The Guest Editor

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Executive development: new roles, new models

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Executive resource and succession planning: reengineered for the twenty-first century

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Abstract

As a result of the "activist" institutional investor, succession and executive development are now in the top five priorities for many chief executive officers. Just what is driving this change, and why do we need to reengineer our replacement planning, strategic staffing, talent development and performance management processes into one integrated process? Shares results from over five years of research and application regarding succession planning, strategic staffing, and competencies including a benchmarking with many of North America's "better practice" companies. Discusses the changing role of the board in leadership assessment and chief executive officer selection. Suggests why the business context is the starting point for effective talent pool management. Considers options for executive resourcing process design and discusses why most of the current approaches to competencies and 360° assessment fail to recognize how leadership and effective leader behaviors change by work level. Also discusses why we need to clarify for line managers the confusion over assessing the talent pool for performance versus potential. Forwards a vision for an integrated approach to executive and management resourcing into the twenty-first century.

The changing role of the board in leadership assessment, executive talent development and CEO selection

Why have IBM, Kodak, Westinghouse and Merck all recently recruited new leadership for the chief executive officer (CEO) position from the outside for the first time in their respective corporate histories?

These companies have gone outside for leadership because the boards of directors are under increased pressure from shareholders to no longer just rubber stamp recommendations on CEO succession/selection by the incumbent CEO. In fact, in a growing number of situations, the Board has asked the incumbent CEO to step down well ahead of the planned CEO succession timeline and have rejected his/her recommendations of succession candidates.

The institutional investor is bringing about increased board accountability through its activism. In the USA, General Motors recently released its 23 best practices for corporate governance [1]. These practices are being used as a benchmark against which to assess the processes and practices of governance of both outstanding and poorly performing companies. Three of these best practices include performance management for the CEO, succession planning and executive development.

CALPERS, the large California pension fund, is using these 23 practices as a standard against which to assess the governance practices of those companies in which it has invested. Those companies which do not take CALPERS' request seriously and respond to how their company compares to these 23 governance practices may find themselves highlighted in ***Business Week*** with an "F" rating[2]. As well, a report on high performance workplace practices commissioned by CALPERS identifies that poorly performing companies who improve their workplace practices and promote this improvement can expect an increase in stock price and overall shareholder value [3].

In Canada, the Toronto Stock Exchange commissioned a report in 1994 on corporate governance under the Dey Commission[4]. As one of its four core principles this report singles out succession/executive development as a key board governance practice. If the recommendations of the Dey Commission are approved,

each company that seeks and wishes to maintain a listing on the Toronto Stock Exchange will have to report on its governance practices, including succession and executive development.

In a recent global survey on what keeps CEOs up at night, conducted by AT Kearney, the succession and executive development agenda was emphasized [5]. This survey covered 353 North American and 425 European companies primarily at the chairman, CEO, chief operating officer (COO), executive vice-president and chief financial officer levels. Training and development, management succession, and improving the workforce skills were the greatest top-of-mind concerns for executives. At the board level the top five priorities were executive compensation, shareholder value, short-term earnings, cost competitiveness, and management succession.

The bottom line is that boards of directors in North America are under increased pressure, and it is only a matter of time before the succession and executive development agenda becomes a high priority. Our experience suggests that unless the board asks specific questions about succession/development practices, in many companies these issues are unlikely to be high on the CEOs' agenda.

Better practices for executive resource and succession planning

What are some of the processes and practices that better companies are applying in talent pool management? We have conducted extensive research and benchmarking over the last five years on talent pool management, including the use of competencies. Companies we have reviewed were selected based on strong financial performance, large talent pools, and reputation for identification, development and placement of executive talent that contributed to business success. Owing to non-disclosure requirements, we are not permitted to discuss specific practices at specific companies, but we can discuss what we have observed as similarities and differences between these companies and their implications for reengineering the executive resource and succession planning process.

Our observation is that no single company is the model for succession planning, executive

development, strategic staffing and executive resourcing. While each of the better practice companies is executing a number of approaches that clearly contribute to business success, trying to implement the process being used at one company exactly the same way at another company has a high chance of failure.

There is no one right answer to resourcing process design because the resourcing information on positions and people is the driving factor that influences the approach. Process design is ultimately determined by how much information on people and positions the CEO in a particular firm believes he/she requires to make effective staffing and development decisions for the executive talent pool. The approach used by the CEO and senior executive team usually cascades down to middle and lower ranks in an organization.

Over the last year we advanced our research based and completed a North American benchmarking on executive resource and succession planning with over 20 larger enterprises at the corporate level. Most of these companies had between 10,000 to 300,000 employees, and most of them had in excess of 30,000 employees. The executive talent pools in these companies ranged from 100 to 500 executives. The companies included: Alcoa; AT&T; Banc One; Bell South; BP America; Chase Manhattan Bank; Goodyear; Honeywell; Merck; Nations-Bank; PepsiCo Intl; 3M; Unilever; US West; Warner Lambert; and Xerox.

Similarities between the benchmark companies

While each of the companies we have reviewed approaches succession and executive resource planning differently, there were some notable common practices:
- The process is owned by the chief executive officer.
- The process is designed to fit the culture of the organization and the information needs of the CEO for effective staffing and development.
- The process is integrated with business and organizational planning.
- A competency-based approach is used to describe and assess the effective behaviors required for key jobs and key people. There is

a small but growing belief that leadership roles and effective leader behaviors increase in a step function of complexity by work level.

- A streamlining of the succession and executive resourcing processes to overcome the lack of time and resources.
- Building credibility with the line managers occurs through demonstrating that the process adds value to the business. Talent assessment discussions are candid and decisions made regarding staffing and development are acted on.

In some companies strategic staffing, talent assessment and replacement planning, talent development, and performance management were not connected processes. In some cases the succession planning process was not connected to the high potential process for leadership development or to performance management. But there is a general trend towards reengineering these processes so that they are one process with supporting human resources (HR) sub-processes.

One of the weakest links in talent pool management is the assessment/measurement of leadership potential. In many companies high potential definitions and related competencies to be measured were not valid and reliable predictors. As well the competencies used in some cases did not clearly differentiate between potential for leadership at different work levels such as group president, versus strategic business unit (SBU) president versus functional vice-president at the SBU level

Our discussions with many CEOs from larger enterprises have identified that these CEOs are challenged in selecting the right executives for president, group president and COO types of positions and continue to make mistakes in selecting and promoting people to these roles of higher levels of leadership complexity.

CEO as process owner and creating line accountability

Our research from the benchmark companies suggests that the commitment of the chief executive officer to executive resourcing and the succession planning process is the most important factor in successful implementation. Some CEOs recognize the power of executive resourc-

ing and succession planning as a catalyst for organizational change and the implementation of business strategy. These same CEOs have seen the value of integrating the resourcing process with organizational and business planning to ensure short- and long-term success in an unpredictable world.

The following CEOs further emphasize the point:

> My job is to put the best people on the biggest opportunities and the best allocation of dollars in the right places (Jack Welch, CEO, General Electric).

> Promotion, key appointments and succession planning are the most crucial elements in the organization's future. These activities are a true leaders domain (Max Depree, Chairman, Herman Miller).

> I am convinced that nothing we do is more important than hiring and developing people. At the end of the day you bet on people, not on strategies (Larry Bossidy, CEO, Allied Signal).

A number of approaches are being used to achieve line buy-in to the process beyond the CEOs commitment and personal actions. In some benchmark companies senior executive bonuses are directly tied to building an effective organization, finding the right people to deliver against the business plan, and developing the executive talent pool concurrently. Linking the executive resource and succession process to compensation is probably the fastest way to change the behavior of uncommitted executives who see resourcing and succession planning as a waste of time.

As well, the roll-up review process in many organizations includes a review committee of the top four to six lines executives in the company. These executives "walk the talk" in regards to executive resource planning. In these companies failure to participate effectively in the resourcing process would result in a key executive and his/her people not be considered for key roles in the company.

In many of the benchmark companies, the performance management systems are tied into the resourcing process. Individual leader performance is evaluated on more than just meeting business targets for profit plan. Personal effectiveness as a leader is also evaluated on how profit plan was achieved (great coach or burned out staff) and how people were developed to

improve their personal effectiveness in their roles.

In some companies, the resourcing process started with profiling the business challenges and business context and the key jobs to meet profit plan. In these companies buy-in and line accountability were achieved because the process was not viewed as an HR process but a process to drive short- and longer-term business results concurrently. The line managers saw this approach as improving the bottom line, helping link the people issues to the business objectives and thus viewed resource planning as a business process.

When the line executives exhibit a high level of commitment to the executive resourcing process then it will be successful. At this point human resource planning and development (HRPD) executives who have been involved with the process design must be prepared to release what may have been initial authorship. The contribution of HRPD executives at this point is to support the process with effective line training about the process, facilitation, and challenging of the assessment of executive capability.
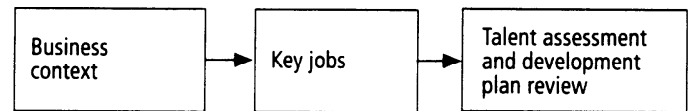
Aligning to the business context

Many of the benchmark companies have made a clear link between the business context and the resourcing process (see Figure 1). While we suggested earlier that there is no one right process, at a high level many of the better practice companies have all linked the beginning of their resourcing process to the business context.

Some start with the business context and then move to the talent pool assessment as a second high level process step. Others start with the business context, then identify key jobs that impact profit plan, and then move to the talent pool assessment and development plan review. We will discuss the benefit of the key job concept in the next section. This two- or three-step process then rolls up the organization with the output of each level acting as an input for the resourcing process at the next level up the organization.

Effective leadership and the competencies required are specific to the business context. Thus for any executive resource and succession planning process to drive strategy and organiza-

Figure 1 The resowing process

tional change the starting point must be with the identification of the business context. Without this business context any talent review and executive development planning are divorced from key drivers and goals of the business and adds little value.

We have identified four key drivers of strategic leadership that link leadership competencies to the business context and act as a catalyst to drive an organization into the future. Empirical and anecdotal research has suggested that these drivers are the values of the organization, strategic intent, stage of organization development and the key success factors[6,7]. To enable the competencies in the executive resourcing process to become a strategic tool, a job analysis is required for critical roles. This job analysis must take these drivers into account.

If defining the business context is undertaken properly, a clear strategic HR plan starts to emerge out of this process. Key changes to the organization structure and headcount, new roles and competencies required now and into the future to achieve the business objectives are all identified.

We would suggest that those companies with no link between their business context and their succession planning consider reengineering the process to make this link. Those benchmark companies which have made the integration with the business context and profit planning, have seen the credibility of the process with line managers increase significantly.

Profiling key jobs

Recognizing that replacement planning for every mid and senior role in an organization can be time consuming and adds little value, some of the benchmark companies are being selective and only identifying key jobs (not the people in them) profiling the role and related competencies in them for success, and then

undertaking replacement planning for those selected roles.

CEOs and other senior executives can quickly identify positions reporting to them that they will lose sleep over if not staffed appropriately. These are the key jobs which have a significant leadership role in the organization, control significant resources and have a disproportionate impact on the profit plan. These positions thus require effective staffing, replacement and development planning to contribute to the business both short and long term.

The value of this selective approach is that if managers believe there are only three key jobs out of eight reporting directly to them then they do not have to undertake replacement planning for all their direct report positions. This flexible approach gives the manager an out and makes it seem that this is his/her process and that they drive it. This approach saves the line manager time in the resourcing process and makes it business driven. The catch is that the manager's manager must also agree that the positions selected are also key jobs and that other key jobs have not been missed.

Many of the benchmark companies recognize that job profiling and competency mapping is time intensive but believe this results in better staffing, talent development and integration between performance management and replacement planning. The more precise the roles and competencies are defined the more effective the staffing and development can be. The key job concept is again used and in some organizations only key jobs are required to be profiled.

In profiling key job competencies our experience is that there may be a core clustering of leadership competencies that acts as a starting point only. While we would agree that this core group of leadership competencies may be required in many leadership roles, the specific importance of these competencies and their weighting will change role by role. An appropriate job analysis is thus required to determine the weighting required in each specific role that will contribute to targeted business objectives[8].

As well, our experience suggests that each executive role demands additional unique technical and strategic competencies beyond these core leadership competencies to enhance personal effectiveness and organizational impact. It is against this specific job analysis and

competency profile for key jobs that truly effective staffing, executive development and an overall executive resourcing process can be designed and implemented.

linking the resourcing process to organization design

A small but growing number of the benchmark companies are recognizing distinct work levels in organizations and distinct competencies required for effectiveness at each work level that adds value. Our ongoing research and that of others has also identified distinctive core leadership competencies depending on the work level [9- 13].

A work level is an organizational design concept where all the roles at a specific level are accountable to perform work which is significantly more complex than the work performed at the level below it, and where the outcomes at one work level add value in supporting the work and roles of the level below it. A work level could have two or three layers within it where each layer adds little value. Day-to-day customer interface and key tasks in any core organizational process usually takes place at work level one. Much of the initial research on work levels has taken place in Europe over the last 20 years by authors such as Jaques [14], and Rowbottom and Billis[15]. The outputs and key value added of the first three work levels are as follows:

(1) *work level one* (front line) – prescribed output work focussed on achieving quality and quantity targets to meet customer needs;

(2) *work level two* (manager) - situational response work focussed on providing managerial leadership to work level one and providing decision making on continuous improvement to work level one and exceptions to procedures to meet client requirements;

(3) *work level three* (director) – systematic resourcing work focussed on setting the broad context and goals for work levels one and two, and allocating resources for the organization through designing and implementing cross functional organizational processes to meet the needs of the customer.

Two of the benchmark companies used a six- and a five-level framework respectively, while

our framework uses seven work levels for a large enterprise. In working with the five-level organization, we concluded that the two frameworks were very similar and that they had collapsed our levels two and three plus five and six into two single levels to arrive at a five level model. This small group of organizations are all linking the resourcing process to the organizational design aspects of a larger enterprise.

We have also found that the mental model of a leader at each work level needs to change depending on the cluster of work levels in which they currently perform or may be promoted to. Work levels one to three are the operations domain focussed on meeting the needs of the current customer. Work levels three to five (director, vice-president and business unit president) are the innovation domain focussed on meeting the needs of a broad group of stakeholders now and at some one to five years into the future. Work levels five to seven (business unit president, group president, CEO) are the strategic domain which is focussed on meeting the needs of societies at some five to ten years plus into the future. Meeting the needs of customers, versus stakeholders versus societies demands very different mental models in terms of breadth and depth of leadership experience and perspective. (See Figure 2 with the organization turned upside down where each descending work level has a greater weight in supporting the goals of the organization.)

Creating these leadership capabilities is key to any executive resourcing and executive development strategy for a global enterprise. For example Helmut Maucher, chairman and CEO of Nestle's, the world's largest food company, talks about the decisions he is making today to feed the needs of societies around the world in 2025 including R&D and plant location decisions [16]. These are some of the value-added leadership competencies and perspectives required for personal effectiveness at work level seven, a global CEO level.

Many of the benchmark companies are using 360° multi-rater assessments as part of their resourcing process. While we believe that the use of this type of tool can be effective, our research and review of the 20 most frequently used off-the-shelf 360° multi-rater products suggests that none of them are measuring the distinctive "value added" competencies for effective leader-

Figure 2 Stratified work levels for organization and leadership
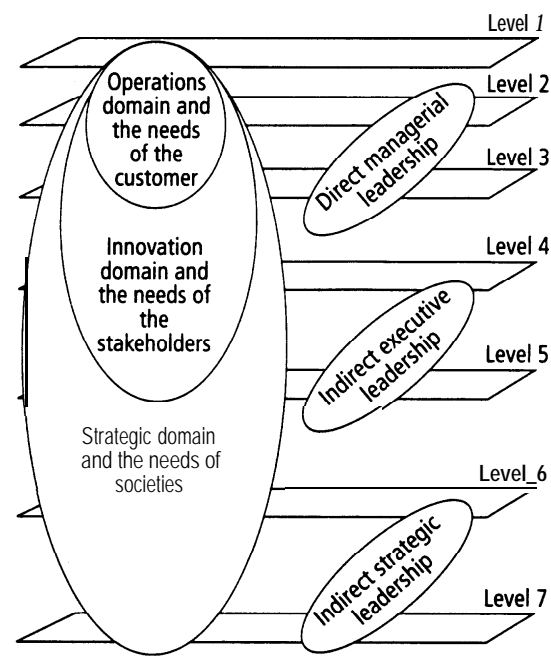
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ship at work levels five to seven. The competencies they currently measure are primarily at work levels two, three and some at four: One of the original researchers for a frequently used off-the-shelf 360° multi-rater instrument confirmed that the original research was intended to identify distinctive competencies at work levels five, six and seven, but in its generic form the instrument falls short of capturing the unique leader behaviors at these work levels [17]. These preliminary findings have been further validated in discussion with the heads of executive development for a couple of large global enterprises. These HRPD executives have stopped using a number of the better known 360" instruments above the vice-president level in their organizations, because they were not seen by the line executives as adding value.

This tiering of competencies in parallel to the organization design provides the basis for integrating performance management with the succession planning and executive resourcing process. The distinctive core competencies matched at each work level form part of the basis for evaluating performance at each respective work level. The core competencies at the next ascending work level (level three from level two or level four from level three) form the basis for assessing leadership potential to move to the

next work level of greater leadership complexity. This also forms the basis for assessing the talent development required to move to the next work level. Those same value added competencies at the next work level form part of the per-formance management system at the next work level (see Figure 3).

Those companies which are using a generic competency leadership framework which uses the same competencies, and related behaviors, from the CEO level to the first line manager, may want to consider reengineering this part of their resourcing framework.

The benefit of a tiered approach to compe-tencies that are linked to organization design is increased clarity and precision in executive staffing and executive development, as well as a legally defensable approach for employment equity.

Talent assessment and development planning

The final step in the resourcing process is the assessment of the talent pool and decisions for strategic staffing to meet profit plan, replace-ment and development planning. The real value of any succession planning and executive resourcing process is not the replacement plans, but the learning that goes on through gutsy and candid discussion about the talent pool.

The benchmark companies all undertook a broad range of talent assessment. These same companies consistently agreed that the assess-ment part of their process is the area for greatest

Figure 3 Stratified competency resource framework

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improvement for the future. Dimensions that talent pool members were assessed on included:
- performance;
- potential;
- executive development; and
- readiness.

Some of the benchmark companies have found that line executives continually confuse the assessment of performance with the assessment of potential. Our experience suggests that orga-nizations need to be careful to differentiate between assessing and developing for perfor-mance in the existing job versus potential for a new role at the same work level or potential to move to the next work level of greater leadership complexity.

Some of the benchmark companies have designed their talent assessment to ensure that the right people are in the right place to meet this year's profit plans and at same time develop upcoming talent pool members to ensure strong adaptable leadership to meet profit plans three, five and ten years out. In growing a CEO talent pool for a large enterprise it may take 15 to 20 years of testing, promotion and development of talent pool members at each work level, to arrive at a small cadre of executives capable enough to take on a global CEO role [18].

Assessment of potential is one of the weakest links in the resourcing process. The first ques-tion is potential for what? Many of the bench-mark organizations use generic descriptions of potential to perform at a middle management or executive management level without clear crite-ria of what this really means, what it would look like if you saw it and how you would assess it. These same companies are not clear about what differentiates work complexity at each of these management bands or the "value added" com-required for effectiveness at each level.

We have found that by clearly defining the work levels from an organization design per-spective and the matched "value added" leader-ship competencies corresponding to each work level much of the confusion of assessing perfor-mance and potential can be eliminated. Some talent pool members may be outstanding per-formers at work level two but risky candidates for promotion to work level three. This is similar to the scenario of taking your best sales repre-sentative and making him/her sales manager.
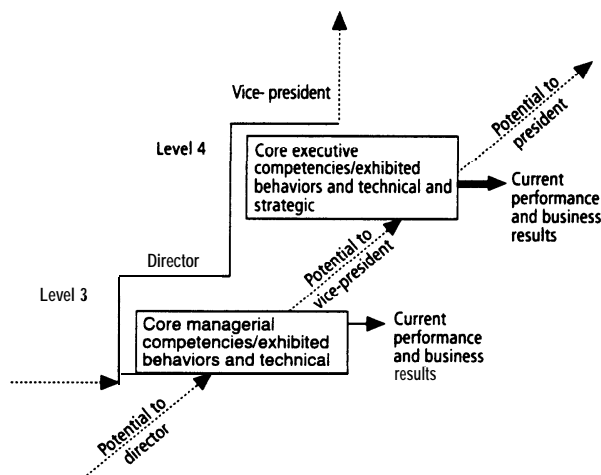
The work level approach also makes the promotion criteria from one work level to the next very clear and provides a blueprint for development planning. We have found that this type of framework is accepted and utilized readily by CEO, senior vice-president and vice-president talent pool members.

Another missing link in some organizations is the different roles the manager and manager-once-removed (as defined by Jaques) should play in the resourcing process. We suggest that the manager should be the decision maker for assessing a subordinates personal effectiveness and related performance with input from various assessment sources. This performance information is an input into the executive resourcing process.

The manager-once-removed should be the decision maker on assessing potential to move to the next work level and the development needs of the individual to get there, i.e. to become a direct report of the current manager-once-removed (MOR). The challenge in implementing an MOR process is keeping the MOR and direct-report-once removed (DROR) focussed on the longer-term developmental discussion. If there are specific job performance issues raised by the DROR in the discussion then these should be referred back to the DROR to take up with his/her direct manager.

Research from Europe has identified numerous different types of match between the job challenge and the competency match of the individual which might indicate readiness for a move[19]. Where there is a high job challenge and low competency match, then the person will be overwhelmed and will be a good candidate for derailment. In a situation were there is low job challenge and high individual competency, then the individual will quickly become bored in the role with little development taking place. A high job challenge and high competency match puts an individual right in the flow. Finding the job challenge/job competency match that oscillates an individual between being nicely stretched, in the flow, and comfortably in control will optimize executive development.

Readiness is also a factor of the feedback loop for the individual to learn from accomplishment in a role. In lower level positions someone may have feedback in as little as three to four months
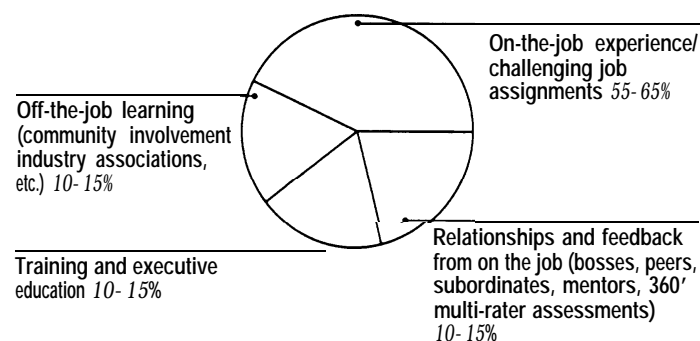
and be ready for an increased job challenge. At the group president level it may take a feedback loop of five years or more to truly assess the leadership competency of an individual and his/her true impact on the business.

Readiness is really a function of the job challenge, time required for an individual to move up the competency curve for a specific role at a specific work level, and achievement of major accomplishments in the role. When individuals start to flatten out on their learning curve or are at full performance in the current role, then they are optimally ready for a move. Moving someone from a role where they are in the flow to a role where they are overwhelmed is a development mistake and will likely lead to derailment. Yet many organizations try to move people they have identified as "high potential" too fast, robbing these individuals of important learning from feedback on earlier decisions they made. One of the benefits of the downsized organization is keeping people longer in the same role because upward promotion is no longer the only development option.

Effective development plans should ideally identify development actions for performance in existing roles and development for new possible roles with each of the four major leadership development drivers – challenging job assignment, feedback, training and executive education, off-the-job learning (Figure 4). The development actions should also be linked to the readiness factor for a new move at the same work level or a move to the next work level of leadership complexity.

Those organizations reengineering the talent assessment and development planning part of

Figure 4 Where leadership development takes place

On-the-job experience/ challenging job assignments *55-65%*

Off-the-job learning (community involvement industry associations, etc.) *10-15%*

Relationships and feedback from on the job (bosses, peers, subordinates, mentors, 360′ multi-rater assessments) *10-15*%

Training and executive education *10-15*%

their process may want to consider the following:

• linking the performance management process directly to the talent review;
• differentiating between potential for another role at the same work level and the potential to move to the next work level of higher leadership complexity;
• differentiating between the role of the manager versus MOR;
• assessing readiness by identifying the match between the challenge of a role and the competency of the individual;
• using all four of the leadership development drivers in development plans.

Unsatisfactory aspects of succession and executive resource planning

As we considered how to approach the design of succession and executive resource planning processes for organizations we found that the benchmark organizations raised similar criticisms about implementing and using succession and executive resource planning processes. Thus in reengineering the resourcing process the following factors should be considered.

First is the time it takes to implement and work the process. When the process is not linked to the business context and business strategy but is just an HR process existing in a vacuum this criticism is well deserved. While this may seem obvious, in some companies succession planning and executive development have no clear link to the business strategy or achieving profit plan.

Second, in some companies succession planning seems little more than a paper exercise and fails to drive staffing and development decisions. The process should provide learning for line executives about the performance, potential and readiness of people across the business or it will merely create a data warehouse about your talent pool. Thus the talent assessment process needs to be rigorous, candid and encourage creating knowledge of talent across the business in other functions and other SBUs. The talent assessment information must be used to drive and validate key staffing and development recommendations and decisions.

Another criticism is that feedback from the process is not being consistently provided to employees. A clear feedback loop from executive management that links development suggestions back to the talent pool member in creating a development action plan needs to be in place if we are to minimize this issue.

Finally, many have failed to use technology to automate, facilitate, and drive monitoring of agreed actions plans for staffing and development. The opportunities here are great but a caution is in order. Do not let off-the-shelf software drive the executive resource and succession planning process design. Get the process design right first and then see if there are off-the-shelf programs to support the process that can be used as is or customized.

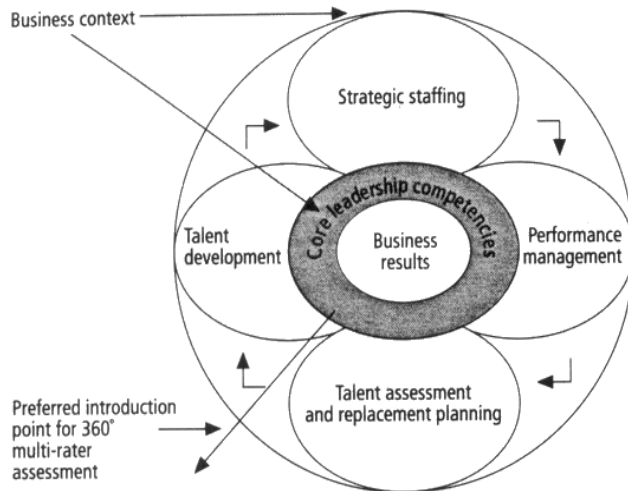## Executive resourcing into the twenty-first century

As succession planning and executive development increasingly become a board and CEO priority we are seeing a revolution take place. In some companies the processes of strategic staffing, talent assessment and replacement planning, talent development and performance management are disconnected.

In these same organizations the staffing group and the executive search firms they use have little knowledge of talent assessment and development [20], the executive education team has little knowledge of what roles in their organizations will develop what leadership competencies through on-the-job learning, the HRPD team creates a number of competency profiles and replacement plans which are not used for staffing or training needs assessment, and performance appraisal falls under compensation with no link to any of the above. Most of the above team have little or no knowledge of effective organization and job design.

Forward thinking companies are reengineering these processes to create one holistic system that drives the business and integrates a number of business, organizational and human resource processes. This reengineering is seeing a shift from succession planning, which has a poor reputation with many line executives, to an integrated approach of executive and management resourcing (see Figure 5).

This integrated resourcing process ensures that the right people are in the right roles to meet this year's profit plan and that the right

Figure 5 Integrated executive and management resowing process

Strategic staffing

Business context

Core leadership competencies

Talent development

Business results

Performance management

Talent assessment and replacement planning

Preferred introduction point for 360° multi-rater assessment

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development opportunities are in place to create a benchstrength of leadership capability to meet profit plan three and five years plus into the future. This integrated and holistic vision is shared by leading organizations such as Banc One, AT&T, Warner Lambert, and Chase Manhattan Bank to name a few.

Along with this reengineering we see three other significant changes which will drive effective executive resourcing into the next millennium. This includes board involvement in profiling the CEO role and value added competencies within the context of future business scenarios and using the output to drive strategic staffing and developmental planning, the use of organizational structure as an executive development tool, and the growing application of tiered leadership competency models to integrate all the HR processes together with the organization structure.

While the institutional investor has created a climate to shift the leadership and executive resourcing issues further up the CEO's agenda, it will be up to the top HRPD executives to be proactive and seize the growing opportunity that now exists.

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