



**BEST COMPANIES FOR LEADERSHIP** February 16, 2010, 11:35PM EST

# How Companies Develop Great Leaders

Creating a culture of leadership even during crises, chaos, and an economic downturn

By [Patricia O'Connell](#)

At first glance, Zappos.com, the online retailer, appears to have little in common with General Electric ([GE](#)), the multinational conglomerate. Hit hard by the recession, GE is in the throes of scaling down its financial services subsidiary, GE Capital, by an estimated 40%. Zappos, on the other hand, is tapping into changing consumer habits and ramping up for 30% growth over the next 12 months.

Yet surprisingly, these two organizations with their rapidly shifting environments face similar challenges in motivating and engaging their employees. For Zappos, it's about creating and maintaining passion in a call-center culture. For GE, it's about keeping people engaged in a changing climate.

Named among the 20 Best Companies for Leadership in a recent BusinessWeek.com/Hay Group survey, both GE and Zappos put a premium on selecting, developing, and retaining strong leaders at every level. What sets them and the other companies on the list apart, however, is not just their emphasis on good leadership, but also how they approach it. They carefully tailor their developing leaders to fit their unique business strategies and organizational cultures.

## IN BAD TIMES AS WELL AS GOOD

While the data suggest there is no one best way to grow leaders, the companies that do it best share certain key characteristics. The top 20 companies address leadership development on multiple fronts, from articulating how leadership behavior needs to change to meet the challenges of the future to managing their pools of successors for mission-critical roles. And, despite the chaotic, crisis-strewn atmosphere of the past year, they've continued to make leadership a top priority.

"The best companies for developing leaders recognize the value of strong leadership in both the good times and the bad," says John Larrere, who heads Hay Group's leadership and talent practice in the U.S. "Culturally they just cannot do away with leadership development, even in a recession. They don't see it as a perk but as a necessity."

People at the Best Companies for Leadership sense the urgency to develop leaders more than their industry peers. In fact, while 94% of respondents among the Best Companies for Leaders say their organization actively manages a pool of successors for mission-critical roles, only 68.6% of the other organizations surveyed report the same.

## "POSITIONING FOR THE FUTURE"

Indeed, leadership feels different at the Best Companies. In the survey, more than 64% of respondents from the top 20 say people in their companies are expected to lead even when they are not in a formal position of authority. At other companies, that figure hovers around 35%. And respondents from the Best Companies for Leadership are significantly more likely than those from other companies to believe they will emerge stronger from tough times. They say their leaders are more likely to be involved in leadership development. And they are

twice as likely to say that everyone at every level of their organization has the opportunity to develop and practice capabilities needed to lead others.

In the survey, respondents were asked about their companies' current focus. Among all the respondents, 65.1% said, "positioning for the future." Among the Best Companies for Leadership, the figure was 81.9%. Executives at the Best Companies for Leadership confirmed this in follow-up interviews. "Our culture is committed to leadership development," says Jayne Johnson, GE's director of leadership education. "Crotonville [the site of GE's corporate university] opened in 1956. Today more than ever, we need our leaders going to Crotonville. It's these very leaders who will make us successful today and in the future."

According to P&G's ([PG](#)) Chief Human Resources Officer Moheet Nagrath, the primary way of developing future leaders is to offer "Accelerator Experiences," a program that provides developing leaders the experience of running a small business with huge strategic potential. "We continually move people across regions and countries," says Nagrath. "The more discontinuous the experience, the more you accelerate growth. We have to move people around businesses for them to become well-groomed." One benefit of this experience, he says, is that it helps people manage in the organization's matrixed environment.

### **MAPPING BACKWARDS**

Nagrath notes that at P&G, "We start with the destination role and then help future leaders acquire a deep understanding of the role. It's about understanding the individual from a deep perspective. We look at the timing for when a leader should go into the destination role, and we map backwards from the destination role to where they are currently."

GE takes a different approach, identifying talented leaders early on, and placing them in stretch assignments, often before they think they're ready, according to Johnson. "And we support them, with over \$1 billion a year in structured training. But today, change is such a continual force that even we at GE are taking a fresh look at how to develop talent."

At Zappos, a challenge is developing leaders at a pace that will accommodate the company's growth. "We are projecting 30% growth in 2010," says Rebecca Ratner, the online retailer's director of human resources. "We will need more supervisors. How can we best integrate them into the company in terms of how they treat employees?" Noting that Zappos managers spend "10% to 20% of their time doing team building outside the office, our challenge is figuring out how to assimilate people into what we do."

### **EVENTS OUTSIDE THE OFFICE**

For anyone coming in from the outside, she says, it's not a typical recruitment process, where they meet with three or four people before either being hired or rejected. "What we do instead is spend seven to 10 hours over four occasions at happy hours, team building events, or other things outside the office. We can see them and they can see us." The process seems to be good for retention. "In 2009, we will have a 20% turnover rate," says Ratner. That's impressive for call-center employees. What keeps people at Zappos? "We pay 100% of employee benefits," says Ratner. But there's something more, something Zappos calls its "wow factor."

Says Ratner: "We can't ask someone to wow a customer if they haven't been wowed by us." In fact, Zappos is so eager to wow employees and make sure who they hire is really committed that the company offers people \$3,000 after they've been trained to walk away if they feel they and Zappos aren't a good fit. Ratner is quick to point out that almost no one takes the \$3,000 walk-away money. But many trainees return for more Zappos training to become managers and supervisors. Ratner admits that one of her big concerns is how to keep the wow factor alive as the company adds more people and ramps up its leadership development.

ABB, a leading provider of power and automation technologies, is also facing challenges posed by a double-digit growth trajectory, according to Julia Blake, vice-president for human resources at the company's Power Products Division in North America. "We were growing our business and rapidly filling positions. Our challenge now is the rapid development of the organization's bench strength," says Blake. "We recognize that we need to accelerate development to get people ready to fill key positions. We want to get back into a growth surge and use development as a tool to retain talent as the business picks up."

Survey respondents from the Best Companies for Leadership are 20% more likely than respondents from other organizations to say that people stay at their companies primarily for growth opportunities.

### **THREE TYPES OF CORPORATE CULTURE**

Not only are the best-in-breed companies more urgent about leadership development; they also spend more time on it—and more money, too. In the survey, respondents from the Best Companies for Leadership were more likely to say that they invest in the development of even their mid- and low-performing employees. And when asked about time spent developing leaders, once again, the Best Companies for Leadership report investing more time than peer organizations in developing future leaders. While 16.4% of all respondents report spending 25 or more days per year developing senior leaders, 22% of the Best Companies for Leadership spend 25-plus days developing their top talent.

In an analysis of how survey respondents described their companies' cultures, three categories of organizations emerged. Some, such as Zappos.com and Southwest Airlines, are modern, learning-oriented, fun workplaces. Other large, global giants, such as P&G and GE, are complex companies with cultures that are more traditional. And some, including ABB, are known as "collaboration for innovation" companies that accomplish work through self-organizing project teams and encourage employees to seek new approaches to solving problems.

According to Elizabeth Bryant, senior director of talent management at Southwest Airlines, the leadership-development process reflects the company culture. "It goes beyond formal training and is part of everyday life at Southwest, where employees at every level are exposed to leaders so they get to see how the leaders think," she says. "Even informal mentoring and exposure to company executives helps to broaden people's perspectives and stimulate their passion about the job."

### **A HUNGER TO LEARN**

According to Jeff Lamb, Southwest's chief people officer, the culture in which Southwest's employees work every day is no different from the culture in which the airline develops its future leaders. "This kind of thing happens organically. There's no course on how to get so engaged that you volunteer to come in on a weekend."

Lamb insists that what makes the airline a great place for leaders is the same thing that makes it a great place for employees: "the freedom to be yourself ... a lack of pretense; the hunger to learn." He says it's not about any kind of program or leadership training, or how well the company develops talent, but in "allowing people to enjoy their work."

Concludes Hay Group's Mary Fontaine: "The real thing leaders do is create environments that drive performance. Leaders engage and enable people. It's that simple, but it requires a shift of focus from solely outcomes, production numbers, and revenues to motivating people so they're passionate about helping the company achieve its goals." Another key aspect of leadership, she says, is removing the obstacles that hinder them. She likes to quote a senior client at IBM, who says, "My job is to take the rocks out of the campers' knapsacks so that they can run faster and further."

## METHODOLOGY

To conduct the 2009 Best Companies for Leadership study, Hay Group and Bloomberg BusinessWeek.com invited organizations from around the globe to participate. The survey was open to all employees of any organization and asked respondents to rate the leadership-development practices at their own organization. Separately, respondents were asked to nominate three organizations, regardless of size and industry, that they believed are the best at developing leadership at all levels.

A total of 1,869 individuals from 1,109 organizations completed the survey. Only responses on behalf of a parent organization were considered in the ranking process, resulting in a total of 740 organizations considered in the final ranking. In the case of multiple respondents on behalf of a parent organization, responses from those self-identified as "leaders" were combined, and responses from those self-identified as "employees" were combined, to allow comparative perspectives on the same organizations. For an organization's final score, we calculated an average of the two group scores.

Respondents that completed the survey were from 98 countries, with 45% from North America, 27% from Europe/Middle East, 16% from Asia, 6% from South America, 3% from the Pacific, and 2% from Africa.

## About Hay Group

[Hay Group](#) is a global strategic-consulting firm that works with leaders in the private, public, and not-for-profit sectors to transform strategy into reality. With 85 offices in 47 countries, we work with more than 7,000 clients across the world.

Learn more about [our Best Companies for Leadership research](#)

*Editor's Note: The following companies who ranked in the 20 Best Companies for Leadership according to survey respondents are clients of Hay Group: 3M, Procter & Gamble, Wal-Mart, Nestlé, Coca-Cola, McDonald's, IKEA, and Unilever*

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