Chapter 1

TALENT Is the EDGE

No Talent, No Numbers

If businesses managed their money as carelessly as they manage their people, most would be bankrupt.

The great majority of companies that control their finances masterfully don't have any comparable processes for developing their leaders or even pinpointing which ones to develop. No matter how much effort they put into recruiting, training, and assessing leaders, their talent management remains hit-or-miss: governed by superficial criteria and outdated concepts, dependent as much on luck as on skill. These are the companies that wake up some morning suddenly realizing they need a new CEO but don't know where to start looking. More pervasively, by repeatedly putting people into the wrong jobs, they waste both human and financial capital when those people don't perform.

How did this come to be? After all, it's clear enough that people make the decisions and take the actions that produce the numbers. Talent is the leading indicator of whether a business is headed up or down. Everyone agrees that it's a company's most important resource. But a spreadsheet full of numbers is a lot easier to parse than the characteristics unique to a human being. You can control what you're doing; the numbers are unambiguous, the outputs are clear. People, not so much. Better to leave that to the HR staff or search firms, particularly since the pressure to make your numbers quarter after quarter is so great that there's no time to waste on the soft stuff. And of course the law requires financial reports.

You've no doubt noticed, however, that making money has gotten harder. It will remain so for the imaginable future. In the fast-changing global marketplace, the half-life of core competencies grows ever shorter. All of the familiar competitive advantages such as market share, brand, scale of a business, cost structure, technological know-how, and patents are constantly at risk.

Talent will be the big differentiator between companies that succeed and those that don't. Those that win will be led by people who can adapt their organizations to change, make the right strategic bets, take calculated risks, conceive and execute new value-creating opportunities, and build and rebuild competitive advantage.

Only one competency lasts. It is the ability to create a steady, self-renewing stream of leaders. Money is just a commodity. Talent supplies the edge. We can't put it any better than Ron Nersesian, the head of Agilent Technologies' Electronic Measurement Group: "Developing people's talent is the whole of the company at the end of the day. Our products all are time-perishable. The only thing that stays is the institutional learning and the development of the skills and the capabilities that we have in our people."

Managing people with precision is without question harder than managing numbers, but it is doable and gets easier once you know how. Companies such as GE, P&G, Hindustan Unilever, and some others analyze talent, understand it, shape it, and build it through a combination of disciplined routines and processes, and something even rarer and harder to observe from outside: a collective expertise, honed through years of continuous improvement in recognizing and developing talent.

These companies have disproved the myth that the judgment of human potential is a "soft" art. Their rigorous, iterative, and repetitive processes convert subjective judgment about a person's talent into an objective set of observations that are specific, verifiable, and ultimately just as concrete as the analysis of a financial statement.

They have embedded in their culture the habits of observing talent, making judgments about it, and figuring out how to unleash it. They draw from their large toolboxes and creative imaginations to accelerate each leader's growth. Their executives are expected to make developing, deploying, and refreshing leadership talent an everyday, top-of-the-mind part of their jobs, and they are held accountable for how well they do it.

These companies are building for the long term. We call them talent masters, and this book will show you how they do it.

SEARCHING FOR THE SPECIFICS

One reason hardheaded managers disdain the "soft stuff" is that it so often reflects soft thinking. Take some of the criteria human resources staffs commonly use to evaluate leadership competencies. They'll rank people on a scale according to labels like these: "strategic," "innovative," "master communicator," "very bright," "analytic," "intuitive," and so on. These cryptic descriptions are so broad that they are worthless in the real world of managing. They cannot even predict whether a person is a good or poor fit for a given job, much less capture the unique abilities of an outstanding leader.

An exercise in a course at Wharton's advanced management program exposes the futility of buzzword descriptors. The instructor at a recent session asked the participants to explain Steve Jobs's distinguishing talent. Put aside his controversial personality and behaviors for the moment, the instructor advised. What we want to know is why he has beaten all expectations in his second act at Apple. (Including his own; when Apple's market value overtook Microsoft's in June

2010, Jobs called the development "surreal.") In the dozen years since he reclaimed the failing company, he has turned it into a hard-driving, cash-generating machine. He doesn't just develop new products; he changes games. The iPod, iPhone, and iPad, along with iTunes, have created massive disruptions, forcing players in the music and telecom industries—among others—to change their business models.

There's enough information available about the way Jobs thinks, behaves, and makes decisions that anyone who cared to could assess his real talent in several dimensions and describe it in clear language with specificity and nuance. Most people don't even try.

When the instructor at Wharton asks participants the question about what Jobs's talent is, hands shoot up all over the room. He's creative, innovative, entrepreneurial; he's a master of communication; he breaks the paradigm, creates new businesses; he changes the game of other people. After a couple of minutes the instructor calls a halt. "You can't do it in buzzwords," he says. "To really define a person's talent, you need to express your full thought about a human being in whole sentences with nuances that are specific to that person. And you have to get the information by closely observing the person's actions, decisions, and patterns of behavior." He shows the way by asking some probing questions. "How is he creative?" Somebody replies, "He figures out what will be a great product." Okay, but how does he do that? "He interacts with consumers." Fine, but how does he interact with consumers? Somebody has read that he hangs out with young people. Another observes that he is always looking for upcoming technologies ahead of others. Still no cigar.

The instructor next gives the executives information they can use to drill down and get to the real nature of Steve Jobs's talent. For starters, they hear a tale from one Apple director about the special board meeting held after Jobs accepted the post. Jobs walked up to the wall of the conference room where Apple's roughly two dozen current products were on display and began taking them down, one at a time. When he was done, only four were left. Those were the ones, he said, that would give Apple new life by differentiating it in the marketplace.

The story provided two observable and verifiable facts about Jobs: he understands what appeals to customers, and he acts decisively. Now the instructor asks people to explain what the creation of the iPod reveals about his talent. The first replies from the group point to his grasp of technology. But the technology already existed, someone else notes—other people were making MP3 players. The discussion that follows leads to a more meaningful conclusion: the success of the iPod was the result of a great insight coupled with brilliant execution. At the time, Napster had created an uproar in the market for recorded music with its file-sharing service that allowed users to swap downloaded MP3 files with each other. Napster's game was ultimately found illegal (it was essentially based on theft), but Jobs saw that the technology could create a legal market by ensuring the music industry a stream of revenues. And the market would be huge—a new social phenomenon, in fact—because it would liberate music lovers by enabling them to make their own buying choices legally and affordably, at any time, in any quantity. Then he created a product that was so easy to use and stylish that he could sell it at a high price, with fat margins. And we all know the rest of the story. By far the bestselling MP3 player ever, the iPod lifted the Apple brand to unprecedented heights, giving Mac sales a boost and reestablishing the company's reputation as a leader in innovation.

Drilling further, the instructor brings out another important observable fact. Jobs spends almost all his time internally with roughly a hundred experts in software, hardware, design, and the technologies of metal, plastic, and glass. Every Monday morning he brings them together to review products and the challenges of designing and executing them. It's one of his social processes for connecting multiple disciplines to create compelling products, and he's been doing it rigorously for a dozen years. Four hours a week, fifty weeks a year, for twelve years equals 2,400 hours spent building mental and relationship capital by connecting the newest ideas of diverse brilliant and passionate minds. It's the kind of approach that turns an athletic team into an unsurpassed champion. Jobs is one of the few CEOs with such a disciplined practice of connecting the dots.

Now the discussion gets rolling in earnest as the class begins piecing together the specific traits that define his genius. Somebody says, "So that's the real process of connecting with the customers, through his own mind and expertise." Somebody else raises her hand and says, "It's interesting that more than once he was able to identify an opportunity others didn't see." Another person: "It's more than that—he creates opportunities, like the iPhone."

Aha, the iPhone. What did he really do that has made it such a phenomenon? "He broke the paradigm." What does that mean? "He was able to figure out a new business model." Now eyes are lighting up. Until that point, the margins and brands of handset makers were controlled by the carriers. It not only won Apple the largest share of the smart-phone market but also generated new revenue streams enjoyed by no other phone maker. Jobs produced the most functional and elegant handset ever. Always tremendously protective of his brand and margins, he gave the iPhone to one carrier exclusively, AT&T. In exchange, Apple got the price it wanted and—for the first time in telecom history—a share of the carrier's revenue from the usage of a phone (supported by the higher rates users paid for their service). This was groundbreaking. Finally, it made money on the sale of its countless applications. Most of the new revenue streams flow straight to the bottom line, producing cash every day and making the iPhone Apple's biggest moneymaker. Jobs's verifiable action shows not only his business acumen but also the audacity and courage he exercised to reverse the power balance between a mighty carrier and a lowly handset supplier.

CALIBRATING STEVE JOBS

What does deconstructing Jobs have to do with developing talent? Just this: the Wharton exercise mirrors on a small scale what talent masters do, which is to develop precision of observation, thought, and expression. Working with the instructor, the class wrapped up its exercise with this concise summary:

Steve Jobs's natural talent is to imagine not only what consumers want now but also what they will want in the future—and pay a premium price for. He searches for discontinuities in the external landscape. He figures out trajectories of new opportunities. Then he conceives and executes not only differentiated products that yield high margin and high brand recognition, but also business models that will exploit them most profitably.

He views a product as an experience, not just an object. He can visualize what it will look and feel like, and can then execute it to near perfection. He makes advanced technology friendly to consumers based on his uncommon talent for connecting it to user experience. He has an innate feel for design, convenience, simplicity, and elegance in the product. He connects the best ideas from widely diverse disciplines to create the consumer experience he's striving for. He figures out precisely what problems need to be solved, however impossible they may seem, and searches for the best people to solve them, regardless of their status.

He is a master of communications. He crafts simple messages that connect with audiences, leveraging his record of innovation to create buzz and build demand for a new product even before it is launched. He relates with consumers, employees, and partners, and turns them into rabid fans. He builds their trust in him, in Apple, and in the Apple brand.

Bear in mind that these individual items combine to form a blend unique to that individual. It's how the traits blend together that matters.

Talent masters do not resort to vague clichés or rely on batteries of mechanistic tests to assess talent. Instead they study the behavior, actions, and decisions of individuals, and link these to actual business performance. Their observations are rigorous, specific, and nuanced. Over time, as other leaders discuss them openly and candidly, the observations become verified as facts. They dig to understand an individual's unique combination of traits. The purpose is to know what the person is, describe his characteristics in complete thoughts using full sentences, and learn how the key items combine into a unified whole.

In a word, they work to become *intimate* with their talent—that is, to know the essence of each individual. Intimacy is what makes the soft skill of judging people as hard as the skill of interpreting numbers. In fact, it's similar to the relationship top financial people have with their subject matter. Their total command of numbers, both their own and those of competitors, comes from a knowledge so intimate that it becomes intuitive: they live with the numbers.

Masters of talent build a similar depth of knowledge about people, a database in their minds. They make detailed, specific, and accurate observations about them and compare them with other people they've observed. Every encounter invokes an observation. Accumulation of these observations, done consciously, produces a complete picture of the whole person. This deeper, more accurate knowledge is the key to high-quality decisions about leaders.

PUTTING SUE IN THE RIGHT JOB

Here's an example of how important deep knowledge of an individual is to both the person and the organization. It's the true story of a disguised up-and-coming star in one global company.

Sue's past performance and experience suggested that she was full of promise when she joined Lindell Pharmaceuticals in 2006. Her business career started at 3M, where she sold technical products to the pharmaceutical industry for three years. She then went off to Wharton to get her MBA, graduating in the top third of her class. After that she joined McKinsey, and over the course of two years successfully consulted mainly in marketing and sales with pharmaceutical makers, a hospital chain, and a health insurance company.

After hiring Sue, Lindell made her sales manager of its Pennsylvania and New Jersey territory, overseeing some one hundred salespeople and ten supervisors whose customers include health insurance companies, hospitals, and pharmacy chains. She more than lived up to her promise. After two years she was outperforming all other territory managers in the region and setting new records for revenues and market share.

Among other things, Sue installed a software-based program that raised the productivity of her people. Based on records of what drugs doctors prescribed most, it cut the administrative work of the sales force and let them spend more time in the offices of their potential best customers. As other regions started to emulate her, the tool rapidly became a new practice for the company.

People were watching. Lindell's CEO is serious about creating a pipeline of future leaders. Top management identifies high-potential leaders early, and gives them experiences that will develop them to their fullest potential. Sue's boss Laura, the regional president, met quarterly with Jorge, Lindell's executive vice president for sales; Bill, the CEO for North America; and Sam, the head of human relations for North America, to review leaders who were ready for promotion or experience elsewhere. The routine included not only discussions of the people but also informal visits with groups of them in their own environments, typically over breakfast. At their spring 2008 meeting, Laura, Bill, and Jorge put Sue on their list of fast-track candidates to be watched especially closely.

That was also the year the world changed. Health care reform became a contentious topic, with critics arguing that "big pharma" was wasting too much money on advertising and pushing products onto doctors. Prices came under pressure as the decision-making power shifted from the companies to insurers, hospital chains, and pharmacy benefits managers. Partly as a result, pharmaceutical salespeople were obliged to start practicing what is generally known as value selling. Instead of simply pushing product, they had to demonstrate how their company or product could create more benefits for all stakeholders, including the patients themselves.

Sue quickly grasped the new reality. She figured out the procedures and metrics required for the new selling approach: analyzing what customers were buying, cross-referencing usage patterns with patient data to gain insights into efficacy, giving customers ideas about how to bring total costs down while improving patient care, and training their people in using the techniques. Importantly, she designed a proprietary system for tracking patients' adherence to their prescriptions. Patients who don't take medications as prescribed are a major and widespread problem for health care providers, since they often end up sicker and requiring more care than they did before. She put her sales force through intensive training exercises, tested them, and sent them out into the field. She also replaced a part of her sales force with people who understood business as well as selling—she had learned that the knowledge could be a valuable selling tool.

Her territory's sales soared. When Laura, Jorge, Bill, and Sam met at the end of the year, they agreed that it was time to take a very close look at this rising star. The four were scheduled to attend a conference at Sue's offices in Philadelphia, and they arranged to take her out for a dinner where they questioned her at length and in depth about how she was achieving her extraordinary results. Learning that Sue would be calling on one of the company's five largest customers the next day in Cleveland, Laura invited herself along to observe. After the meeting's successful conclusion, Sue returned to Philadelphia and Laura settled down on the plane to New York to review and write up what she'd seen. These were her key points:

- "Sue met with the customer's chief buyer, executive vice president, CFO, and chief medical officer, and they were all deeply impressed with her two-hour presentation. They could see that she understood the guts of their business from their viewpoint rather well, including the challenges they faced in the new environment. She showed a mastery of their financial details that few salespeople have, even to understanding key items of their balance sheet."
- "She established a rapport with them and quickly built relationships. She excelled in the give-and-take of two-way dialogue. I could see the customers nod appreciably as she answered their questions. She was to the point. They were superattentive when she showed them how to monitor patients' use of their prescriptions, and blown away by the financial analysis she had done showing what our company could do to help them improve their performance."

Laura called Jorge, the EVP of sales, the next day to relay her observations. "What other talents has she shown?" he asked. Laura replied that Sue had proved to be a good judge of people, as evidenced by the choices she made when she replaced a third of her sales force. She continually upgrades her organization, Laura added, and had brought in major new ideas. She was ahead of the curve and a successful change agent. They agreed that she had reshaped her job, was now outgrowing it, and was definitely on a fast track for promotion. Jorge said he would put her on the list of high-potential people to discuss at an upcoming full-day meeting with Sam, the head of HR—always a participant in such meetings—and Bill, the North America CEO.

The traditional next step at Lindell would be to make Sue regional sales president in the coming twelve months. If she succeeded, she would most likely move up over time to become executive vice president for sales for North America. Everyone agreed that she should be promoted sooner, but that's where the easy agreement ended. Jorge, convinced that she could do great things for Lindell's sales organization, wanted to follow the standard route. Sam demurred, saying, "We need to think bigger for her." Her judgment and major decisions had been uniformly good, he pointed out. "She clearly understands business. She has an affinity for people, builds relationships, and brings in new ideas. I think we should put her onto the general management P&L [profit and loss] track by making her a brand manager." Laura agreed with Jorge, and talked for a couple of minutes about Sue's value to the sales organization and questioning whether someone so young could handle a P&L responsibility.

Then Bill spoke up. "Tell me more about why this would be a good idea, Sam," he said. The HR director reiterated her achievements and turned to her career needs and aspirations. "Sue has the capacity to go far in this company," he said. "I can see her being one of the top ten or fifteen officers someday. And one problem with the sales job is that it would deny her some important opportunities. As a brand manager, she'd not only be getting the P&L experience but also broadening the scope of her people relationships. She'd be interacting with headquarters, and also with other brand managers from around the world. This would make a huge difference in her personal growth.

"And there's another issue. You're aware that few regional presidents have gone over to brand management. Here's why. The transition gets tougher the more time you spend in your discipline. The person who crosses over earlier is more flexible and adaptable. Compensation can also be a problem, because it's a downward move—the sales president will have been making more than she would as a brand manager."

The others were starting to see his point. After a few minutes of debate, Bill said, "Let's sum up the reasons why she's ready for a management job. She delivers results and brings in big ideas; upgrades her people and makes good choices in selecting new ones; adjusts quickly to changes in the environment and acts decisively and with impressive speed; understands the customers' total business, which shows that she has business acumen; is able to build relationships at high levels externally and at all levels internally.

"We haven't seen talents like this in a territory sales manager for a long time," he concluded.

"What if she doesn't work out?" asked Jorge.

"We'd bring her back into sales as the regional president," said Sam. "It would no doubt be a blow, but I don't think it would cripple her. She's shown that she can learn from experience. She would return to sales having learned a lot, broadened her experience, and become better prepared for that job."

Persuaded by now that the move made sense, Laura added a final thought: "If we don't give her this shot, will we risk losing her to a competitor?" No one felt the need to reply.

Bill looked around. "So we're agreed?" he asked. Everyone nodded in assent. "Laura, give her a call soon. Tell her she's been doing a great job, should keep doing it, and expect that she'll be getting a new one within ninety days."

Laura grinned. "I bet she's going to be surprised," she said. "I know she wanted to get into general management, but I am sure she didn't imagine it would come this soon—or even at all in this company."

By now you may be thinking that this is a fairy tale. You can't recall any instance of people in your organization taking such a thoughtful, painstaking approach to placing a leader in a job. Just the candor and ease that mark their conversations are alien to your culture. It's unimaginable that people would cooperate like that. But as we will see repeatedly in this book, it's how people work in a talent master organization.

We extract several important lessons from the Steve Jobs and "Sue" stories:

- Talent masters understand the subtleties that differentiate people. Two individuals may share the same set of characteristics, but those characteristics will combine differently in them in ways that differentiate their leadership capabilities. (Case in point: Steve Jobs.) Talent masters assess and express what each person is in reality, not against some predetermined checklist. They obtain insights through observing the person's actions, decisions, and behaviors. They look for the specifics of how various traits combine. And they express all these in complete thoughts that are verifiable, not cryptic single words such as "strategic."
- Sue was one of many territory sales managers at Lindell, but her combination of traits stood out. She had business acumen, cognitive bandwidth, and personality traits such as being able to build relationships and adapt to rapid change. Together these enabled her to make high-leverage decisions that delivered numbers above and beyond those of her colleagues in similar positions.
- Lindell's leaders could see the totality of Sue's skills and traits only because they had engaged in many candid conversations with and about her and observed her interacting with customers. Talent masters spot, find, and develop people like Sue through predictable, consistent, repetitive processes that develop candor and trust through the give-and-take of vigorous dialogue.

This system, based on intimate knowledge through the observations of actions, decisions, and behaviors, grows raw talent to its full potential.

- The plan they settled on was centered on increasing not just her *capacity*—her ability to get more of the same work done. More important, it would raise her *capability,* which means achieving more through doing a higher level of work. Increasing capability leads to the kind of growth that expands cognitive bandwidth and produces higher levels of leadership. Becoming a brand manager would grow her capability by an order of magnitude.
- Nobody knew for sure if Sue was fully ready for the job. But talent masters often place such bets on high-potential leaders for three good reasons. First, people facing a stretch situation aren't likely to be overconfident and are eager to learn from others. Second, it helps to retain talented people who are itching to advance and may look to greener pastures if they don't get the chance. Third, successful stretches will attract better candidates in the future because ambitious and capable people will know that they won't have to wait for slots to open.
- Getting to the core of a person's values, behaviors, beliefs, and talents may seem like a lot of work, but masters understand that the return on time is huge. It's like analyzing a business problem or opportunity: we drill down to find the causes, understand the context, and assess options. Similarly, when we get to know a person, we are able to develop insights and options to speed his or her growth and development. This is especially important for companies that rely on specialized knowledge and need to quickly develop the leadership potential of their experts. Decisions like the one for Sue build organizational capacity.
- Insight into an individual's talents and foresight into

where the leader could go turn traditional succesion planning on its head. Rather than finding people to fill positions, it puts the emphasis on opening paths for leaders to grow their talents and become ever more capable. The ultimate payoff is seamless successions to the CEO job and other high-leverage positions. Rarely if ever do talent masters need to turn outside for a chief executive.

INSTITUTIONALIZING GOOD JUDGMENTS

Just about any organization will have some great natural judges, but none have enough to build a program around. Those making the judgments have to know the talent well—or better yet, intimately. They have to know all about the job the person is being considered for. They have to know how the person stacks up against other candidates for the job, which means they have to know all about those people, too.

The first thing to understand about talent masters is that they can identify a person's talent more precisely than most people because they excel at observing and listening. They use these abilities to see the whole person—her skills and experience, of course, but also such things as her judgment, personality, and ability to build relationships, not just characteristics defined by buzzwords. They understand the nature of an individual's shortcomings—the difference between a fatal flaw that will keep him from advancing and a development need that can be fixed.

Talent masters have developed their abilities through constant and intense practice. They accumulate observations and connect them into verifiable inferences about people. They can compare different people with the same exactitude as they compare different sets of numbers. Paradoxically, comparing people is both harder and easier than comparing numbers.

It's harder because it takes a lot of practice to overcome the biases and psychic filters that so often cloud good judgment; but it's easier because in the end there are fewer data points and variables to take into account.

Talent masters institutionalize this expertise in their companies. It's practiced, imitated, tracked, and learned by all leaders until it becomes second nature, part of the established processes and daily routines. And they use it to create their own supply of good judges. They calibrate individuals through myriad dialogues, using information collected through many observations of decisions, actions, and behaviors and refined in group discussions. The dialogue is informal and fact driven. The discipline of pooling leaders' judgments about other leaders is comprehensive, continuous, and part of the culture. It integrates the development of people with the running of the business, and connects their leadership strengths and weaknesses with the business results. The judgments continue to improve with practice and experience.

Masters do this most visibly in formal reviews and processes, often adapted from the ones GE pioneered (which we will show you in the next chapter). But equally important are processes that you can't see. These are what we call social processes.

Any time two or more people work together there's a social process in which they exchange information and ideas, exercise power, and express their values through what they say and do. Unlike business processes, where the participants' roles and goals are specified, social processes usually operate in the background. The prescribed outcome of a budget meeting, for example, is efficient allocation of resources. But the actual outcome is often the result of a social process in which the players exercise personal influence and power to jockey for those resources. Participants, as well as the leader in charge of the process, may or may not be aware of how their behaviors and dialogue shape the results.

No less than business processes, social processes can be managed and led to improve the outcome. Through the content of the dialogue and the attitudes and values that are conveyed verbally and nonverbally, talent masters use them to identify great leaders and help them grow. No company can achieve talent mastery without embedding talent in the organization's social processes.

PRINCIPLES OF THE TALENT MASTERS

Our collaboration on this book began with the desire to crystallize into principles the many things we've learned working with people and companies we have identified as talent masters. These principles comprise the framework within which talent masters operate, and they provide the way for you to diagnose your company's talent development capability.

1. An enlightened leadership team, starting with the CEO. Ordinary CEOs plan for their companies' futures in terms of financial and strategic ambitions. The enlightened CEO recognizes that his top priority for the future is building and deploying the talent that will get it there. He is deeply committed to creating a culture of talent mastery, and personally involved in executing it. As a role model, he is crucial to getting everyone on board and shaping the social systems that will make or break the formal processes of leadership development. We find that such leaders invest at least a quarter of their time in spotting and developing other leaders; at GE and P&G, it's closer to 40 percent.

2. Meritocracy through differentiation. This is the mother's milk of helping talent reach its potential. Memorize this slogan: Differentiation breeds meritocracy; sameness (the failure to differentiate people) breeds mediocrity. The latter happens all too often in companies that automatically equate high performance with achieving or exceeding agreed-upon financial goals. Without exception, talent masters dig into the many causes underlying performance so that they can recognize and reward leaders according to their talents, behaviors, and values.

3. Working values. All companies have values, stated or unstated. Some are meaningful, many are boilerplate. What we call working values have a real impact on how well results are delivered, because they govern how people work and behave. They're the values people live by, because they are absolutely expected of both leaders and employees. For example, one value we see among talent masters is the obligation of leaders to develop other leaders. Values aren't always labeled as such. Hindustan Unilever distinguishes the what and the how of leadership, the "what" referring to getting things done and the "how" to the values component, "acting in a way others will admire and want to follow." At Procter and Gamble, says CEO Bob MacDonald, "We talk a lot about character, which I define as putting the needs of the organization above your own needs." By whatever name, masters repeat and repeat and repeat their values, and reinforce them by linking recognition and rewards with them.

4. A culture of trust and candor. A company can develop its people only if it has accurate information about their strengths and development needs, and it can only get that information if people can talk candidly—that is, honestly and openly. Candor gets the truth out. It enables keener observations, greater insight, and better descriptions. It's easy to cite a leader's strengths but edgier to pinpoint their development needs and expect them to accept and address them. As we will see throughout this book, creating a culture of candor is the hardest part of becoming a talent master. People can talk candidly only if they trust the system to respect honesty and confidentiality. Talent masters work strenuously to ensure trust by insisting on candor in all of the company's dialogues, whether one-on-one, in group settings, or in appraisals.

5. Rigorous talent assessment. Talent masters have the same goal and results orientation in their people processes as they do in their financial systems. They set explicit time-based people development goals and discuss the why and how of these goals. They review people as thoroughly and regularly as they review operations, business performance, strategy, and budgets. Crucially, they integrate the people reviews with each of the others, gathering and updating the information as the person progresses. Like the financial systems, the people systems have rhythm and rigor, and evolve over time as new needs arise.

6. A business partnership with human resources. Talent masters use human resource leaders as active and effective business partners, raising them to the same, if not higher, level as the chief financial officer. The HR function will only be as strong as the CEO wants it to be, and if the CEO doesn't have high expectations for it, HR will remain second tier. Just as the CFO is the trustee of the financial system, the chief human resources officer is the trustee of the people system.

7. Continuous learning and improvement. Talent masters recognize that a fast-changing business environment requires constant change and updating of both their leaders' skills and their own leadership criteria. They give leaders training on specific topics, and they adjust their talent development plans according to the external changes they see as likely in the years to come.

WHO ARE THE TALENT MASTERS?

The companies that form the core of our research are at various stages of evolution. Some have been world leaders for decades; others are works in progress. Whether old hands or newcomers, they follow the principles we've laid out consistently and intensively—with almost religious fervor. Our purpose is not that you copy the masters as they are. Rather, it's to give you the opportunity to pick and choose tried and proven ideas.

All companies have formal processes for managing talent, some of them good and some not so good. The masters have superlative ones. But these are the easy things to see, and they're not the most important. The thing you can't see from outside—the black box where the real secret of mastery resides—is in the social systems of their companies. We will make them visible to you.

Our work is not the product of statistical research, which is fine for showing correlations but little help in determining cause and effect. Ours is observational research, drawn directly from the experiences of the players and quite often in their own voices. We chose our companies because we know them well—in many cases we've worked in or with them for decades—and we understand their social systems. We have been able to go inside their black boxes to observe what they do and how they do it. Now we will take you with us to see the masters in action: not only the tools and techniques they use but also the questions they ask, the conversations they hold, and the living dynamics of their decision making.

The book is divided into four parts. The first is an in-depth exploration of General Electric's much-admired talent management system. It's necessarily a long section, because there are so many aspects to explain. We'll take you inside so you can see how and why it works.

We begin with GE for two reasons. First, we know it intimately from our long experience with its unique system of talent development: Ram Charan's forty consecutive years of working with, observing, and teaching GE leaders at all levels and Bill Conaty's like number of years living within and helping to adapt the system to the evolving external landscape. Second, GE is the go-to company for students of talent management—widely admired and copied, and a pioneering practitioner of the principles we've enumerated. It's also a celebrated producer of leaders for other companies. Among its satisfied customers are the world's foremost executive recruiters. "GE has been and continues to be the best source of talent for a wide range of industries and functions due to its unique programs for developing leaders," says Tom Neff, chairman of Spencer Stuart U.S. Gerry Roche, senior chairman of Heidrick & Struggles, adds, "GE devotes more time, attention, and money to the long-term objective of people development than any company I know. It is still the gold standard for smart companies that want to find the next great CEO."

There are many ways up every mountain, and the four companies in part II illustrate the wide range of approaches to talent mastery. Be prepared for surprises when you reach chapter 5, on Hindustan Unilever (HUL). One of the leading producers of CEO and marketing leadership in Asia, it has developed a unique system of talent development, one in which top executives can be seen recruiting on campuses and spending evenings in small Indian towns with management trainees. We know of no company whose top management makes deeper personal commitments to developing leaders.

When it comes to developing global leaders, Procter & Gamble (chapter 6) has few if any equals. The company has found that there's no substitute for experience—in particular, the experience a leader gains through stretch assignments in different countries and cultures. It has also been ahead of the pack in building databases for talent management, and is now adding social media to the tools for increasing collaboration and global insight throughout the company.

Agilent Technologies CEO Bill Sullivan (chapter 7) faced a problem common among companies in expertise-based industries such as high-tech, biotechnology, and pharmaceuticals: the need for leaders with both business skills and technical expertise. Such people are rare, so Sullivan decided he would build his own "best-in-class" management bench. In discovering a way to home-grow leaders with both qualities, Sullivan has produced a model for others in the same boat.

How deeply do you know yourself? It's not a frivolous question. As the burgeoning field of behavioral economics shows us, unconscious behaviors have big implications for business leaders. Novartis (chapter 8) is in the vanguard here. Its talent management includes numerous tools and programs to help leaders learn about what goes on down under. The approach is unique—even startling—but any company or leader will benefit from understanding how surfacing the leader within adds real depth to talent development.

Part III (chapters 9, 10, and 11) focuses on talent masters who've joined the game only recently. Companies like GE, P&G, and HUL had decades to hone their systems and processes, but few in today's high-speed world have the luxury of time. We'll show how Goodyear, not too long ago the epitome of a tired rust belt company, has rapidly reinvented itself. Its new strategy was to get out of a commodity business and market differentiated products to consumers around the world. But CEO Bob Keegan understood that a radically different strategy would require new people. He began by replacing most of the leadership team with carefully chosen outsiders and developing the social processes and systems to build an entirely new leadership culture.

UniCredit CEO Alessandro Profumo also had a bold strategy that required a new leadership team, but unlike Keegan, he couldn't bring in a raft of outsiders. In turning his Italian bank into a pan-European financial institution, he would have to work with existing leaders in diverse countries and cultures, unifying them in a new mind-set—and doing the job quickly. He accomplished this by enlisting an experienced HR executive as a business partner who could understand the realities and culture of his new company and create the necessary systems and social processes.

Clayton Dubilier & Rice (CDR) and TPG, two of the top private equity firms, might seem to be outliers on the subject of talent mastery. Aren't outfits like this the "barbarians at the gates," the strippers and flippers who buy businesses, cut them to the bone, and then sell for big profits? Whatever may have been true in the past, private equity is emerging as an increasingly important sector in the world economy. None has been more aggressive in marrying its mastery of finance with mastery of talent than CDR. It has brought in retired business leaders, most notably Jack Welch of GE, A. G. Lafley of P&G, Ed Liddy of Allstate, Paul Pressler of Gap, and Vindi Banga of HUL, to help it win a redefined competitive game and strengthen the talent management systems of the companies in its portfolio. Other PE giants, such as KKR and Cerberus, are concentrating on developing stronger HR teams to build their own talent.

Korea-based LGE became a global player with its low-cost, high-quality consumer electronics goods. CEO Yong Nam wanted to take it to the next level, establishing its brand as a leader in innovation with strong ties to local markets. Doing that would require replacing its homogeneous Korean leadership bench with executives who could relate to the local markets. His challenge was how to do this without undermining the things that worked. His unique solution could be another model for others facing similar challenges.

We've got practical how-to advice for you in part IV. It's a talent mastery tool kit filled with specifics about what to know and what to do—information you can put to work on Monday morning. Among the topics are guidelines for talent reviews, continuous learning programs that produce business results, using HR as a business partner, and ensuring smooth successions. There's also a checklist for assessing your own company's talent management capabilities.

Talent mastery doesn't guarantee unbroken success. As this book went to press, Yong Nam of LGE had stepped aside because of the company's poor showing in the smart phone market, and Alessandro Profumo of UniCredit was reportedly engaged in a power struggle with his board. Neither issue related to their masterful work on talent management. Even the best leaders are susceptible to misjudging business issues, especially in situations involving considerable risk. In fact, every one of our companies has run into rough spots at one time or another, and there's no guarantee that they won't again. And think of two talent masters—say, P&G and HUL—duking it out in the same markets. At any given time, one will be on top and the other running behind.

A good ball club is good because of the talent of its coach and players, nothing else. Talent masters, with their depth of strong leaders, catch mistakes, make changes, and come back stronger than others who stumble. What we have observed, and can assert with confidence, is that talent is the single most important key to longevity. The better a company's leaders, the sooner it will get back on track.