continuously top-grading from good to great.

• Insist that the cost of leadership failure be monitored and reported. Many 'just good enough' appointments might fill the present job, but just do not have much more in their tank to help an organization get to its future. And, too many fail. Review the metrics and their predictive validity.

• Review the effectiveness of on-boarding and newly-appointed executive assimilation. Great talent can get lost in organizations and never have a shot at actualizing their potential. Reportedly, the failure rate of newly-appointed executives is higher than 40 percent for both insider and outside appointments. A factor in their eventual failure is an ineffective on-boarding or assimilation process. Relationships, expectations, and trade routes for information collection and problem solving are forged during these first 100 days or so of assimilation. It is the period of time that outsiders have the opportunity to become insiders to the organization. Boards want well-connected leaders to forge strong team bonds as a consequence of properly *joining up.*

Leadership-rich organizations never believe their talent-management process and activities are discretionary duties.

Summary and Conclusions

Leadership is often about delegation. Effective talent management is not. We have discussed the serious and personal work that Board members and members of the senior team must perform in order to build talent and send signals to the organization about the value of building a deep and ready bench, and the standards by which the process must be executed.

Leadership-rich organizations never believe their talent-management process and activities are discretionary duties. They understand the process as an essential core competency that can't be duplicated, that largely can't be delegated, and must not be neglected.

There is nothing altruistic about these values. It is about building the capacity to perform and win. Great leadership is the foundation for sustained performance through both evolutionary and revolutionary phases of any company's life span. Without a Board and senior leadership putting their personal stamp on this process and investing personal time to know and grow the pipeline, the process is doomed for credenzaland and the enterprise is destined to be an earn only market performer or laggard status among its peers.

At the end of the day, the central question for any Board is: "Is our leadership clearly a competitive advantage"?

About the Authors

Patrick R. Dailey is a founder of Board Quest, LCC., a board of director consultancy. Patrick has held senior level Human Resources positions in Fortune 100 firms, as well as worked in various sectors with multinational companies including Hewlett-Packard, Lucent Technologies and PepsiCo. Patrick serves on the Board of the National Association of Corporate Directors-Atlanta Chapter and as a director for a private business. He received a Ph.D. in Industrial and Organizational Psychology from the University of Houston, Texas. Patrick can be reached at pdailey@boardquest.com or 310.400.9992.

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2. Dr. Gary Loveman, in 2000 was a professor at Harvard University. In a presentation, Dr. Loveman reported on research at an ADT Leadership Conference in Atlanta, Ga; circa Spring, 2000.

3. How to Fill the Talent Gap'; Jay Conger and Douglas Ready; *Wall Street Journal*; September,2007. In the citation they make the point that Global companies face a perfect storm when it comes to finding the employees they need and the normal processes that we employ do not work.

4. *The Talent Masters*; Why Smart Leaders Put People Before Numbers; Ram Charan and Bill Conaty pg. 19-20; Jossey-Bass; January 2011

5. Patrick R. Dailey, "What Leaders Do...Requisite Competency for 21st Century Challenges," in *The European Business Review*, January/February 2012 edition, pp 15-21.

6. 'Pocket veto': A term originally used as a legislative maneuver in lawmaking that allows a president or other official with veto power effectively to exercise that power over a bill by taking no action. In organization dynamics it is used to describe situations where either one person, or a small group, can override the will of a much larger group without consequence.

7. *The Hogan Personality Inventory (HPI)* is a measure of normal personality and is used to predict job performance. The HPI was the first inventory of normal personality developed specifically for the business community. It is distributed by Hogan Systems, located in Tulsa, OK; http://www.hoganassessments.com

8. The Human Asset Inventory® is a facilitated conversational based discussion built to assist a leadership team to address the strategic question: "Do we have the talent we need to meet our strategic agenda"?; it is a proprietary tool of Coral Bridge Partners; located in Chicago, IL; www.coralbridgepartners.com

9. Ending the CEO Succession Crisis; Ram Charan; *Harvard Business Review* article: pg. 1-3; Publication date: Feb 01, 2005. Prod. #: R0502C-PDF-ENG

10. Discussion paper distributed through the Human Capital Institute;How to tell if your Succession Planning process is Working; Charles H. Bishop, Jr.; July, 2012.

11. The Leadership Pipeline® Dashboard is a breakthrough decision support system by Coral Bridge Partners focused on understanding the bench-strength in an organization; then, taking action to optimize that talent to subsequently improve organization performance.The Dashboard provides a structure so that management and Boards can view the talent and assure that the right decisions are made: Coral Bridge Partners: www.coralbridgepartners.com

12. John W. Gardner, "How to Prevent Organizational Dry Rot," in *Management and Organizational Behavior Classics*, ed. Michael T. Matteson and John M. Ivancevich, (Homewood, IL: Irwin Press, 1993) p. 140.