THE FOURTH ANNUAL

GLOBAL LEADERSHIP RESEARCH

BY CHALLY GROUP WORLDWIDE

Chief Executive   Chally Group
WORLDWIDE

A Note From Howard Stevens

The challenges of corporate leadership in the modern era demand dramatically greater capabilities than the traditional disciplines of the past. Quality, service, and innovation are no longer competitive advantages but rather minimum requirements. The speed of change, responding to new and unpredictable competitive forces, and keeping up with the daunting evolutions in technology, increases the stress on business and its leadership. Most notably it is the CEO who bears the ultimate responsibility for shepherding the organization to long-term success.

The best of the best have long relinquished the dependence on home run strategies and silver bullets. They accept that no one can accurately predict tomorrow's paradigm-altering technology, competition, or global environment. They cannot predict the future, but they can prepare their successors with the requisite competencies, experiences, and resources to leverage whatever the future holds and drive continued growth and profitability.

Mindful of the charge for these business leaders, Chally Group Worldwide presents the summary results from the Fourth Annual Global Leadership Research Project. Designed as an ongoing research study, our analysis builds year over year on insights shared, intelligence gained, and paradoxes revealed about the leadership development practices of companies globally.

Each year, the project kicks off with an in-depth survey of approximately 300 Chief Executive Officers (CEOs) and senior Human Resource (HR) leaders globally. The results from this survey produce the annual Best Companies for Leaders, as published in the January/ February edition of *Chief Executive* magazine. Our team of researchers then works with these survey data, in combination with interviews conducted with senior consultants and CEOs who represent contemporary thinking on leadership strategies, and present this report as the culmination of the research to date. Information will be posted on our website at www.chally.com.

Howard P. Stevens
Chairman, Chally Group Worldwide

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About the Research

Research Objectives

The Global Leadership Research Project involves CEOs and Human Resource leaders direct-ly in the examination of evolving practices in leadership development and the recognition of the innovative approaches and persistent challenges faced by companies committed to investing in their own talent.

Recognizing Excellence in Leadership Development

The study defines multiple qualifying criteria for inclusion and final ranking in *Chief Executive* Magazine's "Best Companies for Leaders." These include:

- The presence and quality of formal leadership development initiatives

- Commitment level of the CEO to the leadership development program as measured

- The depth of the leadership funnel as measured by the percentage of senior management

- Positions filled by internal candidates as well as the percentage of middle management

- Positions filled by internal candidates

- Reputation amongst peers for excellence in developing sought-after talent

- Long-term growth of market capitalization and shareholder value

This last criterion recognizes that impactful leadership development ties directly to strong business performance. More information about the companies who made it to the top 40 public rankings and top 10 private rankings can be found in the January/February edition of *Chief Executive* Magazine. A reprint of the article is available in this report.

The Global Leadership Research Participating Organizations

Chally Group Worldwide is a sales and leadership talent management company that was founded in 1973 through a grant from the United States Justice Department. Chally's talent analytics have been improving productivity and reducing turnover for customers in over 49 countries. Customers choose Chally's talent measurement process for improved candidate selection and employee and organizational development. Chally continues to fund and develop comprehensive research in sales and management development including *Chief Executive's* "Best Companies for Leaders" and World Class Sales Research.

Chief Executive Group was founded in 1977 to create and foster opportunities for CEOs to share their experiences and expertise within a community of peers. It serves its CEO audience in a variety of media including print, in-person, and online, which in turn provides advertisers and sponsors multiple opportunities to develop long-term relationships at the Chief Executive level. In addition to publishing *Chief Executive* magazine and www.chiefexecutive.net, the Chief Executive Group brings CEOs together through its annual CEO2CEO Conference, open to C-suite executives, and its by-invitation-only CEO Roundtables, Symposiums, and Global Events.

Human Capital Institute (HCI) is the global association for strategic talent management and new economy leadership, and a clearinghouse for best practices and new ideas. Our network of expert practitioners, Fortune 1000 and Global 2000 corporations, government agencies, global consultants, and business schools contribute a stream of constantly evolving information, the best of which is organized, analyzed, and shared with members through HCI communities, research, education, and events. For more information, please visit www.hci.org.

Participating Organizations

The Fourth Annual Global Leadership Research Project

The following information provides a high-level summarization of the research sample. This research represents responses from C-Level and Senior Human Resources and Development leaders from over 300 global organizations. The percentages displayed in these tables constitute those respondents who completed the survey in its entirety.

Organization Size

Annual Revenue in US Dollars	All (%)
Fewer than $25 million	28.8
$25 to $50 million	7.8
$50 to $100 million	6.8
$100 million to $500 million	14.2
$500 million to $1 billion	6.8
$1 to $5 billion	17.2
$5 to $10 billion	4.2
Over $10 billion	14.2

Number of Employees	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Less than 50	18.4	32.1	0.0
50 to 199	12.0	20.2	1.0
200 to 499	11.2	17.9	2.0
500 to 999	7.3	11.2	2.0
1,000 to 2,499	9.0	8.9	9.2
2,500 to 4,999	7.7	2.9	14.1
5,000 to 9,999	9.0	3.7	16.2
10,000 to 24,999	7.7	0.8	17.2
25,000 to 49,999	6.4	0.8	14.1
50,000 to 74,999	4.0	0.8	8.1
75,000 to 99,999	1.7	0.0	4.0
100,000+	5.6	0.7	12.1

Sector	All (%)
Government	3.0
Non-Profit	8.5
Private	52.4
Public	36.1

Industries Represented

Industry

	All (%)
Other	31.8
Professional, Scientific and Technical Services	22.9
Manufacturing	19.9
Finance, Insurance, Real Estate	13.7
Health Care	12.9
Information, Media, Telecommunications	10.7
Wholesale Trade, Retail Trade	7.7
Transportation, Warehousing	6.4
Mining, Utilities, Construction	6
Agriculture, Forestry, Fishing	2.6
Arts, Entertainment, Recreation, Accommodation, Food Services	2.2
Administrative, Support	1.7

Companies with International Operations

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Yes	58.8	45.5	76.7
No	41.2	54.5	23.3

Company Description:

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Brand Leader with desirable upscale brands	28.1	20.0	28.1
Custom-Made Solution Leader with individualized turnkey solutions	49.6	57.7	49.5
Value Leader with cost efficient, quality offerings	22.3	22.3	22.4

Location of Company Headquarters

82.4% — North America

7.7% — Europe

1.7% — East Asia

2.2% — South Asia

1.3% — Southeast Asia

0.9% — South & Central America

3.8% — Middle East / Africa

0% — Oceana and Australia
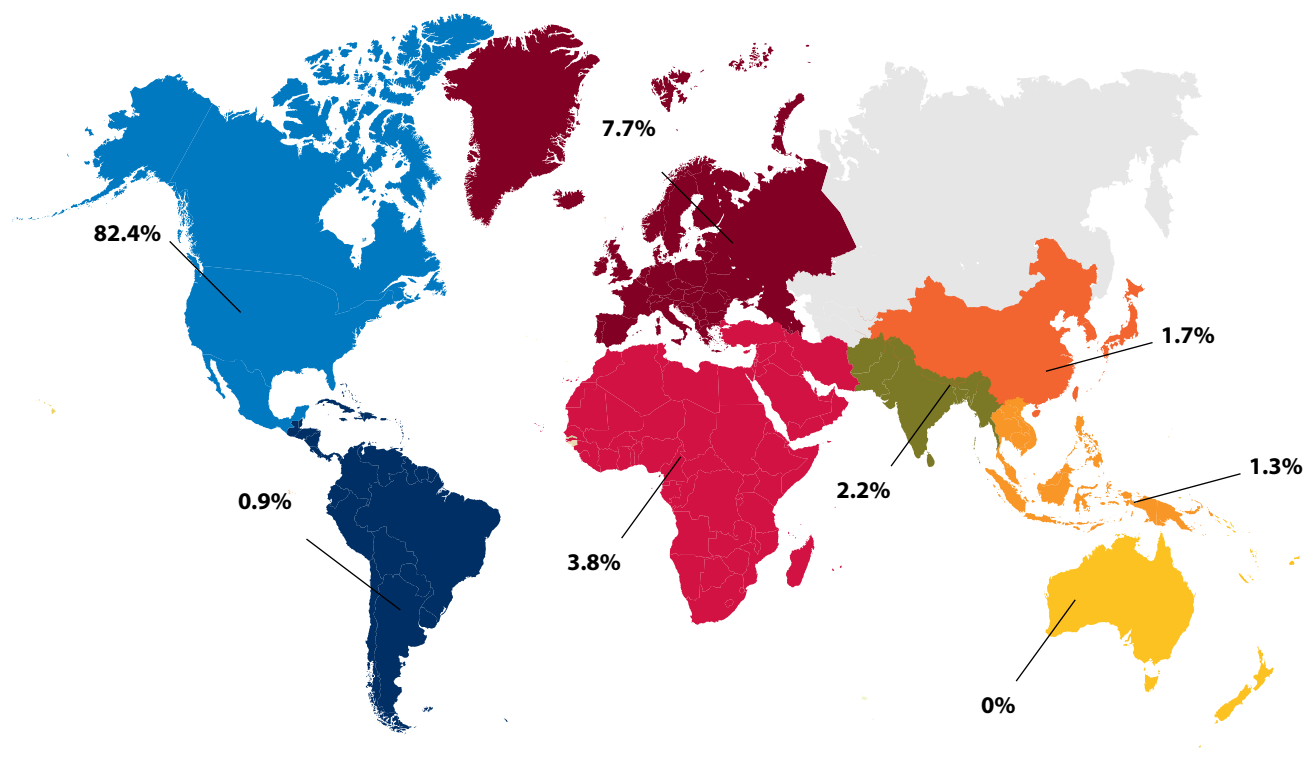
Regions

North America		Southeast Asia
South & Central America		East Asia
Middle East / Africa		Oceana and Australia
Europe		
South Asia		

Chief Executive
Magazine's

The 40 Best Companies For Leaders
and 10 Best Private Companies For Leaders

This Executive Overview was published
in the January/February 2014 issue of *Chief Executive* Magazine

THE 2014 BEST COMPANIES FOR LEADERS

by Dr. Jenna Filipkowski & J.P. Donlon

In their book, *The Game-Changer*, **P&G CEO A.G. Lafley and noted author and business advisor Ram Charan** observed that "to prosper, companies need to do four things well: develop leaders of the future, improve productivity, execute strategy and create innovation." Arguably, the first step must be done well if the prospect of succeeding at the remaining three steps is to have any chance of success.

Each year since 2005, *Chief Executive* has sought to identify those companies that excel in leadership development. In partnership with Chally Group Worldwide, a Dayton, Ohio-based sales and leadership talent-management firm, and with the Human Capital Institute, we canvas world-class companies through a questionnaire and interviews in order to learn what companies are doing to identify and nurture people three or more levels down the chain from the CEO.

The final, top-40 ranking consists of public companies with over $1 billion in revenue, and the top 10 on the list scored within several points of one another.

Rankings are affected by a company's reputation among its peers, as a source for well-rounded talent. The percent of senior management recruited from internal talent pools is another criterion. Similar to 2013, some attrition among last year's winners accounts for why previous winners did not appear on the 2014 listing. As a clear indication of the escalating importance of leadership-development processes, half of the companies on the 2014 ranking are new to the list.

P&G once again tops the list as the Best Company for Leaders, with IBM coming in second at just a fraction below and GE moving to a No. 3 ranking. These three, leading contenders have different but parallel methods of developing talent. P&G and IBM, for example, place a premium on developing people

Companies are scored on five key criteria:

1. Having a formal leadership process in place
2. The commitment level of the CEO to the leadership-development program, as measured by the percentage of time spent
3. The depth of the leadership funnel, as measured by the percentage of senior-management positions filled by internal candidates, as well as the percentage of middle-management positions filled by internal candidates
4. The number of other companies that report recruiting from the company being evaluated
5. A shareholder value-performance metric based on 10-year growth or decline in market capitalization

from within. All of P&G's senior managers are judged on their abilities to develop those who report to them. Development includes both formal as well as informal training. Lafley himself mentors a group of high achievers several levels below. He also monitors the company's top 300 executives and ensures that they are inculcated with the values of the firm.

The company often assigns some of its best up-and-coming executives to tough jobs—not just to test them, but to provide useful experiences that will come in handy in future. P&G also takes 150 promising leaders for leadership training at such off-site locations as the U.S. Military Academy at West Point or the Center for Creative Leadership (CCL) in North Carolina. "The challenge at P&G," he remarks, "as at most every company, is to get the right balance between stretch goals and game-changing results."

40 BEST COMPANIES FOR LEADERS

2014 RANK	COMPANY/CEO	2013 RANK	COMPANY/CEO
1	**P&G** A.G. Lafley	1	**P&G** Robert McDonald
2	**IBM** Virginia Rometty	3	**General Electric** Jeffrey Immelt
3	**General Electric** Jeffrey Immelt	2	**IBM** Virginia Rometty
4	**Accenture** Pierre Nanterme		**Dow Chemical** Andrew Liveris
5	**Unilever** Paul Polman		**Verizon Communications** Lowell McAdam
6	**Dow Chemical** Andrew Liveris	4	**Caterpillar** Douglas Oberhelman
7	**McDonald's** Donald Thompson	18	**Hitachi Data Systems** Jack Domme
8	**Monsanto** Hugh Grant	11	**Arthur J. Gallagher** J. Patrick Gallagher, Jr.
9	**Hormel Foods** Jeffrey M. Ettinger		**Boeing** W. James McNerney, Jr.
10	**General Mills** Kendall Powell	15	**3M** Inge Thulin
11	**VF Corporation** Eric C. Wiseman		**Monsanto** Hugh Grant
12	**W.W. Grainger** James T. Ryan		**PepsiCo** Indra Nooyi
13	**Caterpillar** Douglas Oberhelman	6	**Royal Caribbean Cruises** Richard Fain
14	**Verizon Communications** Lowell McAdam	5	**The Cooper Companies** Robert Weiss
15	**TJX Companies** Carol Meyrowitz		**General Mills** Kendall Powell
16	**Sprint** Daniel Hesse	16	**Sprint Nextel** Daniel Hesse
17	**Maxim Integrated** Tunc Doluca	37	**Bridgestone Americas** Gary Garfield
18	**Southwest Airlines** Gary Kelly		**McDonald's** Donald Thompson
19	**DENTSPLY International** Bret Wise		**ADP** Carlos Rodriguez
20	**ADP** Carlos Rodriguez	19	**Shoppers Drug Mart** Domenic Pilla

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10 BEST PRIVATE COMPANIES FOR LEADERS

Because private companies operate in a much different business environment than public companies and those that commit to leadership development deserve to be recognized in their right, those with $1 billion-plus in revenue have their own ranking right. Here are the top-10 large, private companies for leadership development. (For more on this year's No. 1 ranked private company, see "Deloitte: Building a Future on Millennial Recruits," p. 28.)

2014 RANK	COMPANY/CEO	2013 RANK	COMPANY/CEO
1	**Deloitte** Joseph J. Echevarria		**PwC** Bob Moritz
2	**PwC** Bob Moritz	1	**American Infrastructure** A. Ross Myers
3	**Transplace** Thomas Sanderson	5	**Golder Associates** Brian Conlin
4	**American Infrastructure** A. Ross Myers	2	**Briggs International** David Bratton
5	**Clark Construction Group** Robert Moser, Jr.		**Transplace** Thomas Sanderson
6	**Dell** Michael Dell		**CHG Healthcare Services** Mike Weinholtz
7	**AlliedBarton Security Services** William Whitmore		**Day & Zimmermann** Michael Yoh
8	**Day & Zimmermann** Michael Yoh	7	**Lockton Companies** David Lockton
9	**MWH Global** Alan Krause		**Genesis HealthCare** George Hager, Jr.
10	**Black & Veatch** Len C. Rodman		**Sheridan Healthcorp** Mitchell Eisenberg

WHERE THEY GO FOR TALENT—AND WHY

Participants cited these three companies as top targets when recruiting from outside:

| P&G	Known for outstanding technical leaders, marketing expertise and leadership know-how.
IBM	A technology and solutions leader boasting an excellent reputation for developing leaders, reinventing business models profitably and sharing success with global communities.
GE	Multinational organization with complex business units and a strong reputation for developing leaders and leading innovation in technology.

40 BEST COMPANIES FOR LEADERS

2014 RANK	COMPANY/CEO	2013 RANK	COMPANY/CEO
21	**HNI** Stan A. Askren		**Bayer MaterialScience** Patrick Thomas
22	**McKesson** John Hammergren		**Barnes Group** Gregory Milzcik
23	**3M** Inge Thulin	10	**NOVA Chemicals** Randy Woelfel
24	**Konecranes** Pekka Lundmark	30	**Bristow Group** William Chiles
25	**Ecolab** Douglas M. Baker, Jr.	28	**Cardinal Health** George Barrett
26	**EMC Insurance** Bruce Kelley	35	**BP China** Robert Dudley
27	**Cardinal Health** George Barrett	25	**Dimension Data** Brett Dawson
28	**Green Mountain Coffee Roasters** Brian P. Kelley		**Ecolab** Douglas M. Baker, Jr.
29	**RPM International** Frank C. Sullivan		**Johnson Matthey** Neil Carson
30	**Emerson Electric** David Farr		**Konecranes** Pekka Lundmark
31	**Comcast** Brian Roberts		**Olympic Steel** Michael Siegal
32	**Shoppers Drug Mart** Domenic Pilla	20	**Phillips NV** Frans van Houten
33	**Barnes Group** Patrick Dempsey	22	**Autoliv** Jan Carlson
34	**Cash America Int'l** Daniel R. Feehan		**Hyatt** Mark Hoplamazian
35	**Dangote Cement** Aliko Dangote		**EMC Insurance** Bruce Kelley
36	**The Cooper Companies** Robert Weiss	14	**Harman International** Dinesh Paliwal
37	**Huntington Bancshares** Stephen Steinour		**Maxim Integrated** Tunc Doluca
38	**Citigroup** Michael Corbat		**Libbey** Stephanie Streeter
39	**Paychex** Martin Mucci		**ResMed** Peter Farrell
40	**Esterline** Curtis Reusser		**Kelly Services** Carl Camden

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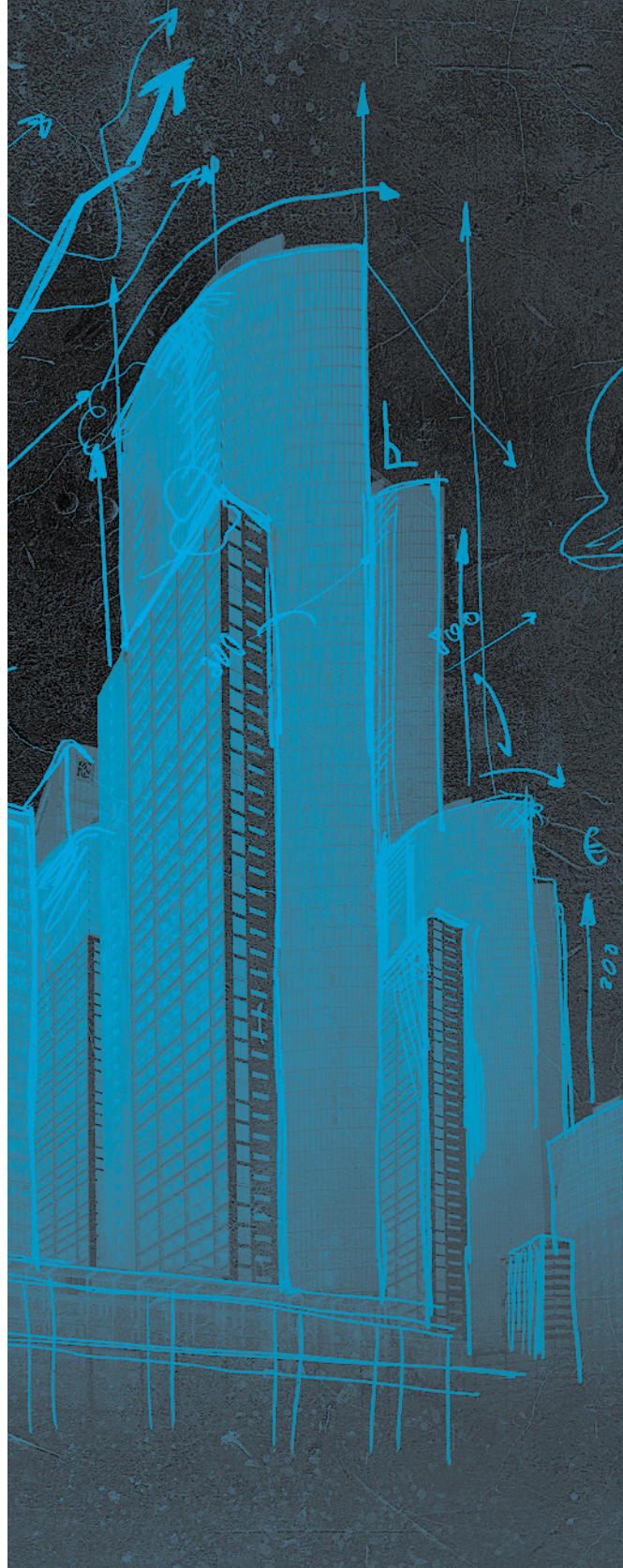
TOP 10 SKILLS NEEDED FOR EFFECTIVE LEADERSHIP

While the top skills for effective leadership remain the same as last year's, "adaptability to change" ranked higher, underscoring the importance of being able to navigate today's ever-changing business environment.

	Skill*	2014	2013
1	Adaptability to change	60%	54%
2	Strategic thinking	55	57
3	Integrity	48	51
4	Very good communicator	40	50
5	Being trustworthy and open	38	43
6	Vision	35	32
7	Develops and fosters diverse teams	33	20
8	Delegation	28	41
9	A positive mind-set	26	31
10	High self-awareness	26	20

VEER

*Respondents selected all that applied

TOP-RANKED LEADERSHIP-DEVELOPMENT COMPANIES OUTPACE PEERS

Does investing in leadership development pay off? Yes, according to market data, which shows that the top leadership companies deliver greater growth than the lowest, as measured by market capitalization. The comparison (see table to right) is based on data from 2003 to 2013, a period long enough to minimize short-term and seasonal fluctuations.

SUMMARY 10-YEAR PERFORMANCE COMPARISONS

Participant Companies*	Market Capitalization Growth
Top 15 percent	200 percent
Bottom 15 percent	84 percent

*Includes companies where public data is available for 2003 to 2013.

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Likewise, IBM identifies those with early promise under its Basic Blue for IBM Leader program, where leadership competences are explored and guidance for career paths is given. As one might expect from a company of IBM's pedigree, nearly everyone is tracked assiduously. IBM's Chairman/CEO Virginia Rometty, like her predecessors, follows a range of specific individuals at all levels with "Chairman's Reviews" with action follow-ups.

GE, which dominated the ranking in its early years, has undergone considerable change since Jeff Immelt took over from Jack Welch in September 2001. He believes that relatively simple actions, such as attending his own instructional courses at the company's state-of-the-art John F. Welch Learning Center, located in Crotonville, New York, can have far-reaching effects. Crotonville has become the Annapolis and West Point of executive development. Activities there lead to selection and promotion, as they reinforce the creation of new operating mechanisms designed to drive innovation. In addition, GE encourages development by having its executives generate "Imagination Breakthroughs" during its twice-a-year meetings of senior executives. "Chances are, a lot of people have great ideas for growth and innovation," Immelt says. "It's up to us to develop a disciplined process to sort them out and encourage our talented people to generate them."

New to the top-10 ranking are Accenture (4), Unilever (5) and Hormel Foods (9), which report impressive leadership-development processes. Of the companies surveyed, 84 percent have headquarters in North America and 57 percent have international operations. The majority of industries represented included Professional, Scientific, and Technical Services (21 percent), Manufacturing (19 percent) and Finance, Insurance, Real Estate (14 percent).

Because it would be inappropriate to compare private companies with larger, public companies that enjoy greater resources, we list the ranking of large, private organizations with in-depth leadership development programs separately (See p. 24). The full Leadership Research Report will be available in February at chally.com.

BIGGEST HURDLES
TO DEVELOPING LEADERS

For both public and private companies, difficulty balancing long-term and short-term business requirements continues to be the No. 1 challenge in nurturing leaders. In addition to the three commonly cited challenges cited below, responses indicated that many leaders see room for improvement. In fact, more than one-fifth of all respondents rated their companies as "poor" or "average" at developing leaders and just 66 percent of CEO respondents agreed that HR is an effective partner in leadership development.

2014		2013	
Difficulty balancing long-term and short-term business requirements	60%	Difficulty balancing long-term and short-term business requirements	71%
Rapidly changing business requirements, so criteria for success is fluid	50%	Financial challenges	54%
Financial challenges	40%	Rapidly changing business requirements, so criteria for success is fluid	48%

ISTOCK

Deloitte:
Building a Future on Millennial Recruits

As a potential pool of future leadership talent, Millennials represent something of a recruiting conundrum. Companies recognize the importance of attracting this new generation of workers, but they struggle to accommodate their needs. Acknowledging this challenge, survey participants cited several areas in need of improvement or change to fit the work/life patterns of this group, including:

- Social media interaction
- Mobile technology adoption
- Flexible working hours and locations
- Modified branding and images for recruiting
- Rotational assignments with frequent core-focus changes

One organization making headway with this next-generation recruiting effort is professional services giant Deloitte, which reports that Millennials today make up more than 50 percent of their client-facing workforce. Deloitte maintains a dedicated university-relations team of senior partners, principals and directors who work closely with nearly 40 target universities, actively recruiting more than 7,000 graduates each year. These recruits are then funneled into a comprehensive on-boarding program designed to provide Millennials with the skills to accelerate their productivity, beginning with a year-long "Welcome to Deloitte" (W2D) program.

"W2D introduces each new hire to the organization, instills our core beliefs, simulates the feel of working on a client team, teaches network-building skills through our 'Deloitte People Network' social networking tool and, later, focuses on professional development in the specific business unit the Millennial joined," explains Jennifer Steinmann, chief talent officer, who says that more than 17,000 new professionals participated in W2D in 2012. "The emphasis is on interactive experiences, including simulations, role-plays, small-group teams—even video games—and an online 'New Hire Center' with a custom dashboard to track required first-year tasks."

Deloitte also embraces social media. "Yammer is our platform of choice, with hundreds of active blogging groups forming in its first year alone," says Steinmann. "Our people use Yammer to 'crowd-source' information from colleagues around the world. Professionals can also create forums to exchange information and match mentors with mentees."

The effort seems to be paying off. In a satisfaction survey of these new hires, 97 percent of the respondents reported they felt welcomed to Deloitte, 96 percent felt they had an understanding of its culture and 96 percent reported being satisfied with their decisions to join the organization.

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Key Findings:

- *The "Best Companies for Leaders" generate greater market value over time*

- *Coaching/mentoring continues to be the most popular practice for developing leaders*

- *The CEO and HR business partner relationship is key to leadership development success*

- *One quarter of organizations believe it is critical to focus on the development of millennials*

- *Featured Interview: The Modern CEO Key Challenge: Selling Globally-John Thompson, CEO-Virtual Instruments*

Coaching/mentoring continues to be the most popular practice for developing leaders

In the four years we conducted the Global Leadership Project, coaching/mentoring continues to be the most popular leadership development practice for both small and large companies. The practice of coaching has many variations depending on the level of formality and the allocated resources. From informal mentoring, to peer-to-peer coaching, to executive coaches, coaching others involves forming a trust-based relationship committed to supporting others to achieve their developmental objectives.
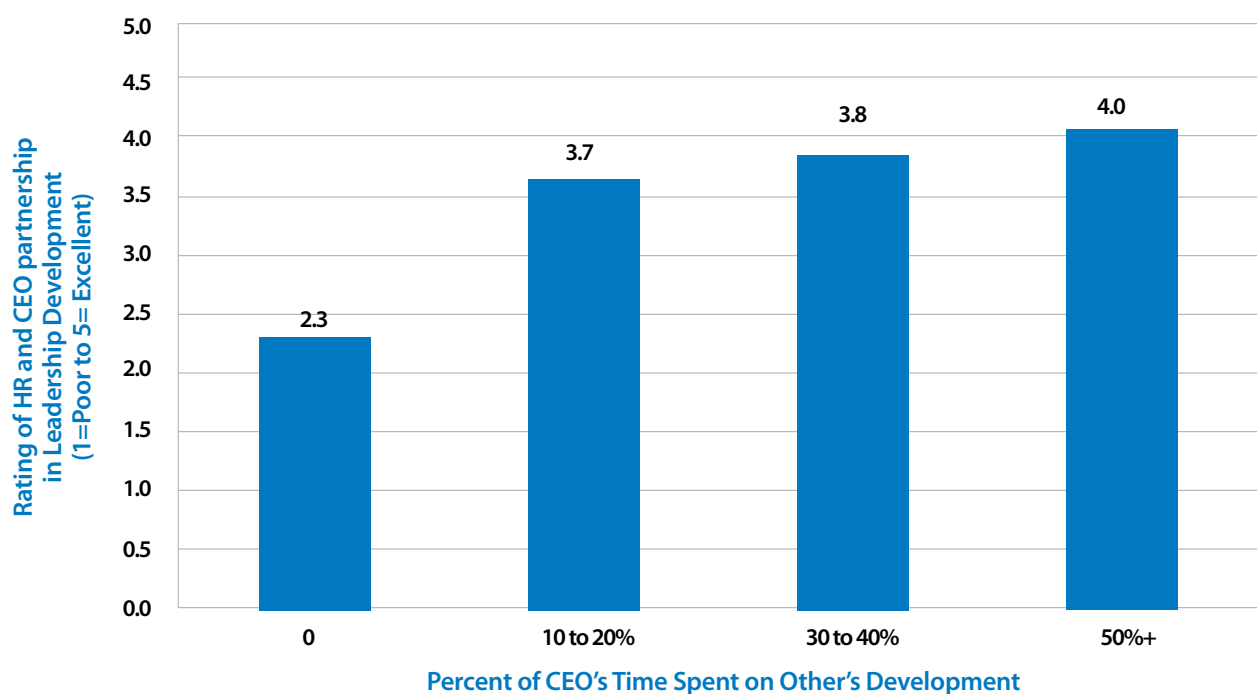
The next favored leadership development programs are action learning and assessments. Assessments, action learning, high-potential programs and exposure to senior executives are exercised more in larger organizations.[1] Larger organizations are more likely to have a formal leadership development program with resources to support these practices.

Coaching and Mentoring

63.1
50.6
55.9

Action Learning and Developmental Assignments

64.6
36.8
48.7

Assessment and Feedback

56.9
35.6
44.7

Exposure to Senior Executives

43.1
35.6
38.8

Formal Classroom Training

38.5
35.6
36.8

High-Potential Programs

47.7
14.9
28.9

Cross-Functional Team Projects

23.1
25.3
24.3

Exposure to Internal and External Thought Leaders

27.7
20.7
23.7

External Workshops and Training

21.5
25.3
23.7

International Assignments

15.4
9.2
11.8

Tuition Remission

10.8
11.5
11.2

Other

9.2
3.4
5.9

■ Over 1 Billion Revenue (%)   ■ Under 1 Billion Revenue (%)   ■ All (%)

The CEO and HR Business Partner Relationship is Key to Leadership Development Success

Only 66 percent of CEOs rate HR as a 'Very Good' or 'Excellent' partner in the leadership development process. It is not clear why 34 percent of CEOs surveyed do not believe HR to be an effective partner. However, the more time the CEO spends on leadership development, the greater satisfaction by the CEO of the HR/CEO partnership. The *Best Companies for Leaders* winners are more likely to report a successful HR/CEO partnership. More data from the survey shows the importance of the CEO to leadership development. The *Best Companies for Leaders* winning companies report a longer CEO tenure on average compared to non-winners (4.1 to 3.6 years). This finding illustrates another measure of success as the top executives at the winning Companies are likely to hold the top position for a longer time.

Rating of HR and CEO partnership in Leadership Development (1=Poor to 5= Excellent)

| Percent of CEO's Time Spent on Other's Development	Rating
0	2.3
10 to 20%	3.7
30 to 40%	3.8
50%+	4.0

One quarter of organizations believe it is critical to focus on the development of millennials

HR and CEO respondents are focused on the potential different talent management needs of the millennial generation. The majority of organizations find the attraction, development and retention of the millennial generation a very important or critical concern for their organization.

Some of the ways organizations are focusing on millennials, as indicated by verbatim responses:

- *"Educating ourselves on how to reach this generation"*
- *"Actively acknowledging the behavior and thought patterns of the millennials"*
- *"Using social media"*
- *"Developing a more formal career path with advancement opportunities"*
- *"Reviewing our policies, benefits and cultural practices to support this age group"*
- *"We offer flexible work arrangements, privacy rooms for working mothers, autonomy and being a part of the decision making process"*
- *"We have bolstered our mentoring program and offer flex and job sharing"*

6%
15.5%
23.8%
20.2%
34.5%

- Not Important
- Somewhat Important
- Important
- Very Important
- Critical
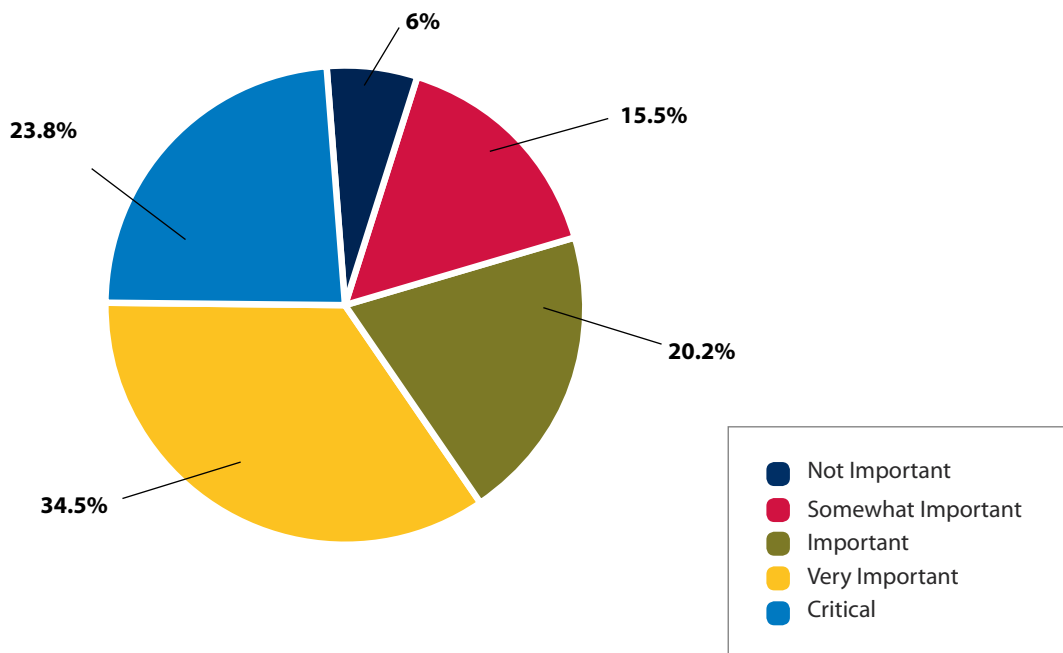
Featured Interview:

The Modern CEO Challenge: Selling Globally

Howard Stevens, Chairman of Chally Group Worldwide interviews John Thompson, CEO of Virtual Instruments and Chairman of the Board of Directors for Microsoft, regarding his thoughts on Leadership Development

Q: **Howard:** *We do the annual story for Chief Executive Magazine's "Best Companies for Leaders." One of the depressing statistics is that CEO turnover in Fortune 1000 public companies is the 2nd worse turnover in corporate America. The only thing worse is 100% commission salespeople and is approximately 27 months now. Of those Fortune 1000 companies, almost 41% of departing CEOs are "resignation to pursue other interests." And another 13% are described as "terminations and replacements." So better than 50% of this high turnover rate is pretty negative. When you look at the top and most important position, you have to ask, what are we doing wrong? In that light, I would like to get your input on some leadership development issues. The first question is, why do you think it is that we do so poorly at selecting CEOs or providing them with whatever support would be necessary to make them successful?*

A: **John:** I think the job today is more challenging than ever before if you think about the global nature as opposed to local nature of almost any Fortune 1000 company. And, when you think about the real time nature of the communications between the senior team, investors, employees and customers, the pressure to perform is magnified. Quite frankly, when you think about the more short-term view, many of those things contribute to a level of churn that may prove, over time, to not be healthy for companies around the globe, and, certainly for those who find themselves in that 21-24 month churn cycle that you suggested. I think the real issue for any company is finding a leader who has a view of what optimizes the combination of shareholder returns, employee excitement, and long-term competitive sustainability in the markets that they are pursuing. Often times, that is going to require investors to be more patient than they certainly have demonstrated over the last 5 to 10 years in the U.S.

Q: **Howard:** *How do you manage to that? Wall Street plays an inappropriately negative role in terms of sustaining or supporting developing leaders. How can a company or board of directors plan for that? What should they be doing instead?*

A: **John:** Well, they certainly should have a clear sense of what the leader's vision is for the company — and some sense of what the timeline is appropriate to produce meaningful or material results for the company, and clearly hold that leader accountable for executing against that timeline. But they should not be overly influenced by external pressures if they are convinced that the path the company and the leadership team are on is right. That doesn't mean you should ignore investors at all, because they do, in fact, own the company. By the same token, if you brought in a new leader, and think that new leader can bring on a sense of change that is sustainable and meaningful in two years in a Fortune 1000 company, that seems to be a little short-sighted to me.

Q: **Howard:** *I would agree with you, and I think I hear what you are saying is the ultimate responsibility for that patience is probably going to have to be driven by a strong Chairman of the Board.*

A: **John:** Clearly that is an important element in governance and bridging the gap between the management team and the investor base. But you cannot have a chairman who usurps the responsibility of the CEO. In my mind, the #1 spokesperson for the company and its strategy should always be the CEO, but the chairman certainly does have an important role to the extent that the individual is not also the CEO.

About
John W. Thompson

John W. Thompson was named CEO of Virtual Instruments in April of 2010. He has been an investor and member of the Virtual Instruments Board of Directors since 2009. Prior to joining Virtual Instruments, John was chairman of the board and CEO of Symantec Corporation, the leader in internet security. During his 10-year tenure as CEO of Symantec, Thompson transformed the company into a leader in security, storage and systems management solutions, delivering world class products to a global customer base, from individual consumers to many of the world's largest enterprises. He helped grow revenues from $600M to more than $6B in ten years. He continued to serve as chairman of the board until October 2011. John also served in a number of senior leadership roles at IBM Corporation, including general manager of IBM Americas. Thompson has served on the National Infrastructure Advisory Committee (NIAC), making recommendations regarding the security of nation's critical infrastructure, and the Financial Crisis Inquiry Commission to investigate the cause of the 2008 financial collapse and to make recommendations to Congress on steps to avoid or mitigate the impact of a reoccurrence. He is an active investor in early-stage companies and currently serves on the board of directors of Liquid Robotics, and is an advisor to PernixData. John is chairman of the board of Microsoft and is a trustee for Wetlands America Trust. He has also served on the boards of NIPSCO (Northern Indiana Public Service Company), Fortune Brands, Seagate Technologies, and UPS. Thompson has been recognized by a number of industry and business associations for his leadership and public service. In 2012, the Silicon Valley Leadership Group recognized him with the Spirit of Silicon Valley Lifetime Achievement award, the Silicon Valley Education Foundation named him Pioneer Business Leader in 2010 and in 2008 Junior Achievement recognized him as a Business Hall of Fame Laureate. Thompson was also awarded the David Packard Medal of Achievement from TechAmerica Foundation for his contributions to the high-tech industry. Thompson completed his undergraduate studies at Florida A&M and holds a Master's degree in Management from MIT's Sloan School of Management. In 2008, he received an honorary doctorate degree from the University of Notre Dame, Mendoza College of Business.

Q: **Howard:** *What I was getting at was not a distinction in the sense of confusing management with governance but rather the chairman managing the board and outside investor's pressure or defending against those pressures more to support or champion the CEO as opposed to an insurgent on his responsibilities.*

A: **John:** I completely agree with that.

Q: **Howard:** *If I am a stockholder or a source of money and deciding to invest, would it be appropriate carrying that through to do a two-part evaluation not only of the CEO and his vision and effectiveness but also of the chairman to stay the course to an appropriate extent, not mollycoddle a weak CEO, but willing to stand up and defend? How would you respond or how would you suggest that the investing sources deal with that?*

A: **John**: Now that is an interesting question. I am not an investor in public companies, I let someone else manage our assets for us because I am not that good at it. I have to think what people, first and foremost, are most interested in. Does the company have a competitive position in the market that they are pursuing that is sustainable and can lead to long term success? Does the team that is driving that vision or execution have the right make up and that could be chairman and CEO - for sure those two roles? In a tech company, who is the head of engineering and who is the head of market development and all of the things that are so critical to success in an industry where the inter-relationships become so important? It is a combination of the strategy in the market that you are pursuing and the people that are in place to pursue those markets in combination. Clearly chairman and CEO are critical roles, but they are not the most critical roles, except for overall strategy.

Q: **Howard:** *What do you think is going to change in the future and how will that affect the role of management and/or governance to the extent it is a public company and historically the most successful private companies go public so that the appropriate people can cash out?*

A: **John:** I can only speak for myself while there is a certainly a cash out element in the desire to go public, the interest of most companies that pursue a public market offering is to have the capital base that allows them to grow and

expand not just the liquidity process for founders and early investors. Because in fact, once you are in the public markets there is easier access to capital than there might otherwise be when you are private, and I have certainly had that experience here at Virtual Instruments. As it relates to the globalization of business, when you think about the U.S. as compared to other economies in the world, we have 350 million people compared to billions in China and India. (A host of other major continents besides North America in the world have far more people and therefore represent a far bigger opportunity.) I think the question for most of us, as global U.S. based companies, is do we have a product or value proposition for those markets? It is more difficult, I would think, for consumer-based products than, it is for let's just say, technology, or technology, driven products. Technology driven products tend to cut through global boundaries and the ecosystem that is necessary to make them successful is global. Whereas, if you are trying to sell cookies or donuts, it is much more culturally aligned than otherwise. It is inevitable that successful public companies need a global presence. The question, is how do they adapt their product and business processes to the local markets they are trying to pursue?

Q: **Howard:** *In the global marketplace, there is a strong debate between major consulting groups as to whether you should send an American out for global experience and spend X time in particular markets. The other argument is there is another way, other than 2-4 year assignments, because you are not going to pick up sufficient wisdom about various cultures. Therefore, the best alternative is to grow the appropriate leaders of the future in those different cultures and bring them up that way. What are your thoughts on either direction?*

A: **John:** I think it truly depends on the current state of the company and the market that you are pursuing. Let's just take our little company for instance. We just decided to plant the flag in Asia Pacific and the debate we went through was the exact thing you are raising here. Are we better served to have someone who knows the company culture, business operations and strategy on day one, or should we hire someone who is local in the market and will help us penetrate those markets based upon local relationships? What we decided was to have a leader, at least at this stage, that truly understood the company and what it was trying to accomplish and hire local people to work for him who understood the nuances of the local marketplace and had relationships that were leverageable. We took a different approach in Europe, which is a more established market, but we felt the need for someone of European

background and experience as opposed to sending an American to drive the growth we expect in the market. I think it really depends upon the company, and the markets, and what you are trying to accomplish. Candidly, given our weaker than I would have liked performance in Europe, I am starting to question whether we made the right choice. Time will tell.

Q: **Howard:** *In a mature environment, there are likely to be some very experienced, sophisticated, well-trained as well as a greater pool of management talent, like in Europe. Since it is more mature, and a longer-term successful economy, it would be better to select locally. In a new and emerging market where there is likely to be a much smaller pool of top-drawer candidates, it is safer and wiser to send the talent that is much more experienced and trained and let them adapt, assuming they would have less sophisticated competition because it is an emerging market. How far off am I in that surmise?*

A: **John:** I wish it were that simple. In the case of Symantec after having had a European leader run our business there for many years, I reached the decision what we needed was someone who had stronger connections back to the corporate organization who was going to drive the kind of change we wanted in Europe, consistent with the strategy overall. So, while in general, I would say your synopsis is correct, I think there is also the question, "What is the current state of play of the company and what are you trying to accomplish with the leader, not just necessarily the business results but the cultural connection with Europe/Asia Pacific and the U.S." Those are all important elements of how a company succeeds as it builds its global footprint.

Q: **Howard:** *In closing, did I miss some area of significance?*

A: **John:** I think it is inevitable that a successful Global 1000 company or Fortune 1000 company, is going to want to have a stronger footprint outside the U.S. than inside the U.S. I think the real question becomes what is the right combination of market strategy, resource allocation, and cultural assimilation that will make it a success. As much as you can get that right, the stronger that business can become.

Global Leadership Research Project Survey Response Summary

Does your organization have a formal process for developing leaders?

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
No	21.0	29.1	21.0
Yes	79.0	70.9	79.0

Rank the key performance measures your leadership tracks to determine the overall success of the organization? (1 as most important to 11 as least important; lower averages mean most important)

	All	Under 1 Billion Revenue	Over 1 Billion Revenue
Gross Profit	4.2	4.5	3.7
Customer Satisfaction	4.2	3.9	4.5
Income Growth	4.3	4.2	4.4
EBITDA	4.7	4.9	4.3
Customer Retention or Churn	5.0	4.6	5.6
Costs	5.2	5.3	5.2
Market Share	5.7	5.8	5.5
Employee Retention	5.9	5.5	6.4
Stock Price	7.5	8.1	6.7
Publications	8.6	7.8	9.4
Patents	8.6	8.4	9.1

What development opportunities are included your organization's leadership development program? (Select the three most frequently used.)

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Coaching and mentoring	55.9	50.6	63.1
Action learning and developmental assignments	48.7	36.8	64.6
Assessment and feedback	44.7	35.6	56.9
Exposure to senior executives	38.8	35.6	43.1
Formal classroom training	36.8	35.6	38.5
External workshops and training	23.7	25.3	21.5
High-potential programs	28.9	14.9	47.7

Cross-functional team projects	24.3	25.3	23.1
Exposure to internal and external thought leaders	23.7	20.7	27.7
International assignments	11.8	9.2	15.4
Tuition Remission	11.2	11.5	10.8
Other	5.9	3.4	9.2

What percent of your current senior management team was recruited internally? (Select from 0% to 100%.)

	All	Under 1 Billion Revenue	Over 1 Billion Revenue
Mean	62.3	59.3	66.7
Standard Deviation	30.5	33.5	24.9

What percent of your current next level under senior management was recruited internally? (Select from 0% to 100%.)

	All	Under 1 Billion Revenue	Over 1 Billion Revenue
Mean	61.3	55.0	70.1
Standard Deviation	27.1	30.6	20.3

What percent of your CEO's time is spent engaging in others' development activities? (Select from 0% to 100%.)

	All	Under 1 Billion Revenue	Over 1 Billion Revenue
Mean	32.6	35.0	29.2
Standard Deviation	21.3	22.7	18.7

What percent of your CEO's time is spent on his or her own personal development activities? (Select from 0% to 100%.)

	All	Under 1 Billion Revenue	Over 1 Billion Revenue
Mean	22.0	24.4	18.5
Standard Deviation	18.9	19.6	17.6

What is the length of time (in years) your Top Executive has been in office?

	All	Under 1 Billion Revenue	Over 1 Billion Revenue
Mean	3.6	3.7	3.5
Standard Deviation	1.3	1.3	1.3

What is the length of time (in years) your former Top Executive was in office?

	All	Under 1 Billion Revenue	Over 1 Billion Revenue
Mean	3.7	3.4	4.1
Standard Deviation	1.2	1.4	0.9

Of the following developmental activities, which two does your CEO spend the most time on?

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Coaching and feedback for skill development	49.4	53.7	43.4
Mentoring one-on-one	45.1	50.7	37.4
Informal information exchange sessions	40.3	35.8	46.4
Overseeing the design and development of leadership programs	27.3	25.3	30.3
Guest appearances in training classes	26.6	13.3	44.4
Teaching formal training classes	18.9	29.9	16.2
Other	9.9	7.5	13.1

Which functional areas are most likely to produce your C-Level executives? (Select the top four.)

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Operations	65.2	61.2	70.7
Finance	56.7	52.2	62.6
Sales	55.4	56.7	53.5
Marketing	39.1	41.0	36.4
Strategy	36.1	39.6	31.3
Human Resources	20.2	24.6	14.1

Engineering	19.7	15.7	25.3
IT	14.6	14.9	14.1
Other	13.3	14.9	11.1
Legal	8.2	6.7	10.1
R & D	6.4	7.5	5.1

The following seven questions were rated on a scale of Strongly Disagree=1, Disagree=2, Neither Agree nor Disagree=3, Agree=4, Strongly Agree=5.

	All (% Agree/ Strongly Agree)	Under 1 Billion Revenue (% Agree/Strongly Agree)	Over 1 Billion Revenue (% Agree/Strongly Agree)
My company has a sufficient number of qualified internal candidates who are ready to assume mid-level manager positions.	75.1	69.6	82.7
My company has a sufficient number of qualified internal candidates who are ready to assume senior manager/executive positions.	49.7	42.2	60.0
Upper-level managers recruited externally have been successful.	65.5	54.9	80.0
Mid-level managers recruited externally have been successful.	70.6	60.8	84.0
Other companies actively try to recruit our organization's leaders.	73.4	63.7	86.7
Retention of key talent is a formal performance metric for our managers.	58.2	62.7	52.0
HR is an effective partner in the leadership development process.	65.5	62.9	76.5

How would you rate your organization's ability to develop leaders?

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Poor	5.6	6.9	4.0
Average	14.7	14.7	14.7
Good	26.0	30.4	20.0
Very Good	26.6	30.4	21.3
Excellent	27.1	17.6	40.0

What are the top three challenges in developing leaders within your organization?

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Difficulty balancing long-term and short-term business requirements	60.5	60.5	60.5
Rapidly changing business requirements so criteria for success is fluid	49.3	49.3	49.3
Limited financial resources	40.1	40.1	40.1
No systematic process for identifying and developing talent	28.3	28.3	28.3
Other	19.7	19.7	19.7
Difficulty identifying high-potential development prospects	18.4	18.4	18.4
Top talent not willing to relocate	17.8	17.8	17.8
Difficulty attracting top talent	14.5	14.5	14.5
Difficulty retaining top talent	11.2	11.2	11.2

What are the five most critical skills to be a very effective upper-level manager?

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Adaptability	60.5	51.7	72.3
Strategic thinking	56.6	49.4	66.2
Integrity	47.4	40.2	56.9
Communication	39.5	37.9	41.5
Trustworthy	37.5	40.2	33.8
Fosters diverse teams	36.8	34.5	40
Vision	34.2	25.3	46.2
Delegation	27.6	35.6	16.9
A positive mind-set	26.3	37.9	10.8
Self-Awareness	25.7	26.4	24.6
Courage	25	24.1	26.2
Entrepreneurial spirit	23.7	28.7	16.9
Strong financial understanding	19.7	16.1	24.6
Confidence	17.8	27.6	4.6
Empathy	11.2	17.2	3.1
Attention to detail	10.5	16.1	3.1
Discipline	9.9	12.6	6.2
Networks and connections	9.9	12.6	6.2
Other	7.9	2.3	15.4
Political skill	7.2	8.0	6.2
Previous positions in international leadership roles	2.0	0.0	4.6

What are the best practices to minimize leadership derailment?

Practices	All (%)
Coaching or Mentoring	21.2
Clear-expectations	14.4
Feedback	13.7
Assessments	12.3
Measurement and Goal Setting	10.3
Accountability	6.8
Self-awareness	4.8
On-boarding	3.4
Culture-fit	2.7
Early detection	2.7
Discipline	1.4
Listening	1.4
Networking	1.4
Delegation	0.7
Empathy	0.7
Recognition	0.7
Reflection	0.7
Training	0.7

How important is the ability to drive innovation for high-potentials?

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Not Important	9.6	12.4	5.7
Somewhat Important	0.6	0.0	1.4
Important	7.2	10.3	2.9
Very Important	47.3	45.4	50.0
Critical	35.3	32.0	40.0

How important is sales experience in selection of high-potentials?

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Not Important	6.0	5.2	7.1
Somewhat Important	9.0	8.3	10.0
Important	34.3	30.2	40.0
Very Important	33.7	32.3	35.7
Critical	16.9	24.0	7.1

Does your organization position outside board membership for high-potential candidates?

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
No	56.7	60.0	52.2
Yes	43.3	40.0	47.8

Does your organization position outside board membership for your high-potentials in non-profit organizations?

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
No	51.8	60.8	39.1
Yes	48.2	39.2	60.9

Does your CEO maintain personal relationships with major customers?

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
No	10.3	9.4	11.6
Yes	89.7	90.6	88.4

Do you as the CEO maintain personal relations with major vendors?

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
No	24.1	24.0	24.2
Yes	75.9	76.0	75.8

Does your CEO maintain personal relations with industry associations?

	All (%)	Public (%)	Private (%)
No	15.3	19.8	9.0
Yes	84.7	80.2	91.0

What is your company's position on visible partisan political involvement?

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Forbidden	18.8	19.4	19.0
Discouraged	17.7	17.9	17.8
Neutral	55.2	59.7	57.1
Preferred	5.2	0.0	3.1
Required	3.1	3.0	3.1

HR Survey Questions

Does your organization have a formal definition of high potential?

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
No	34.8	56.3	22.8
Yes	65.2	43.8	77.2

Which of the following are most predictive of leadership success? (Select all that apply.)

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Fit with company values and culture	49.3	29.9	75.4
Learning agility/cognitive ability	41.4	21.8	67.7
Motivation to lead	40.8	23.0	64.6
Interpersonal skills	40.1	21.8	64.6
Self-awareness	40.1	27.6	56.9
Previous experiences	34.9	17.2	58.5
Political Savvy	21.1	11.5	33.8
Lack of derailleur	18.4	6.9	33.8
Educational background	9.9	5.7	15.4
Other	7.2	2.3	13.8

What processes do you use to recruit and hire top external leadership talent? (Select all that apply.)

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Recommendation from internal managers/executives	41.4	24.1	64.6
Structured Interviews	40.8	21.8	66.2
Use specialized recruiting firm	38.2	13.8	70.8
Networking at industry events	32.9	20.7	49.2
Direct Search	32.2	13.8	56.9
Recommendation from external executives	28.9	13.8	49.2
Assessment Process	27.0	14.9	43.1
Social media	25.0	13.8	40.0
General Interviews	23.0	5.7	46.2
Simulations/ job preview	10.5	10.3	10.8
Other	6.6	3.4	10.8

What processes do you use to identify top internal talent? (Select all that apply.)

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Annual/bi-annual talent reviews	40.8	19.5	69.2
Succession planning	40.1	17.2	70.8
9-Box	31.6	9.2	61.5
Multi-rater evaluation	23.0	8.0	43.1
Assessment Centers	16.4	6.9	29.2
Assessment Tests	16.4	6.9	29.2
Other	9.9	3.4	18.5
Peer Nominations	9.9	9.2	10.8
Credentials	9.2	4.6	15.4
Team building exercises	8.6	8.0	9.2

How far down in your organization do you go in identifying and tracking high-potential leaders?)

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
Individual contributors	42.3	48.0	39.6
First-level supervisors	19.2	20.0	18.9
Middle managers	28.2	24.0	30.2
Upper-level managers	10.3	8.0	11.3

What on-boarding processes do you use for top-level leaders? (Select all that apply.)

	All (%)	Under 1 Billion Revenue (%)	Over 1 Billion Revenue (%)
90-day transition structure and support	34.2	19.5	53.8
Assimilation meetings	30.9	12.6	55.4
Individual feedback and coaching of new executives to learn about strengths and development areas	31.6	16.1	52.3
Planned rotation of meeting key individuals	30.3	11.5	55.4
Assigned a mentor	25.7	13.8	41.5
Job shadowing	9.2	2.3	18.5
Short-term assignments in different functional areas	7.9	5.7	10.8
No on-boarding processes in place	5.9	4.6	7.7

How critical is focusing on the attraction, training and retention of the millennial generation for your company?

	All (%)	Under 1 Billion Revenue(%)	Over 1 Billion Revenue (%)
Not Important	6.0	9.6	1.4
Somewhat Important	15.5	14.9	16.2
Important	20.2	22.3	17.6
Very Important	34.5	36.2	32.4
Critical	23.8	17.0	32.4

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