The characteristics of great leader-builder companies

For the past several decades, executives and HR managers have struggled with the question of understanding the characteristics of next generation leaders. What skills and competencies will these leaders need in order to be effective in tomorrow’s large complex organisations? This has been serious work with an important purpose, but the time has come to start asking more penetrating questions.

To help top executives think through the challenges of developing a cadre of next-generation leaders, I led a team of researchers to examine the leadership development practices of 45 large global companies. We interviewed CEOs, senior executives, HR specialists and people identified as high-potential leaders. While we probed the skills and competencies questions, we also wanted to dig deeper in order to help companies better understand how to develop a distributed leadership capability. In the course of this work, we discovered four characteristics in companies that have a solid pipeline of leaders – characteristics that comprise the great leader-builder companies:

- They articulate leadership development as a top-level strategic priority.
- They build outstanding HR functions that create powerful infrastructures for leadership development.
- They reward and support next-generation leaders in multiple ways.

Companies that want to do a great job of developing leaders first have to learn how to become great leader-builder companies. So, writes Douglas A. Ready, instead of focusing more attention on the traits of effective leaders, it’s time to focus on what makes effective leader-builder companies.
They create an organisational culture that facilitates the development of leaders.

Developing leaders at RBC Financial Group

We found that various well-known companies demonstrate these traits – IBM, HP, PepsiCo, BP, Unilever, and GE, for example. But let’s look at one company that demonstrates an extraordinary commitment to leadership development: RBC Financial Group.

RBC is by any measure the paragon of Canadian business. It is the largest, most profitable, and most admired company in the nation. It is a leader in the area of corporate governance and has won awards for its commitment to the communities in which it does business. Founded more than 125 years ago as a small trading bank, RBC now serves more than 11 million customers in North America and throughout the world. The group is comprised of five key divisions (called “platforms” internally): RBC Banking, RBC Investments, RBC Insurance, RBC Capital Markets, and RBC Global Services. Because each platform is the leader in market share in Canada, its businesses have powerful franchise brands. RBC’s compounded return on its common shares over the past ten years exceeds 20 per cent, surpassing all of its Canadian rivals and all but two US financial services firms.

Despite the firm’s long-term success, RBC has had its ups and downs. For example, several years ago, RBC conducted a comprehensive study of its customers’ perceptions of the firm. The results indicated that customers felt that RBC was too focused on selling the firm’s standardised products and less focused on truly understanding their needs. Gordon Nixon, RBC’s President and CEO, was naturally concerned. He engaged his top executive team – the Group Management Committee (GMC) – in a conversation about the study’s findings. Nixon and these top ten executives came to the conclusion that RBC, like so many other companies, had done an excellent job of building silo businesses and functions as well as the leaders that ran them, but was ill-prepared to populate the company with leaders who could execute a solutions strategy, what Nixon labeled as implementing cross-enterprise leverage.

Instead of continuing to run stand-alone businesses and selling standardised products, RBC’s future success would be largely dependent on its capacity to collaborate across the well-defined boundaries of these businesses in order to deliver creative solutions to customers. As Nixon put it: “Cross-enterprise leverage is one of only four strategic priorities that we have established at RBC, so people know it’s important. And we’ve made it equally clear that building the leaders who are capable of executing the strategy is an essential ingredient in implementing this priority successfully.” In other words, RBC focused on the first characteristic an organisation needs to have in order to be a true leader-builder company.

Characteristic # 1: Articulate leadership development as a top-level strategic priority

In several ways, Nixon carefully linked the development of RBC’s leaders to the challenge of implementing the company’s most pressing strategic priority. He made it a priority item for discussion at RBC’s Group Council Meeting, the annual gathering of the firm’s top 150 executives. He made presentations to the RBC board of directors, outlining the cross-enterprise leverage strategy and reinforcing the need to develop RBC’s leaders so that they would be ready to contribute to the effort. He made similar presentations at analysts’ meetings, knowing that analysts often evaluate a company based on the strength of its leadership. But Nixon also held numerous meetings with employees who interacted with RBC’s customers, urging them to lead in new ways from the front lines. He convened breakfast meetings, called “early risers,” during which employees could ask Nixon questions about RBC’s new strategy and their role in helping to implement it. As Nixon put it: “This had to be both a top-down and a bottom-up transformation effort…we needed all 60,000 employees actively engaged and ready to lead.” In a rare move, Nixon adjusted the wording of some of RBC’s core values, to drive home that cross-enterprise leverage was not a programme but a way of thinking and behaving. One such change was to establish the core value of “working together to succeed.” This seemingly small step drove home the linkages between developing leaders who were comfortable with a collaborative working style and leading with the discipline required to achieve competitive success. In the process, leadership development emerged as a core business process at RBC, as opposed to a nice but peripheral fringe benefit – which is how development used to be perceived at the company.

Characteristic # 2: Build outstanding HR functions

It’s one thing to communicate the idea that leadership development is a priority; it’s another to make it happen. Every great leader-builder company has an excellent HR team behind it that helps create a powerful infrastructure which enables leaders to grow. RBC has invested heavily in building a world class HR staff. Led by Elisabetta Bigsby, senior executive vice president for human capital and community affairs, and Louise
Smith, senior vice president of strategy and leadership, RBC’s human capital function has quietly built the trust and respect of key line executives in every business and in every function across the enterprise. They have done this by delivering outstanding and timely HR services when and how their businesses needed it. Together, Bigsby and Smith have leveraged that trust and respect into the influence needed to help transform RBC into a great leader-builder company.

RBC’s HR team works in partnership with the company’s senior executives and line managers to grow leaders in a variety of ways – through coaching, development planning, targeted education, key assignments and projects, and through its rewards mechanisms. These key HR processes are integrated in order to develop the leaders needed to execute RBC’s top strategic priorities.

But, how is this actually done at RBC? Consider how RBC’s senior HR executives contributed to Gord Nixon’s newly articulated cross enterprise leverage strategy. First of all, Bigsby and Smith didn’t underestimate the challenge of implementing the new initiative effectively. They understood that in order to deliver integrated solutions to customers the development challenge would entail far more than a matter of running a leadership-training programme that focused on collaboration and team-building skills. They framed the challenge as an opportunity to bring about strategic and cultural change. They helped the GMC understand that in order to implement the new strategy they first needed to develop leaders with an enterprise wide-perspective. Their premise was that without such grounding their future leaders would view the cross-enterprise leverage strategy in zero-sum terms: *If I share a client with another business unit, I lose power and control, as well as the revenue and profitability associated with that client.*

Since the challenge was both strategic and cultural, Bigsby and Smith realised that a traditional training programme would fall short of everyone’s expectations. They proposed instead a series of honest and direct leader-led conversations between Nixon, the GMC, and RBC’s highest-potential next-generation leaders. These were named the “RBC Leadership Dialogues.”

The first round of the Dialogues focused on helping the future leaders understand the importance of managing the trade-offs and reconciling the tensions in order to lead with an enterprise view. Emphasis was placed on learning how to become more comfortable with leading without formal power and control, learning how to reconcile seemingly competing goals, and learning the art and craft of multi-tasking. Bigsby and Smith worked with an external advisor to coach Nixon and RBC’s vice chairmen to craft stories with a common message – that while RBC currently made its money in its independent businesses, its future growth was highly dependent on developing the leaders who could deliver new products and services that would emerge from collaborations across RBC’s traditional boundaries.

The human capital team also carefully integrated a variety of HR processes to support the high-potential leaders’ learning. The team reduced the company’s ponderous competency dimensions from 31 to four, a number that busy line managers would pay attention to. They changed the company’s 360-degree development-planning instrument to reflect the importance of RBC’s new leadership challenges. Every participant in the Leadership Dialogues engaged in the 360-degree review process before participating, and every manager had a coaching session before and after the Dialogues to map out a developmental action plan.

The stories told by Nixon and the GMC members were carefully crafted to have the highest possible learning value and were closely linked to the challenges of learning to lead with an enterprise perspective. One such story was told by vice chairman James Rager, a GMC member and head of RBC Banking. Rager recounted the decision to acquire Centura Banks, a thriving network of retail branches in the southeast corridor of the United States. The acquisition was viewed as strategically important to RBC’s international expansion efforts. However, the analysts watching the deal were worried that RBC’s paternalistic culture would prevent the firm from making the tough calls that would yield significant cost savings from the merger. Rager explained how he proceeded to cut $1 billion...
It is completely within an organisation's power to create a great leadership development machine internally.

**Characteristic #3: Reward and support next-generation leaders**

RBC finds many ways to challenge and nurture its high-potential leadership talent. First, the firm doesn’t leave them guessing about their status. As Louise Smith put it: “These individuals know that their potential for growth and advancement is limited only by their ambition and their performance.” Each leader has a developmental road map, which is supported by multiple coaching sessions. Placement into a high-profile programme, such as the Leadership Dialogues, is a signal to these leaders that they have a special opportunity available to them.

RBC selects from among this high-potential group of Dialogues participants an even smaller group that it asks to serve as leader-coaches for a companion leadership programme for the firm’s mid-level high potentials. This programme is called the “Leaders Exchanges.” Nancy Semkin is RBC’s director of leadership development and is the facilitator of the Leaders Exchanges. As she put it: “Serving as a leader coach in the Exchanges enables high potentials to mirror the roles played by the GMC and the CEO in the Leadership Dialogues. These opportunities have proven to be highly rewarding and motivational for this group.”

RBC also finds other opportunities to let future leaders network and develop a sense of camaraderie as an emerging top executive team. One such example is an enterprise-wide task force entitled E² (E squared), which stands for efficiency and effectiveness. Gord Nixon personally chartered this task force and urged that it be populated with RBC’s highest potential talent. The E² Committee is charged with finding growth opportunities and cost efficiencies that will boost the group’s productivity, growth potential and earnings. The committee is deliberately staffed with high-potential executives who have the developmental objective of working outside their units or functions. The committee meets frequently with the GMC and the CEO to offer recommendations for change. While the E² Committee has saved RBC several hundred million dollars over the past two years, the primary purpose of the task force remains developmental in nature.

RBC also does a thorough job of using key assignments as developmental training grounds. The company has moved many leaders across platforms and functions, stimulating a vital cross-fertilisation of talent and energy. One such move was taken by Ann Louise Vehovec, RBC’s senior vice president of brand management and advertising. Before moving to the newly created staff role as a marketing executive, she was a highly successful investment banker in RBC Capital Markets. The dimensions determining success for the two roles couldn’t be more different. Determinants of success in investment banking are speed, decisiveness and a “just do it” orientation, whereas process excellence, collaboration and influencing skills are paramount in the brand management role. As Vehovec put it: “The Leadership Dialogues had an enormous impact on me. The sessions enabled me to see how I might be able to make a contribution to RBC that would truly have an enterprise-wide impact.”

Vehovec’s boss, Chuck Winnograd, vice chairman and head of RBC Capital Markets, was highly supportive of the move. But while the firm endorsed the move, it didn’t ensure success. It was up to Vehovec to craft the vision for the role, line up the stakeholders behind the effort, influence the GMC to commit significant resources to the branding and advertising campaign, and establish metrics that would assess the success of the initiative. As Vehovec put it: “I felt the weight of the group on my shoulders, but I knew I had a great group of colleagues to draw upon when times got tough.” She eventually framed what she learned from this cross-boundary move into her “leader-led story” for her teaching in RBC’s Leaders Exchanges programme.

RBC also rewards its leaders for demonstrating its desired leadership behaviours. As a means of aligning its rewards with its articulated vision...
→ concerning cross-enterprise leverage, RBC made sweeping changes in its approach to executive and employee compensation. The GMC’s compensation is 100 per cent linked to group performance. The pay of the next 150 managers is split approximately 70 per cent to group results and 30 per cent according to business or functional results, and the next level’s being 50/50. With this approach, RBC believes that virtually all employees feel the impact of crossing boundaries to deliver creative solutions to clients. Great leader-builder companies support their next-generation leaders in multiple ways.

Characteristic # 4: Create an organisational culture that facilitates the development of leaders

In a sense, the fourth characteristic of great leader-builder companies is the product of excelling at the first three. A company that does a great job building those traits will have an enormous head start toward creating an organisational culture that facilitates the development of leaders.

Gord Nixon and the GMC have created the expectation that one of the fundamental responsibilities of leaders at RBC is the development of the firm’s next generation of leadership talent. They use every possible opportunity available to them to reinforce this message. When RBC reduced its leadership competency dimensions from 31 to 4, one of the four was “exceptional leaders at RBC develop others”. Nixon has not missed one Leadership Dialogues session since they were inaugurated two years ago. He uses his time during the Dialogues to challenge the firm’s high-potential senior executives to seek out RBC’s next wave of leaders. Every GMC member has served as a leader-coach for the Dialogues multiple times and to a person, they go out of their way to tell the high potentials just how much they have learned from guiding those sessions. The importance of developing leaders and an accounting of what is being done about it is included in the CEO’s annual report to the board of directors.

An organisation’s culture is often reinforced by the stories that are told by its leaders. Gord Nixon holds a deep understanding of the stewardship role that he plays in preserving the core of this company and he repeats that message at every opportunity. He also understands that he has a once-in-a-career opportunity to put his stamp on RBC’s future direction. That stamp is to make RBC the most fertile breeding ground for leadership development in the company’s history. He never misses an opportunity to stress the importance of developing collaborative leaders who can work across RBC’s traditional boundaries to deliver extraordinary service to customers. He crafts his stories to make heroes out of those who have already done so, and he also recounts stories of great performers who were asked to leave the company because they couldn’t walk the talk when it came to implementing the new vision – a vision that largely depends on a collaborative leadership style.

While many companies still struggle to create an adequate pipeline of next generation leaders, some top executive teams have made great progress over the past few decades in better understanding how to build great leader-builder companies. These select few companies have broken the code. They understand the importance of articulating leadership development as a top strategic priority. They have HR executives who think and behave as business leaders and who build embedded infrastructures that enable leaders to grow more effectively. They find multiple ways of supporting and rewarding the development of next-generation leaders. As a result, these great leader-builder companies create organisational cultures that facilitate the development of a full and flowing pipeline of talent who are prepared to lead their companies into the future.

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