

RESEARCH BRIEF

Growing Great Leaders Key to Double-Digit Growth

Double-Digit Growth and Leadership

Great leadership is a foundation of double-digit growth. Companies that make leadership a top priority see better business results. Increasingly, the business environment is becoming more challenging than ever, making clear and effective leadership strategy and talent management even more critical to a company's success.

Hewitt Associates has been conducting a multifaceted research study, in partnership with Michael Treacy, author of Double-Digit Growth—How Great Companies Achieve It No Matter What, to better understand the organizational drivers of double-digit growth. This is one in a series of research papers highlighting the distinctive people practices of double-digit growth companies.

In examining the relationship between double-digit growth (DDG) and leadership, we find that DDG companies successfully execute the fundamental building blocks of leadership development.

Key Findings

- **DDG companies maintain greater focus on developing leaders beyond the corporate level.** This broader focus facilitates talent management throughout the organization, ensuring high-potential identification and development across business units and functions. Not surprisingly, DDG companies believe that their organizations are more effective in developing leaders.
- **DDG companies carefully identify and develop their top talent, resulting in significantly lower turnover rates for high-potential employees.** Frank discussions about talent are consistent with the need to act quickly and execute a growth strategy—more than half of the DDG companies communicate high-potential status as part of their succession planning process.

- **DDG companies have clear leadership strategies, and more importantly, they execute these strategies more effectively.** DDG companies have specific strategies in place to select, reward, and develop leaders. These strategies are integrated into performance management processes, as well as succession planning.
- **DDG companies offer a greater range of development opportunities.** At the tactical level, DDG companies offer a greater range of developmental opportunities, such as developmental and rotational assignments, to leaders than single-digit growth (SDG) companies.

Great Leadership is a Foundation of Double-Digit Growth

Profitable growth tops the list of corporate strategic priorities. Yet, it is difficult to draw hard and fast rules about how and why some companies are able to sustain double-digit growth while others fail. Having the right strategy in place will certainly help, but to see results, a company must also marry strategy with flawless execution. Key to flawless execution is great leadership.

According to Hewitt’s Robert Gandossy and Marc Efron, authors of *Leading the Way, Three Truths from the Top Companies for Leaders*, “Sustained earnings growth ranks at the top of every company’s performance objectives but, despite heroic efforts, all too few ever realize this goal. Their investments in technology, marketing, new products, or logistics bring temporary benefits at best. The Top Companies for Leaders start with the value proposition that great performance begins with great leadership—and they have the financial results to prove it.”¹

In other words, we believe great leadership is a foundation of double-digit growth. The results of Hewitt’s Top Companies for Leaders study, combined with the results of our double-digit growth research, show this to be true. Following is an overview of these two studies, preceded by evidence derived from combining the results of these two studies. We clearly see a strong link between great leadership and double-digit growth.

Top Companies for Leaders Study Background

During the past two years, Hewitt has conducted research to identify the combination of factors that allow financially successful organizations to consistently produce great leaders. The organizations, identified by an independent panel of experts as the **Top 20 Companies for Leaders**,² demonstrate that great leaders don’t develop by accident, but are the result of a dedicated and involved leadership team, and a flawlessly executed leadership strategy.

Through our Top Companies research, we have identified a number of factors that differentiate the best from the rest. These aren’t best practices, per se, but they capture what we call a leadership Truth. A Truth can be thought of as an inviolable rule of building leaders—a foundation element of

¹ Robert Gandossy and Marc Efron; *Leading the Way, Three Truths from The Top Companies for Leaders*, New Jersey: John Wiley & Sons, Inc., 2004.

² For the purposes of this paper, the Top Companies for Leaders, and the Top 20 Companies, pertains to the 2003 U.S. study.

Top Companies. We believe that all three Truths must be in place for a company to consistently build leadership quality and depth. The Three Truths are described below:

Leadership Truth #1: CEOs and Boards of Directors at Top Companies Provide Leadership and Inspiration.

Leadership Truth #2: Top Companies Have a Maniacal Focus on the Best Talent.

Leadership Truth #3: Top Companies Put Into Place the Right Programs, Done Right.

Unlike most existing research, which does not consider financial criteria, our research is based on the fundamental belief that you cannot be a great company for leaders unless you are also financially successful. Therefore, sound financial performance is a requirement for selection as a Top Company. Hewitt's financial analysis of the Top Companies for Leaders results shows a conclusive link between a company's leadership practices and enhanced financial growth and returns.³

For further information on the **Top Companies for Leaders study**, please see the following resources: *Leading the Way, Three Truths from the Top Companies for Leaders*; U. S. Top Companies for Leaders Research Highlights; Europe Top Companies for Leaders Research Highlights; and/or Asia-Pacific Top Companies for Leaders Research Highlights. All reference materials are available via Hewitt.com.

Double-Digit Growth Research Background

Hewitt conducted a multifaceted research study, in partnership with Michael Treacy, author of *Double-Digit Growth—How Great Companies Achieve It No Matter What*, to better understand the organizational drivers of double-digit growth. Growth, according to Treacy, is “the oxygen of business, the key to business life or death.” He asserts that any company can achieve double-digit growth year after year. He writes, “Management capacity, not market demand, is usually the binding constraint on growth.” Treacy believes that double-digit growth is about execution: getting the right people doing the right things to manage a portfolio of separate, clear, and achievable growth strategies. Having a clear focus on where your company expects to achieve growth provides a powerful organizing principle, the business strategy, and the people practices that are crucial to making it happen.

³ All of the 2003 Top 20 Companies perform at or above the 50th percentile, relative to industry, in total shareholder returns (TSR) and compound annual earnings before income taxes (EBITA) over 5 years. Notably, this financial analysis pertains to the publicly traded companies on the list.

The research examines the relationship between the three Leadership Truths and sustainable double-digit growth. We used Treacy’s definition of growth to determine which companies qualify as DDG companies versus SDG companies.

DDG Means Sustained Profitability

- DDG companies—publicly traded companies that have achieved a CAGR five-year average growth in profitability (revenue – cost of goods sold) of 10% or more, and hit that DDG target in at least three of the past five years.
- SDG companies—any other survey respondents from companies with profitability growth of less than 10% (includes companies with zero or negative growth).

Based on *Double-Digit Growth: How Great Companies Achieve It No Matter What*, by Michael Treacy

We used our database of 320 U.S. Top Companies for Leaders survey participants to compare DDG companies and SDG companies. The sample was broken into three groups for comparison: DDG companies who are also a Top 20 Company for Leaders, DDG companies who are not on the Top 20 list, and SDG companies.

Group	Number of Companies
Top 20 & DDG	8
Other DDG (non-top 20)	21
SDG	291

Following are our findings from combining the results of these two studies.

Key Findings

- **Characteristics of the Top 20 DDG companies versus the Other DDG companies.** Treacy’s definition of DDG encompasses traditional growth-oriented, entrepreneurial companies such as Yahoo!, Home Depot, and Biogen; companies that have grown through mergers and acquisitions; and blue chip companies such as Johnson & Johnson and General Electric that have been able to manage for growth over the long-term. Some observations about the DDG Top 20 versus the Other DDG group:
 - In general, we find the Top 20 DDG are bigger, more established, and growing at an impressive, but somewhat slower, rate than the Other DDG companies.

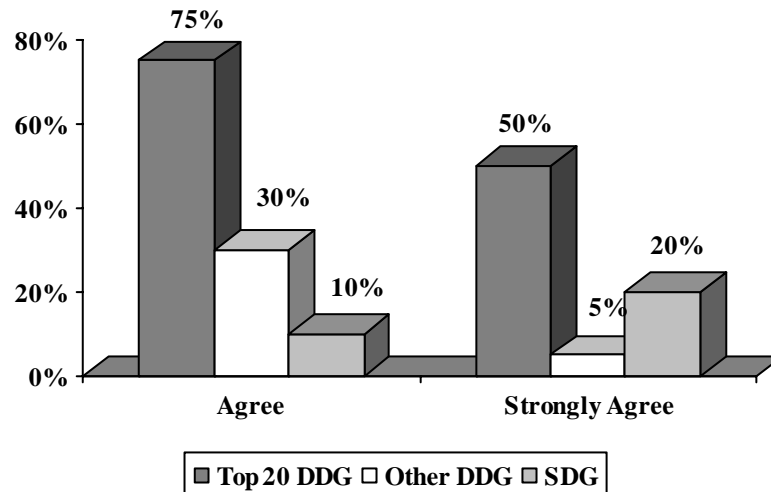
— More of the Top 20 DDG are in industries where the war for talent has been particularly acute, namely high technology and consumer products. This is in contrast to the higher prevalence of financial services and commodity products in the Other DDG group.

DDG Companies		
	Top 20 DDG	Other DDG
CAGR Profitability Growth (5 years)	18.5%	23%
CAGR Revenue Growth (5 years)	16%	21%
CAGR Employee Growth (5 years)	11%	12%
Average Annual Revenue ⁴	\$40.1 billion	\$12.3 billion
Average Current Employees ⁵	134,000	46,600

- **Top 20 DDG companies demonstrate greater top-level commitment to developing leadership talent.** Eighty-eight percent of CEOs are actively involved in developing leadership talent at the Top 20 DDG companies, while 55% of the Other DDG companies report the same. Moreover, 88% of CEOs provide sufficient resources to develop leadership talent, while 65% of the other DDG companies do so. This is true at only 57% of SDG companies.

Similar to the CEO involvement, 75% of the Top 20 DDG report that their Boards of Directors are actively involved in developing leadership talent.⁶ Correspondingly, 50% of the Top 20 DDG companies believe that their Board of Directors provides sufficient resources to leadership development. Active involvement of the Board is considerably less at both Other DDG and SDG companies, 35% and 30%, respectively.

CEO and Board of Directors Are Committed to Developing Leadership Talent



⁴ Based on most recent year ('02 and '03) for participating companies. Source: *Computstat Research Insight* database.

⁵ Robert Gandossy and Marc Effron; *Leading the Way, Three Truths from The Top Companies for Leaders*, New Jersey: John Wiley & Sons, Inc., 2004.

⁶ Twenty-five percent of responses were “Not Applicable.”

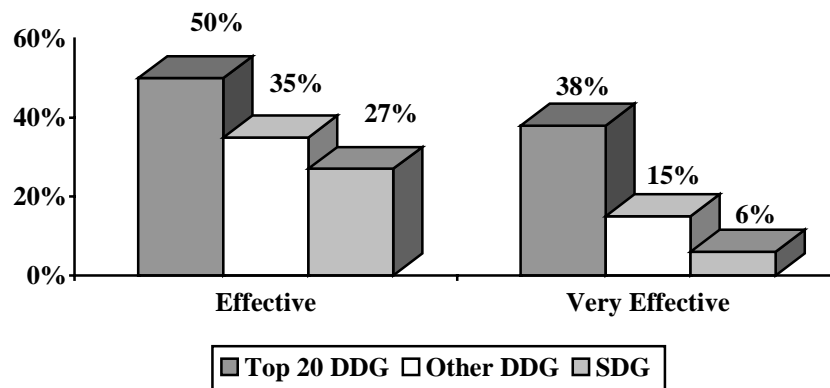
CEO and Board involvement is a clear differentiator of companies with a sustained record of building great leaders and profitable growth. Financial analyses of the Top Companies shows that 78% of companies who perform at the 75th percentile or higher in Return on Equity (ROE)⁷ report that their CEO is actively involved in developing leadership talent. In contrast, less than half of companies who perform below the 25th percentile make a similar claim. Boards of Directors are also more actively involved in leadership development at top-performing (75th percentile or higher) companies. The question, then, is how much more profitable would the Other DDG and SDG companies be if they had stronger commitments from senior leaders?

- **DDG companies maintain greater focus on developing leaders beyond the corporate level.** All of the Top 20 DDG companies believe that there is a strong to very strong focus on developing leaders at both the corporate and business unit levels within their organizations. Sixty percent of the Other DDG companies report that there is strong to very strong focus on developing leaders at the corporate level, and 65% believe this is true at the business unit level. In contrast, only 50% of the SDG companies believe that there is a strong to very strong focus on developing leaders at the corporate level, and only 42% at the business unit level.

A focus on leadership development beyond the corporate level is critical to results. The greater depth and breadth of such focus supports high-potential identification and development; it facilitates integrated performance management and review processes; and a strong focus allows greater movement of talent across business units and functions. All of the above are essential to development, high-potential engagement, leadership bench-strength, and ultimately, to the bottom line.

- **DDG companies believe that their organizations are more effective in developing leaders.** While the DDG companies assert that their organizations are effective or very effective in leadership development, 20% of the SDG companies do not believe their organizations are effective in developing leaders.

How Effective Is Your Organization in Developing Leaders?



⁷ All Return on Equity calculations are based on industry-adjusted, 5-year compound annual growth rates, ending 2002, for publicly traded companies. Source: *Computat Research Insight* database.

- **DDG companies carefully identify high potentials.** Over sixty percent of the DDG companies are upfront about communicating high-potential status, and they are proactive in giving their high potentials an opportunity to shine in front of senior management. In contrast, only 42% of SDG companies communicate high-potential status. However, the SDG companies that do communicate status also provide high potentials with greater access to senior leaders, as well as special developmental assignments.

Frank discussions about talent are consistent with the need to act quickly and execute a growth strategy—more than half of the DDG companies communicate high-potential status as part of their succession planning process. High potentials at growth companies also get greater exposure to business leaders. This suggests that part of the reward of being at a growth company is being part of the team that makes things happen.

	DDG Companies		SDG Companies
	Top 20 DDG	Other DDG	
Succession plan communicates high-potential status	63%	62%	42%
High potentials get greater access to senior leaders	100%	100%	95%
High potentials get greater access to special developmental assignments	100%	90%	92%

- **DDG companies recognize and pay for results—but Top 20 DDG companies are more likely to translate this into advancement.** The majority of DDG companies incorporate performance ratings into the succession plan and link pay to job performance. However, we see a marked difference in the extent to which Top 20 DDG companies and those Other DDG companies use compensation to signal potential for future advancement and leadership roles. Moreover, less than half of the SDG companies’ performance management processes differentiate high-potential leaders.

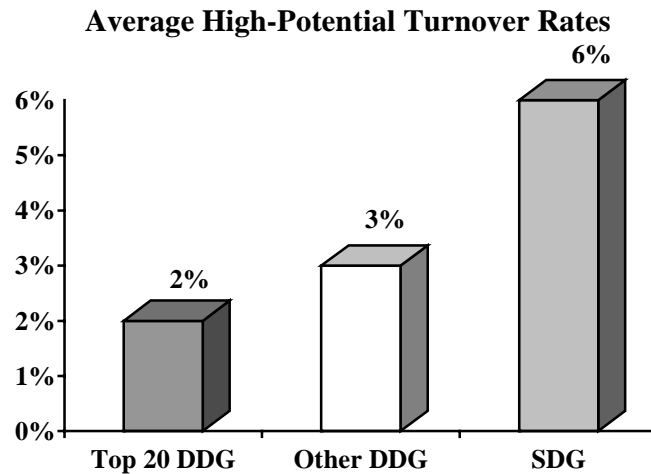
Top Companies recognize the immense value their high potentials bring to the organization. Studies have consistently shown that top performers produce in value at least 100–150 percent more than average performers in similar jobs. People who fall into this category should have compensation opportunities significantly above their less-performing peers. All of the Top Companies differentiate pay between high potentials and average performers in the same role.⁸

	DDG Companies		SDG Companies
	In the Top 20	Other	
Performance ratings are formally incorporated into the succession plan	100%	86%	64%
Compensation is linked to current job performance	100%	90%	84%
Compensation is linked to future potential advancement	88%	45%	40%
Compensation differentiates a group of high potentials	75%	50%	45%

- Assignments drive the growth of high potentials at Top 20 DDG companies.** Development opportunities for high potentials at DDG companies in the Top 20 Companies for Leaders emphasize internal training, on-the-job learning, and external coaching over external development programs. The Top 20 DDG companies effectively implement a wide variety of leadership practices to develop high potentials, while the Other DDG companies do not implement their programs as well. For example, 88% of the Top 20 DDG companies regularly grow high potentials’ capabilities through developmental assignments, compared to just 35% of the Other DDG companies, and 33% of SDG companies. Similarly, 88% of the Top 20 DDG companies regularly provide rotational assignments for their high-potential leaders, while only 25% of the Other DDG and 18% of SDG companies do so. While the majority of the Other DDG companies have developmental practices in place, the low utilization of these practices, particularly for high-potential employees, may negatively impact their ability to sustain growth over the long term.

⁸ Robert Gandossy and Marc Effron; *Leading the Way, Three Truths from The Top Companies for Leaders*, New Jersey: John Wiley & Sons, Inc., 2004.

- **High-potential turnover is significantly lower at DDG companies.** Sixty-three percent of the Top 20 DDG companies and 50% of the Other DDG companies track turnover for high-potential leaders in their leadership development programs. Just 44% of SDG companies do so. Notably, the **high-potential turnover rates are double at SDG companies.**



Companies spend anywhere from \$2,209 to \$11,209 to hire a new employee, according to Staffing.org.⁹ Moreover, organizations with a strong track record of retaining the best are rewarded with lower recruiting and initial training costs, better customer and supplier relationships, improved operations performance, and stronger financial performance. The business case is compelling.¹⁰ High performers outperform average performers by nearly 20% percent in jobs of low complexity, but by almost 50% in jobs of high complexity. What’s more, top talent at all levels will deliver two to six times the return of average performers.¹¹ The cost of losing high potentials is immense. According to Workforce Management, “some HR professionals suggest that for every highly talented person leaving a company, three others are preparing their résumés in the hope of finding greener pastures—or for fear of being the next cut.”¹²

- **Double-digit growth companies’ approach to building leaders is firmly rooted in strategy.** More than 70% of Top 20 DDG companies and 50% of Other DDG companies have specific strategies in place to select, develop, and reward leaders. In contrast, only 38% of the SDG companies have a strategy for selecting, developing, and rewarding leaders.

⁹ Joe Mullich, *They’re Hired: Now the Real Recruiting Begins*, WorkforceMangement.com, 2004.

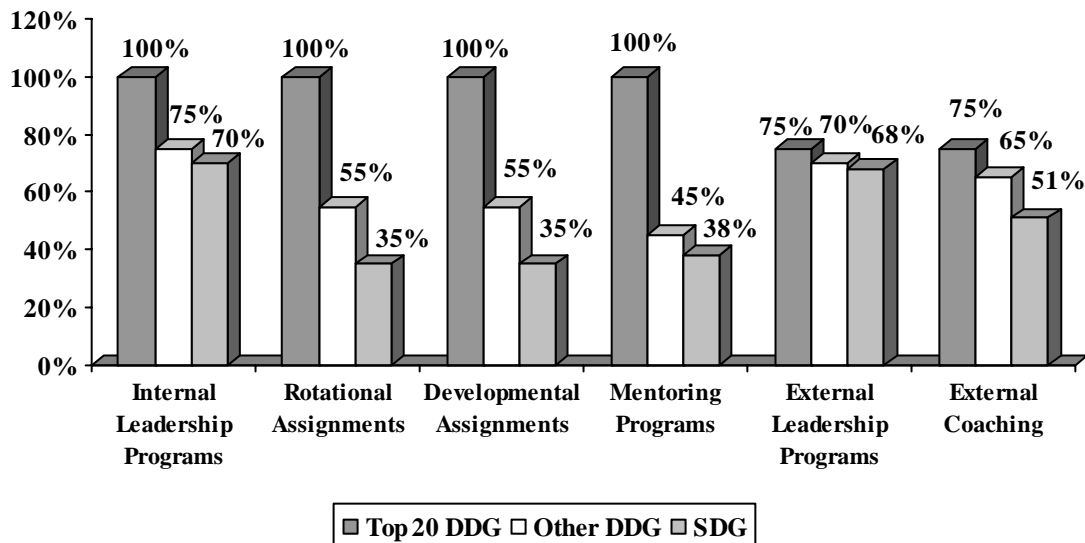
¹⁰ Michael McLaughlin, *Four Ways to Lose Your Best People*, WorkforceManagement.com, 2001.

¹¹ Robert Gandossy and Marc Effron; *Leading the Way, Three Truths from The Top Companies for Leaders*, New Jersey: John Wiley & Sons, Inc., 2004.

¹² Michael McLaughlin, *Four Ways to Lose Your Best People*, WorkforceManagement.com, 2001.

- DDG companies execute their leadership practices more effectively.** All of the Top 20 DDG companies and 75% of the Other DDG companies have formal leadership competencies. While 68% of SDG companies have leadership competencies, they are not as consistent in integrating these competencies into leadership processes. For example, 88% of Top 20 DDG companies and 67% of Other DDG companies integrate these competencies into internal leadership selection, whereas only 60% of SDG companies do so.
- DDG companies offer a greater range of development opportunities than SDG companies.** At the tactical level, DDG companies offer a greater range of developmental opportunities to leaders than SDG companies. While 100% of the Top 20 DDG and 55% of Other DDG companies offer developmental and rotational assignments, only 35% of SDG companies do the same. Three-quarters of Top 20 DDG and 45% of Other DDG companies have a defined process for assimilating leaders into new positions within their companies. In contrast, only 34% of SDG companies have such a process.

Formal Processes or Programs to Develop Leaders



- SDG companies underutilize their leadership infrastructure.** All of the Top 20 DDG companies and 86% of the Other DDG companies have a specific CEO succession plan in place. Only 61% of SDG companies have a formal CEO succession plan. While 86% of Top 20 DDG companies and 50% of the Other DDG companies say that they choose middle managers using their succession process, only 29% of SDG companies report using their succession plan on a regular basis. Those numbers only improve slightly for choosing senior leaders, where 100% of the Top 20 DDG companies and 64% of Other DDG companies rely on their succession planning information, compared to just half of SDG companies.

- **Company culture matters—DDG companies view culture as an asset for developing leadership talent.** Being part of a successful organization with a positive work environment helps create careers with velocity. More than half of the companies in the Top 20 DDG and the Other DDG group cited company culture as a factor that enables them to develop leader quality and benchstrength and at least 20% named it as the key enabler. At SDG companies, corporate culture was viewed as a barrier to developing leaders by more than a third of the companies, with 15% of companies ranking it as the number one barrier.

Percent of Companies Ranking as #1	DDG Companies		SDG Companies
	In the Top 20	Other	
Company culture enables us to be successful in developing leaders	25%	20%	8%
Company culture prevents us from being successful in developing leaders	0%	10%	15%

Conclusion—Great Leadership Is a Foundation of Double-Digit Growth

Michael Treacy maintains that double-digit growth is about execution: getting the right people doing the right things to manage achievable growth strategies. Key to flawless execution is great leadership. Our research shows that DDG companies successfully execute the fundamentals of growing great leaders. They effectively combine culture, strategy, performance management, development, and senior leadership support in a way that enables them to consistently deliver strong financial returns. According to Treacy, knowing “where to place your bets,” is one of the success factors of DDG companies. Hewitt’s research suggests that one essential “bet” is leadership development. Companies that make leadership a top priority see better business results.

For more information on the double-digit growth research series, visit
www.hewitt.com/doubledigitgrowth.