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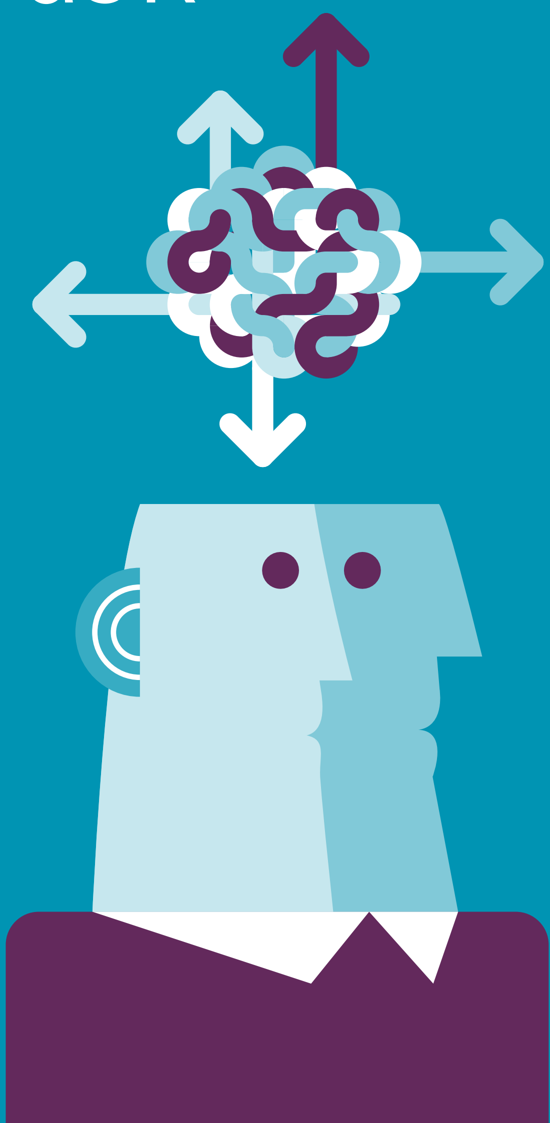
The talent strategy questions every board should ask

Too often, boards of directors neglect the impact of talent strategy on corporate health. Asking the right questions can help ensure sufficient leadership competencies and smooth transitions.



The talent strategy questions every board should ask

Leadership capabilities are often only noticed in their absence, but by then it may be too late: strategies have faltered and opportunities are lost. A company's talent strategy is crucial to performance, and boards of directors must be confident that the company is promoting, recruiting, and retaining competent leaders. While many directors feel ineffective in guiding talent strategy, posing the right questions to the top leadership team can support more vigorous — and effective — talent management and help avoid shortfalls.

Heidrick & Struggles' reports on European corporate governance, for instance, have uncovered a significant gap between the importance of talent management and a board's ability to influence it. In our most recent report,[1] 92% of the board members surveyed placed great importance on "a comprehensive review of top talent performance and engagement in succession planning." Yet only 55% said board performance was at least satisfactory on this aspect of governance. The gap was the largest exposed by the survey.

While this survey was focused on Europe, the need for greater board oversight of talent strategy is global. For example, we've seen that a primary obstacle to board members questioning a company's talent strategy is a general lack of experience. Our analysis of board appointments to Fortune 500 companies showed that between 2009 and 2013 about two-thirds of the newly appointed directors were sitting or former CEOs and CFOs. While such board members are comfortable diving into the minutia of strategy and finance, without a human resources background they are often reluctant to delve into talent issues.

Conscientious board members, however, must overcome this reticence in order to satisfy themselves that the company has a human resource strategy that matches corporate objectives. Establishing and developing the right team is vital for all business success, and failure could put a company's overall strategy at risk. For instance, a company may lack the capabilities needed to meet corporate goals or successors might not be ready when they are called to fill key positions throughout the organization. When problems arise, the response might be crisis management rather than talent management.

As part of their corporate governance mandate, boards of directors should become more active in talent management. They must ask top executives key questions to discover whether there are any capability gaps, how any gaps are being addressed, and how the company can prevent gaps from developing in the future. In addition, they should ensure that a review of talent strategy (including the diversity of talent) is included routinely on the board's formal agenda and discussed at least once a year. Without explicit interest from the board, senior executives can also become complacent around these issues and a company's talent management and strategy can suffer.

1 The 2014 report is the latest iteration of ongoing research. Data was gathered from 15 countries and the top 400 publicly listed companies in each country. For more, see *Towards Dynamic Governance 2014* on www.heidrick.com

Uncovering leadership gaps

A crucial aspect of overseeing talent management is identifying gaps in leadership competencies. Corporate strategy is dynamic, changing with the shifting industrial and economic landscape. Yet internal capability development is often very static, focusing on an unchanging set of skills and competencies.

Boards of directors should know what capabilities are needed to implement corporate strategy and whether these needs are being be met. Directors don't need to become experts in human resources, identifying for themselves the competencies that best match the company's strategic needs. Rather, they should ask the company's top leaders, led by the chief human resources officer, to report on the competencies required immediately and in the future.

Key questions board members should be asking around competencies include the following:

> **What leadership, functional, and industrial competencies are needed to achieve our corporate strategy?**
>
> **What kind of framework would ensure high-quality assessments of our current leadership competencies?**
>
> **What competencies do we have?**
>
> **Who is responsible for closing any gaps that are identified?**

When senior managers don't have conversations with their boards around these questions, companies may find themselves at a disadvantage. A global professional services company that needed to become much more commercially oriented, for example, revised its overall strategy in a way that required a major cultural change. Yet for a successful transformation, the company's leaders needed the ability to generate organizational buy-in — a general belief that the changes were both necessary and beneficial. However, company leaders were never assessed on this leadership dimension, and the new strategy had a rocky start as the company scrambled to develop this competency.

At another organization, drastic changes in technology created a greater need for innovative solutions. Unfortunately, the company's talent strategy had not emphasized creative thinking or risk taking. There were no incentives, programs, or supporting culture in place to encourage innovative thinking, and the company was caught unprepared for the new challenge.

Both these situations might have been anticipated and mitigated if the board had taken a more active role in understanding the capability gaps the company faced and kept the issue on the agenda of senior managers. One measure would be to ensure that the human resources department, together with specially trained line managers, properly assessed available leadership competencies across a wide spectrum of attributes that included, for instance, familiarity with industry best practice, relationship building, driving results, and innovative thinking. Mapping strengths and weaknesses in these areas can highlight deficiencies that might need to be addressed before they threaten the ability to execute on strategy.

Board members should also understand the framework used for assessing individual and corporate capabilities. Too often, for instance, when a leadership vacancy needs to be filled, boards are presented with a truncated list of suitable candidates. How the candidates were selected for the short list might be unclear: is this a reward for successfully completing a single project, or is this based on a full assessment of a broad range of competencies backed up by various documented examples of relevant behavior over time?

Closing the gaps

After uncovering any deficiencies in leadership competencies, boards can also be effective in pushing measures to close these gaps. Corporate policies toward internal promotion and training and external hiring are crucial aspects of talent strategy that can boost leadership skills where needed.

Key questions surrounding this dimension of talent strategy include the following:

> **Should talent management include all employees or focus on select individuals or groups?**
>
> **What's the appropriate balance between internal promotions and external hires, and are we measuring it properly?**
>
> **What is the framework for developing internal talent, and how transparent should it be?**
>
> **What is the company's value proposition for internal staff and external hires?**
>
> **How does the board ensure that any needed changes are implemented?**

Internal and external solutions to competency gaps can reveal unexpected tensions and organizational shortfalls. For example, at one global organization, the CEO was tasked by the board to improve the company's leadership talent program, but the initiative faced two crucial obstacles. First, when twenty-five select global leadership candidates were brought together for training and networking, the company discovered that only three were willing to relocate and, of those, one didn't have the necessary English-language skills to progress. And, second, country managers mutinied against the initiative when they realized it meant their top people might be transferred elsewhere.

To help foster employee loyalty, capture the benefits of investment in talent development, and build a strong company culture, the board of directors at another company decided that 80% of vacancies should be filled by internal promotions. But when they looked into the situation more closely, they found that fewer than half of the vacancies were currently being filled internally, and, given the size of the company's "bench" of high-potential leaders, it would take seven years to develop the internal talent necessary to meet their ambitious goal. In the meantime, the company would have to continue to rely on high-caliber external recruits and, in particular, streamline and improve its recruitment practices.

One global company we worked with, headquartered in the Nordic region, had recently completed an extremely successful initial public offering, and staff rightfully celebrated the triumph. But board members became worried that the success would make the company complacent, risking its competitive advantages. As part of the solution, the board identified competency gaps around market intelligence and instructed top executives to fill those gaps with, for instance, initiatives to benchmark best practices within the industry and to seek lessons from unrelated industries that could be relevant to the company's own future. Going forward, the top leadership team put "benchmarking" down as one of its routine agenda points at its quarterly top leadership meetings.

Directors can also ensure that the company has a clearly articulated value proposition for current employees and potential recruits. Every single point of contact in the organization — from non-executive directors to the most inexperienced junior staff — should be able to state what is special about working for the company. If the company does not have a clear and unique employee value proposition, the board should require the top leadership team to create one.

Directors should also ensure that the company has detailed metrics and goals for talent recruitment and retention. Such topics should be discussed at least annually at board meetings, to track progress in closing competency gaps and to underscore the importance of the company's talent strategy. The chief human resources officer should be held accountable for any shortcomings.

Avoiding leadership gaps

Ultimately, the best way to solve the problem of gaps in leadership competencies is to avoid them entirely. Developing internal talent and recruiting external candidates are expensive and time-consuming activities. A critical aspect of any company's talent strategy is its retention program. By keeping long-tenured leaders, a company preserves not only the competencies it has helped develop but also the institutional memories that support smooth and effective business operations. Veteran employees are the stewards of corporate culture, passing along the company's approach to performance and success to younger leaders.

Yet in our experience, retention policies are frequently the most neglected dimension of talent strategy. Among the questions boards of directors should be asking regarding retention strategies are the following:

> **What is the company's position on staff turnover, including targeted levels?**
>
> **How do retention policies support corporate strategy?**
>
> **Why do talented people leave, and how do we address these problems?**
>
> **When a leadership position is filled, either by internal promotion or external hire, what is done to ensure smooth onboarding?**

Recently, Heidrick & Struggles worked with one corporate board that questioned whether workers who had been identified as high potentials and likely successors for leadership positions had actually been promoted. Most hadn't. On the contrary, the board found that the majority of these rising stars had left the company. After the global economic crisis, the company had suspended its training and leadership programs, expecting its stars to understand. Instead, they became easy targets for other companies that believed investment in top talent is necessary in all economic climates.

Of course, some turnover is expected and even needed to bring in fresh ideas and challenge legacy operations, but excessive turnover creates uncertainty, additional training and recruitment costs, and an unnecessary loss of resources invested in capability development. One retail company reduced annual staff turnover to 37%, from 55%, by recruiting staff members who were older and by creating working conditions more convenient to staff with young children. Notably, as employee satisfaction improved, customer satisfaction increased as well.

Professional exit interviews are invaluable for understanding the strengths — and weaknesses — of a company's retention program. Often the problem is not pay or benefits, unless these are well below industry standards, but rather a scarcity of career development opportunities. Several international studies, including research by Gallup, suggest that employee engagement rises significantly with company guidance and attention,[2] and our experience suggests that a great many staff departures could be prevented if leaders were more attentive to issues of career development and good leadership. For their part, board members should insist on periodically seeing data from these exit interviews and review the reports to detect any ongoing problems.

Ironically, a hidden challenge to staff retention arises when top talent is promoted or recruited to positions of new responsibility. Transition plans are often abandoned as daily tasks accumulate, which can lead to frustrations and low performance. Surprisingly, the risk can intensify with internal promotions, because managers can assume erroneously that transition plans are less important when moving someone within the company.

Considerable research finds that competences are not automatically portable and that careful plans for transitions into leadership positions, or onboarding,

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2 See, for example, *State of the Global Workplace: Employee Engagement Insights for Business Leaders Worldwide*, on gallup.com

are critical to success — even for very senior leaders.[3] Such plans should include formal introductions to all relevant business and support areas, as well as quarterly 360-degree feedback from superiors, peers, and subordinates. For senior leadership positions, the process often requires a full year.

3 For example "Are Leaders Portable?" *Harvard Business Review,* May 2006.

A crucial component

Leadership talent and competencies will always be critical to corporate success. Unfortunately, boards of directors often feel unprepared to explore their company's talent strategy. But talent strategy is a crucial component of corporate strategy and risk management and cannot be neglected by boards as they fulfill their responsibilities. By asking the right questions, agreeing how to measure progress, and ensuring regular high-level reviews, the board not only underscores the importance of talent strategy to corporate health but can also uncover risks and weaknesses before they affect company performance. ■

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