

A silhouette of a man in a dark suit stands with his hands on his hips, looking out over a city skyline. The background is a bright, slightly blurred cityscape with various buildings under a clear sky.

A View from the TOP

**How CEOs Link
Learning to
Corporate Strategy**

*From the At C Level series
by Tony Bingham and Pat Galagan*

Published by ASTD



A View from the TOP

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Alexandria, Virginia

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T+D is published monthly by ASTD.

Ordering information: Books published by ASTD can be purchased by visiting our website at store.astd.org or by calling 800.628.2783 or 703.683.8100.

ISBN-13: 978-1-56286-483-5

ISBN-10: 1-56286-483-1

The Story Behind At C Level

When we started this series of interviews with the CEOs of major companies, we had a particular goal in mind to have the CEOs describe in their own words the value of learning in helping their companies reach strategic goals. For too long we'd heard learning professionals complain that most top leaders don't value training. We'd seen too many companies cut training out of their budgets as a knee jerk reaction to bad times. And we'd seen too many weak attempts to prove that learning programs had value when in fact they missed the mark when it came to business results.

So we set out to find and showcase CEOs who could make the case that learning supports strategy. It wasn't difficult to locate CEOs in big, prominent companies who understand the value of learning and can articulate it in business terms. For some, learning enabled major changes in culture that were needed to realize a new strategy. For others, learning was a key tool for getting top management aligned with a new practice or product. Many of these CEOs not only teach in their company's training programs but require other executives to do the same. In at least two cases – Steelcase and McDonald's – training was a major force behind recovery from poor performance. Far from cutting training during tough times, these companies did more of it and invested more in their training facilities – with positive measurable results.

To round out the picture, we also asked the top learning executive at each of the companies where we interviewed the CEO to write an article describing in more detail the keys to training's success there. We noticed that in all cases where the CEO was a training champion, there was a strong working partnership and plenty of trust between the executive officer and the learning executive.

If you are tempted to doubt that training has strategic value, or you wish your CEO shared your view that it does, this compilation of our interviews from *T+D* magazine might be useful, even inspirational. We urge you to read it and to pass it along to your own CEO. Perhaps he or she should be the subject of a future interview.

Our thanks to:

Ed Ludwig, chairman, president, and CEO, and **Ed Betof**, VP and CLO, Becton, Dickinson and Company

Mark Schwab, president and CEO, and **Michelle Powers**, director of organizational effectiveness and learning, Binney & Smith

Bob Lane, chairman and CEO, and **Rick McAnally**, director of global talent management and diversity, Deere & Company

Michael Mussallem, CEO and chairman, and **Rob Reindl**, corporate VP, Edwards Lifesciences

Ross Born and **Dave Shaffer**, co-CEOs, and **Meloney Sallie-Dosunmu**, manager of organizational effectiveness and talent, Just Born, Inc.

Ralph Alvarez, president and COO, and **Diana Thomas**, dean of Hamburger University and VP of training, McDonald's USA

Bernard Lord, former premier of New Brunswick, Canada

Bob Knowling, former CEO, NYC Leadership Academy

Bill Swanson, chairman and CEO, Raytheon

Ramalinga Raju, founder and chairman, and **Ed Cohen**, senior VP of Satyam School of Leadership, Satyam Computer Services

Jim Hackett, president and CEO, and **George Wolfe**, dean of Steelcase University, Steelcase Inc.

Tom Peters, consultant and author of *In Search of Excellence*, Tom Peters Company

Danny Wegman, CEO, and **Yolanda Benitez**, director of training and development, Wegmans Food Markets

Their enthusiasm for training and their understanding of its strategic value are awesome.



Tony Bingham
President and CEO, ASTD

A handwritten signature in black ink that reads "Tony Bingham".



Pat Galagan
Executive Editor, ASTD

A handwritten signature in black ink that reads "Pat Galagan".

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FINDING THE RIGHT TALENT FOR CRITICAL JOBS



At C Level:
CEO and Chairman
Michael Mussallem

Corporate Vice President
Rob Reindl (right)

*EDWARDS LIFESCIENCES
IRVINE, CALIFORNIA*



Edwards Lifesciences is the top heart valve company in the world in terms of sales and a leader in products for the treatment of advanced heart disease. Its sales in 2005 were \$998 million. Incorporated in 2000 when it separated from Baxter International, it has held its own against much larger players, such as Medtronic, Johnson & Johnson, and Boston Scientific.

Part of its strong performance is due to its focus on patients rather than on what is termed “interventional cardiology,” which is a branch of cardiology that deals specifically with the catheter-based treatment of heart disease. Heart disease affects 22 million people—1 in 12 adults—in the United States.

T+D talked with CEO and Chairman Michael Mussallem and Corporate Vice President Rob Reindl about their strategic approach to talent management.

Photo by Mark Robert Halper



Q. Edwards Lifesciences has a process for identifying positions that are critical for success—the essential jobs. Why does this process of identifying critical jobs merit the time and attention of the CEO?

Mussallem: The concept of critical jobs is something we learned from a 1997 McKinsey & Company survey, “War for Talent,” and it just made sense to me. One of the most important elements that you need to make an organization work is a properly executed strategy. A well-articulated strategy really lays out the priorities of the organization so you can allocate the proper resources to get the job done.

However, once you lay out your top priorities, you realize that if you’re going to be successful, you need to have the best talent. You need A players in the most critical jobs, and those critical jobs are not necessarily just a slice across the top of the organization.

If, for example, it is very critical to innovate in a particular area, then being able to have the technical talent or the innovation talent to go deep in that area might be of critical importance. Or, if it is about bringing a product to the marketplace, there is nothing more important to the company than having deep operational talent in that space. You could have critical jobs deep in the organization in many different roles. It might be a supervisor, an engineer, or a scientist, depending on the strategy.

We said, “Let’s force ourselves to decide what the critical jobs are.” We keep a list that evolves as the strategy of the company evolves, and I am heavily involved in it.

Reindl: A critical job doesn’t always stay a critical job, and if one is removed from the list it’s not necessarily because of performance. A critical job is not about the person who holds it; it’s about the job and its association with the strategy. When we identify a job as critical, we tell the person in the job it may not always be critical. At the moment, we have approximately 70 critical jobs out of a total of 1,200.

Mussallem: Discussions about this with our senior leaders are very interesting because when you first get into a conversation about critical jobs, the tendency is to want to look at the top of the organization and to call a critical job by the incumbent’s name. So, we force names out of the discussion and just look for the most important jobs. Then we get tough about discussing whether the right people are in those jobs.

Q. Can you describe the process?

Reindl: Mike and I do 14 talent reviews every year. Each one lasts four or five hours. We start with the business imperatives for the function or region. The business leader for the function, region, or business unit and his HR person are in the room, with a bottom-up review that was done prior to the meeting. We talk about how the unit is organized to meet its business imperatives and the critical jobs associated with that. We look at how people are performing, the high potentials, and the key technical talent associated with strategy.

Mussallem: Rob and I really get into the discussion of whether or not a job is critical for the company’s strategy. People come with their own lists and say, “Wait a second. This job may not be critical to the organization, but it’s critical to me.” There is a high level of intensity in these discussions and that has a great effect on the whole company.

Reindl: Mike and I lose sleep if good performance is not happening in a critical job or if one of them suddenly becomes open.

Mussallem: We expect a call if there is anything that threatens a critical job so that we can get involved.

Reindl: In most organizations, if a critical job opens up, people tend to look to resources in their own areas to fill the job. But we may know of high-potential employees in other parts of the organization.

Q. What impact does this process have on organizational performance?

Mussallem: It’s hard to draw a direct correlation. Because of our attention to this, we don’t have important jobs that sit open. I like to think it helps us stay on our timelines and deliver better results. It all comes back to the results of your company. By and large, I think the company has been successful. We have consistently grown our top line, and we are delivering on our imperatives. I think that it all correlates to having the right people in the right jobs at the right time.

Q. When you look at your industry as a whole or the company in particular, do you have any sense of there being a skills gap?

Mussallem: In our company, yes, and it comes back to our strategy. For example, we are evolving into a company that is going to drive more innovation and apply more technology to unmet patient needs. And that is going to require us to do more clinical studies than in the past to be able to demonstrate the value of our products. So as we increase the importance of clinical studies, we see that we don’t have a strong enough clinical research function. We need more and better talent in that area, so we have made that a strategic priority.

Reindl: Another example is our intention to have double-digit growth on a consistent basis. To do that, you can either build from within or acquire from the outside. Either way, the market development role is really important, and we need great market development resources on the front end to help us think through that.

“If you’re going to be successful, you need to have the best talent.”

Q. Edwards Lifesciences is a publicly traded company. When you talk to market analysts and investment bankers, do they understand the value of having the right talent in the right place at the right time?

Mussallem: I think the short answer is “not directly.” For the most part, they put the greatest premium on the delivery of results. The process for getting there is interesting to them, but not as interesting as the ability to deliver results consistently. Now, having said that, I have been in several interviews with insightful investors who ask questions about how we manage and think because they want an indication of whether or not they trust our management and the way we solve problems. Occasionally, some will get into the talent issue, but I would say they are the minority.

Q. What kind of metrics do you use to tell you if your talent management efforts are working?

Reindl: From a talent acquisition perspective, we feel that if jobs are open longer than 50 days, that’s a concern. Some say that can send you down a path of hiring substandard talent because you are trying to beat the clock, but we trust our hiring managers not to do that.

We have a metric that says we want to see at least one—if not two—successors for every critical job. During talent reviews, we expect managers to be accountable for that.

We have a metric that says no one who is high potential or key talent should be paid below the 19th percentile of her estimated market value. Putting a metric on that helps remind people that it’s important.

Controlling turnover is huge for us, especially for top talent, so our metric is that turnover for that group is less than 6 percent annually. The top talent pool includes all critical jobs and high potentials. That includes some nonleadership technical talent whose departures would really hurt us. Managing turnover is part of performance evaluations.



Q. It's interesting that you haven't mentioned a measure of investment in employee training and development.

Reindl: During talent reviews, we definitely expect people to come in with development plans for high potentials or people in critical jobs. We know that big companies can spend millions of dollars on training and development, but we are relatively small—just \$1 billion in sales. One thing a smaller company can do is to make sure to rotate people and give them many different job experiences. That doesn't cost a lot of money. We also relocate people around the globe to get specific experience, such as performance and learning.

We invest the most in job rotations, and we have just instituted an extensive leadership development curriculum, which is delivered mostly as e-learning. We also send some high-potential people to executive business management programs.



Q. Your approach to talent management is to look at key positions rather than key individuals. But there must be people whom you don't want to lose who are not in critical positions. So how do you deal with that?

Mussallem: We get so excited about critical jobs that it probably sounds like it's all about the positions and not about the people, but that's not really the case. In tandem with deciding what the critical jobs are, we have our eyes on talent. We identify people who are high potential and watch them very, very

closely. We go out of our way to make sure that we don't have our best people in jobs that aren't critical. We want our best people to get into the jobs that have the most impact not only for the contributions they make to the company, but because it gives them a chance to grow in a high-visibility, high-impact role. I think it accelerates their development.

Q. What are the key attributes you look for in your leaders?

Reindl: We divide the list of competencies into three different buckets: leadership, technical, and traits. There are six leadership competencies, including innovation and entrepreneurship. We also look for specific traits that we believe contribute to success in our unique culture. We came up with them after hiring for some important jobs and finding that the people only lasted about six months.

One trait is "in-check ego." There are a lot of smart people here, so you have to be pretty self-confident to be successful. On the other hand, if that turns into arrogance, you won't last very long.

Another trait we look for is passion for the work and the company. We're developing devices that are going to save people's lives. If you don't have a passion for doing that in this environment, you are just not going to last very long.

A third trait is what we call "creative debate." It's one we uncovered by interviewing some of the mavericks in our senior leadership. It means that you need to be able to debate things no matter your level, function, or expertise. And it means that if someone puts a tough issue on the table, everyone, including experienced people, need to listen.

What we want to achieve from such debates is a more creative idea than a group might have started out with, because out of creativity comes innovation, and innovation is critical for this company's future. Creative debate goes two ways: It's the ability to bring up an issue and speak with confidence about it, but it is also the ability to listen to other people.

Mussallem: It means having enough self-confidence to be able to confront people at a higher level or those with more experience than you have, but to do it in a nondefensive way. To remind us to accommodate creative debate, we have a visual symbol—a tornado in a small acrylic pyramid—on our desks and in our conference rooms.

Reindl: We consider creative debate part of employee engagement. In our most recent survey, employee engagement went up: 87 percent of our people scored a four or five (on a five-point scale) on measures of engagement. One question on the survey asks if it is "safe to speak up in this company?" We improved by 6 percentage points over the prior year, which is statistically significant. Are we the best at it yet? No way, but we are improving.

Q. You've said that the culture here is unique. Describe the culture you've tried to create and how it's different from Baxter International, the company this one came from.

Mussallem: There are many good things that we carried over from the Baxter culture, but let me focus on some of the unique things that we wanted built into this culture.

In an effort to become more innovative and to create value by filling unmet patient needs with new solutions, we needed to increase our risk profile. We needed to be able to take chances and to be less risk averse. That meant we needed a culture that was not a blaming culture, but one that was a learning culture. So, we spent a lot of time talking about this and came up with the phrase "Don't blame; learn."

We recognized that in the process of making decisions, we were critical about our past. We would assign blame, and there was punishment associated with that. It created more risk aversion. People were less likely to offer solutions or come forward with bold ideas because the punishment for failure was severe. We asked, "What if we had a culture where a person could admit that

things weren't going well and be thanked for acknowledging it, so that there was the opportunity to learn and correct our course before things got really serious?"

We also wanted to create an ownership culture. This is where our small size really works for us. People are able to be 10 times more valuable here than they might be in a larger company. You can really move the needle here. To help create an ownership culture, we try to put stock in the hands of all employees and tell them, "Treat the company like you own it, not like you just work here."

We also put a tremendous amount of focus on the patients who benefit from our products, which helps satisfy their physicians. We serve many constituencies—our investors, our customers, and our employees—but we feel that if we always do good things for patients, then we will align in such a way that it will all work. We can create a great place to work because when we satisfy patients, the financial results follow.

Reindl: I would like to add that the culture here is influenced by what the CEO brings to the table. Mike is a high-relationship person who treats others with respect, listens, and is not arrogant about power. People imitate what they see.

Q. Talk a bit more about what you mean by having a learning culture. How does that play out?

Mussallem: I feel that the greatest opportunities for us relate directly to our ability to learn. The world is moving very fast, especially the world of medicine. To keep doing what worked in the past is potentially a formula for disaster for us. So our ability to recognize new patterns and adapt quickly, to take advantage of situations as they occur, and to respond to them better than others becomes more important all the time. Our ability to learn fast, implement, and execute directly correlates to our long-term success.

Reindl: We also make a conscious effort to learn from the young talent that we bring



in. They know something that we don't, and they bring something different to the table. So, we recruit them in a big way. We focus on engineering talent because we feel this is where we need innovation and fresh ideas. We go to the top engineering schools to interview people. We then invite 50 recent graduates for a weekend at our company. From that group, we select a half dozen for our technical development program, in which they rotate through all the engineering units in the company—quality engineering, manufacturing engineering, and so on. They take part in product development projects and may even have a marketing role. At the end of 18 months, they get a job some place in that prior rotation.

Mussallem: That program is the extension of a fundamental belief that if we want to be innovative, we need to study what makes a company innovative. Where does innovation come from? We found that it is the beginner's mindset that turns out to be very important. Being steeped in experience isn't necessarily the natural formula for success when you are talking about innovation. The beginner's mindset looks at problems for the first time in a new way and can produce some of the most interesting ideas. We felt that if we were really going to have a learning culture, we needed to create an environment for really new and fresh minds. That's not just age-related. It includes people with different backgrounds and skill sets.

Q. Sustaining an innovative culture is pretty challenging. What do you do to foster that?

Mussallem: We try to recognize and celebrate innovation when it happens to signal that it is truly valued here. And we do not punish for trying and failing. There is reward and recognition for reaching high. Earlier, we talked about not having a blaming culture. This is an important component of an innovative culture.

And that is a test for us. You can imagine that if someone comes in with bad news, the way we react sends tremendous signals.

Sometimes you really have to bite your tongue and say, "Thanks for helping us learn from that failure." But that is the real deal. If you can stand up to that test day after day and continue to encourage yourself to take the chances—to make the investments, to step forward—that sends signals through the organization. If we behave that way, there is a good chance we can drive innovation through our culture.

Q. During this interview, the two of you have often completed each other's thoughts. Mike, how would you characterize your working relationship with Rob?

Mussallem: It's probably apparent from this discussion that I get focused on strategy and on the business. But bringing that to life is something I don't necessarily have the skills to do. So, I have a partner in Rob. His office is right next to mine, and I probably drive him crazy. He has a great training and development background and the ability to apply the tools of his profession to business issues.

Here at Edwards Lifesciences, we are serious about our people. Every company says that, but doing it makes the difference. Our company is small enough that we can engage personally with our leaders about our issues. Rob and his team are great partners in driving that.

Reindl: Thanks, I appreciate that you said that. When Mike asked me to be head of HR, I was the global head of training and development for Baxter. I was not steeped in compensation or benefits, and I asked Mike if he was sure he wanted me for the job. He said, "You can hire the best people for that. I want someone with a development mindset as the head of HR." That tells you a lot about where his head is when it comes to people. **T+D**

Michael Mussallem and Rob Reindl were interviewed by Tony Bingham, president and CEO of ASTD, and Pat Galagan, executive editor, ASTD; pgalagan@astd.org.

Edwards Lifesciences Company Profile

Edwards Lifesciences (NYSE: EW) is a global leader in products and technologies to treat advanced cardiovascular disease, the global leader in acute hemodynamic monitoring, and the number-one heart valve company in the world. Headquartered in Irvine, California, Edwards has more than 5,700 employees worldwide, selling medical technologies in more than 100 countries with 2006 sales of \$1.037 billion. Eighty percent of the company's sales come from brands with leading global market positions, including Carpentier-Edwards, Cosgrove-Edwards, Fogarty, PERIMOUNT and Swan-Ganz.

By the numbers

Edwards Lifesciences leverages its research, design, development, and marketing expertise to produce "http://www.edwards.com/products.htm" products that address specific cardiovascular opportunities including heart valve disease, peripheral vascular disease and critical care technologies.

Food, folks, and facts

Employees: Approximately 5,700 worldwide

Top Company Official: Michael Mussallem, chairman and CEO

Corporate Headquarters: USA - Irvine, California

Edwards's Irvine headquarters is home to the world's most advanced heart valve therapy manufacturing plant and the Museum of Heart Valve Design, the most prominent facility of its kind in the world. The clinicians, inventors, research, and devices showcased in the museum span the history of heart valve therapies, from the first devices to today's most sophisticated technologies.

Regional Headquarters:

Europe - St. Prex, Switzerland
Japan - Tokyo

Manufacturing Facilities:

Irvine, CA
Midvale, UT
Brazil - Sao Paulo
Dominican Republic - Haina, San Cristobal
Switzerland - Horw
Japan - Miyazaki
Puerto Rico - Anasco
Singapore - Techview

Source: www.edwards.com



GROWING TALENT AT



EDWARDS LIFESCI

ENCES

THE CORPORATE VICE PRESIDENT EXPLAINS THE COMPANY'S PHILOSOPHY FOR TALENT MANAGEMENT.

By Rob Reindl

The seeds of talent management at Edwards Lifesciences took hold before the company existed in name.

Formerly the cardiovascular division of Baxter Healthcare, Edwards spun off as an independent company in 2000. In 1998, Baxter initiated a study—spearheaded by McKinsey & Company—that identified positions that were essential to attaining the corporation's business imperatives.

Along with McKinsey, Mike Mussallem, who was president of the cardiovascular division at the time, and I engaged in a rigorous bottom-up analysis of the entire division to identify the jobs that were critical to achieving the company's objectives.

However, it wasn't the top 50 to 100 vice presidents at Baxter that McKinsey, Mussallem, and I discovered to be uniquely essential, but positions at both the lower and upper echelon, as well as some in between. Those critical positions include a variety of roles within the organization, such as jobs in engineering, manufacturing, accounting, sales, and marketing.

As business imperatives evolve, so do the critical positions within the company. As a result, we recognized that corporate learning and develop-

ment efforts had to provide generations of employees, across all disciplines, with the skills and knowledge to adapt and grow with the often volatile medical device industry.

Corporate philosophy

When Edwards Lifesciences became a publicly traded company, Mussallem, who had become CEO and chairman, asked me to run the company's human resources department. Mussallem's priority for the position was to nurture talent, so we sat down immediately to take stock of the company's talent, assess the corporate structure, and begin to build a culture that prized innovation, risk taking, and development.

A new company philosophy was one of the first products of those early sessions. Mussallem, a charismatic speaker, argued passionately that Edwards should be defined as a trusted partner of customers and patients, acting "boldly, decisively, and with determination on behalf of the people who are fighting cardiovascular disease."

With the right talent in the right place at the right time, Mussallem believed Edwards could respond to previously unmet patient needs. And as long as it met its customers' needs with high quality solutions, the company would satisfy its own employees and investors.

Edwards's credo has remained unchanged, and while it has provided the necessary direction for the company,

Mussallem wanted a more succinct set of goals that could easily be articulated by every employee. He and his leadership team came up with Edwards's aspirations—a short set of statements that

AT THE INDIVIDUAL
LEVEL, EMPLOYEES
ARE ASKED TO
CREATE PERSONAL
MANAGEMENT
OBJECTIVES, WHICH
ARE MAPPED TO
THE KEY OPERATING
DRIVERS BY MANAGERS
AND DIRECTORS.

focused on growth rate, profitability, customer loyalty, new product introductions, employee engagement, and shareholder value.

Focused on Edwards's credo and aspirations, Mussallem promoted what he termed a "performance culture." His first actions as CEO highlighted the importance of talent management. First, he put talent on the agenda of every board of directors meeting, as well as monthly meetings of Edwards's executive leadership team, which comprises the corporation's top regional and functional leaders. Next, he decided that talent management would be a leadership competency that every company manager is evaluated on annually. Finally, he prioritized the annual review and assessment of Edwards's global talent and led these assessments.

Every September, Edwards's board meets to review performance and set the strategy for the coming year. From this off-site, two-day session, the board distills the corporation's strategic imperatives. In turn, these high-level strategic imperatives set the priority for five key operating drivers that each business unit, function, and region in the company advances the following fiscal year.

Talent management is finely woven into this process. At the individual level, employees are asked to create personal management objectives, which are mapped to the key operating drivers by managers and directors. Mussallem and I meet with each regional president and functional leader annually to conduct a bottom-up review of talent and choose which positions will be the most important in the short, near, and long term. Mussallem personally leads as many as 14 talent reviews annually. These reviews can last as long as five hours.

Critical jobs

During talent reviews, Mussallem and the HR department engage in detailed discussions about current organizational structure, critical jobs, high potentials, and key technical talent. We both stress that conducting reviews and matching talent to critical jobs requires an unbiased, objective evaluation. Identification of critical jobs is driven by position, not personality. The jobs that are considered crucial to success are identified on an annual basis as "critical jobs." Currently, about 70 jobs of 1,200 within the company are recognized as critical.

Once the job is identified as critical, then we ensure that there is A talent in the position and create a pool of potential successors. For each critical position that exists at Edwards, I identify two or three successors. Having that kind of depth requires the development of high-potential employees (employees who could move up two levels in the next three to five years) and key talent (employees who have a depth of expertise in some technical area, such as engineering or sales) through a variety of training and development programs.

For the youngest, most promising talent—often engineers—the company's technical development program offers four different professional rotations during a two-year period. As full-time employees, participants gain experience in marketing, manufacturing, quality, and research and development. Afterwards, they choose among the four areas for a longer assignment.

Leadership development

Edwards's ASPIRE, which outlines the program's aspirations, program is a leadership development initiative that reinforces the performance culture championed by Mussallem. Internal and external sources regularly offer classes in project management, communication,

conflict resolution, management practices, and leadership. One of the most successful ASPIRE courses prepares emerging leaders through a four-day immersion program. It was created by HR in conjunction with the company's executives. Conducted four times per year, the session admits 20 employees from a variety of backgrounds and regions, and sequesters them at a hotel near the company's global headquarters in Irvine, California. Participants are encouraged to leave their normal work responsibilities at the office and focus solely on the training. They are kept busy engaging in business simulations and learning Edwards's values, strategy, financials, communication, and executive behavior.

Outside of these formal programs, Edwards also builds future leaders through a series of monthly sessions that highlight a product, function, and region of the company. Leaders discuss emerging market trends, new technology, and best practices. Designed to improve knowledge and understanding of Edwards's business, the sessions encourage networking outside employees' immediate area and foster the kind of collaboration the company depends on to stay competitive.

In addition to developmental programs, Mussallem strongly believes in providing on-the-job learning experiences for top talent. Tom Abate—an employee that Mussallem identified early on as having high potential—required a little more seasoning before jumping from vice president of finance for Baxter's cardiovascular division to corporate controller at Edwards. After more than three years in that role, he was promoted to corporate vice president of financial operations and control, a position in which he gained additional knowledge of tax and treasury functions. In December 2005, Abate was approved by Edwards's board to be chief financial officer, his current position.

The final component of Edwards's talent management is evaluation. Every 18 months, Mussallem invites employees to participate in an engagement survey that measures employees' attitudes regarding workplace conditions, functional management, corporate leadership, learning opportunities, and more. In the most recent companywide survey (completed in June 2006), approximately 5,000—or 90 percent—of employees rate their engagement levels at 89 percent. This score, two points higher than the previous survey's figure, is indicative of high employee engagement and validates the development programs.

Beyond the positive feedback provided by employees, the success of talent management at Edwards also is manifested in the company's financial performance. Since the company became independent in 2000, Edwards's stock has increased 134 percent, outperforming both the broader market and its medical products peer group. The correlation among talent management, leadership development, and Edwards's business results are quite clear. According to a 2004 Accenture study, companies with high-performance learning organizations generate better revenue and profit growth than competitors and industry peers.

The goal for Edwards Lifesciences is to remain a global leader in providing innovative solutions for people fighting advanced cardiovascular disease. Since the company's inception, Mussallem and I have been dedicated to establishing and strengthening a culture of world-class talent management and development. **T+D**

Rob Reindl is corporate vice president for Edwards Lifesciences.

BEYOND THE POSITIVE
FEEDBACK PROVIDED
BY EMPLOYEES, THE
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EDWARDS ALSO IS
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COMPANY'S FINANCIAL
PERFORMANCE.

At C Level:

Ramalinga Raju
FOUNDER AND CHAIRMAN
SATYAM COMPUTER SERVICES
HYDERABAD, INDIA

Satyam Creates Value Through Learning

By Tony Bingham and Pat Galagan

Satyam may be the biggest publicly-traded information technology (IT) company you have never heard of, unless of course your company has outsourced work to one of its 30,000 employees for such services as application development, business process outsourcing, enterprise solutions, system integration, IT services, or quality consulting.

Founded in 1987 by B. Ramalinga Raju and his brother B. Rama Raju, Satyam has grown from a small India-based computer services company to a worldwide purveyor of business services—many of them offered virtually. The increased use of outsourcing by global companies has fueled much of Satyam's growth. Now operating on six continents in about a dozen markets—including automotive, banking, healthcare, manufacturing, media, and telecommunications—the company surpassed \$1 billion in revenue in 2005. In 2006, the *Black Book of Outsourcing* named Satyam number two on its list of the top 50 best-managed IT outsourcing companies. Satyam is also a 2006 winner of the ASTD BEST award.

The Rajus believe in creating value for society as well as for shareholders. One of the company's foundations, the Emergency Management and Research Institute, has created the equivalent of a 911 emergency service for the 22 million inhabitants of 50 towns and cities in the Andhra Pradesh region of India, saving more than 4,000 lives in its first year. *T+D* spoke with Ramalinga Raju, chairman of the company, about the role of learning and development at Satyam.

We wanted to start by asking about the three or four most critical business areas for Satyam and how learning is related to those areas. Where is the company going strategically and how does learning support that strategy?

MAYBE I CAN START BY OFFERING SOME COMMENTS about what I consider to be most fundamental to our success—which these days is also vital for every organization—and that is the enormous change that we face, particularly in our industry. In 1991, when we started providing services virtually, that was an altogether different way of delivering them. It so happens that the virtual delivery of services has brought a different way of creating value and distributing it across the world. So for every company, particularly in the technology and services arena, I believe that change management is at the very core of success these days. Companies that are managing change better are able to provide more assured and consistent growth and create greater shareholder value.

There was a time when I was relatively new to business when I thought that creating value in business was about working hard and realizing whatever opportunities were out there. My perception has changed. I have come to realize that value creation is a transformational process in the sense that you're not creating things anew; you're transforming existing things to a more desired state. That applies, for example, in manufacturing as much as it applies in services. In both industries, you bring about transformation progressively until you attain the most desirous state. You are trying to change according to what is of importance for the customer and, in a methodical fashion, to use your knowledge, technologies, and competencies to bring about a desired state that the customer appreciates.

So if change is a transformational process, then what is underlying this magnificent process? In my opinion, it is all about an organization's or an individual's ability to learn. So in that sense, learning links up very deeply with value creation and making businesses more successful. Organizations that are able to learn on an ongoing basis and to make better use of human resource assets are the ones that are able to provide better performance. These beliefs have been at the core of what we have been trying to do within Satyam.

India-based IT company taps into employees' abilities to learn.



When you look at value creation and learning's impact on value creation, how do you know it's working?

IF WE ARE LISTENING, OUR STAKEHOLDERS WILL TELL US. It is suggested that most often we may not be listening well or may be misinterpreting what we are hearing. We have in our organization an environment made up of our employees and associates, and our investors, customers, and society in general. And each one is looking to derive something from the relationship that they forge with the company.

Sometimes what the company does and what the stakeholders expect is in consonance and in some instances, it is not. Therefore, bringing about the right balance between ex-

pectations and what you deliver to the stakeholders becomes quite vital.

You may delight your customers a great deal by offering your services at low cost and that may not necessarily result in value for the investor. And sometimes, even if you satisfy your investor and your customer, it may be coming at the cost of what you are doing for your own employees who are the foundation of an organization's long-term growth and performance. Therefore, it is an ongoing struggle within the organization as to how you bring about this balance.

Photo by Sanjay Raichura

Innovation and partnerships account for some of your company's success. Does learning help make those two things work?

ABSOLUTELY WITHOUT ANY DOUBT. If you have to continually deliver high value to your customers, then you must do things in the best way possible and that links up to innovation. And innovation essentially takes place in an environment of continuous learning, where you are continuously questioning whether you can do a thing better than you did yesterday or whether you are able to do things better than your competition—it is an environment where you're constantly wanting to differentiate yourself. Therefore, learning links up with innovation.

On the other hand, if you want to provide certain value to your customer, then you have to be intimate with him—understand what really matters to him and make his success your mindset. You have to put yourself on his side of the table and ask questions that are going to lead toward managing his business better. You have to understand his value drivers and his competitive environment. And that is a constant challenge for companies like Satyam because we want to transform ourselves from being a technology provider to applying all our expertise to his business.

Most often you may have people who are either good at technology or good at understanding and appreciating a given business environment. But unless you have architects who can bridge the technology and business gaps, you will not be able to provide the best solution to the customer. And in that sense, again, learning is a constant challenge because you have to learn what the best solution is, what is at the leading edge in technology, and what business issues are facing your customer. So all of these issues link to the ability of the company to constantly learn and innovate.

If I was a learning leader in your company, how would I know I was being successful in your eyes?

ONE OF THE THINGS WE HAVE PROMOTED IN THE COMPANY is a mindset that brings objectivity to given aspirations at a company level, at a business unit level, or at the leadership level. We believe that as much as language is a great asset and tool, it is also sometimes an impediment. It may bring a lot of subjectivity to things that make different people look at a given reality in different ways. Therefore, in our organization we promote the concept of a metrics-led approach as the most fundamental. In fact, the language of metrics is our official language, second to English. In a growing organization, one of the challenges is that we understand each other very well. We should understand the current reality well, and we should understand what is most desirable to customers.

Our experience has been that if we learn to objectively express things in a metrics-led fashion, then that brings about clarity. And if we are able to achieve what we originally desired in a manner that is clearly reflected in the metrics, then we know that we have arrived. Metrics by themselves are not going to do the magic. It is more of an art than a science, but if we follow a certain discipline we have found that things work fairly well. You may also express your aspirations by a kind of rough metrics. For example in our organization, we have the mindset that every Satyamite is a leader delighting the associates, investors, and customers.

In that order?

IT IS A BALANCE AMONG THESE THREE CONSTANTS. And if they are in that order I would say it is probably on account of the fact that an associate is a value creator; an investor is one who supports you in that effort to create value; and you are delivering value to your customers. And if you have done it well, your associates and investors reap the benefit.

Coming back to knowing if you are successful...if we are able to capture reality in an objective fashion, then it is most likely that you know when you have arrived. We realize that this attempt to express things in an objective fashion is not a static thing. It's a dynamic process because the environment keeps changing and the assets within the organization are changing too. And the choices that we make about how we use those assets to deliver value may also be undergoing constant change. So we have to view this as dynamic and deal with it accordingly.

For a growing organization like Satyam—where we are 30,000 people today—it is vitally important that we all have a common platform and speak a common language. There may be 100 different ways of approaching our business and maybe each one of them can be successful, but in an organization that is sizable and growing rapidly, you cannot afford to mix many ways of doing things. Then you would not understand each other. You would not understand your constituents and deliver value in the best possible manner. We have been making significant investments to create balance.

“I have come to realize that value creation is a transformational process in the sense that you're not creating things anew; you're transforming existing things to a more desired state.”

If the language of metrics is the official language, what are some of the key metrics that you look at for success?

THESE DAYS OUR INVESTORS ARE NOT SHY ABOUT WHAT THEY WANT. They are looking for growth and for profitability. To them, it is not enough that you delivered it this quarter, and it is not enough if we are confident we can deliver it next quarter. They want to have confidence that we can deliver it on an ongoing basis.

To do that, we cannot be doing the same things time and again because the nature of the services that we provide requires constant change. What we delivered yesterday is not the same thing that the customer is expecting us to deliver tomorrow. The prices we set today may not hold good for the future. So the manner in which we bring our offerings together is quite vital. We continually assess that which is of importance.

We have a model that lets us evaluate how prepared we are to deliver value in a consistent fashion. We call it the Six P Model. The six Ps stand for people, process, product (which represents our ability to automate things), proliferation (which is capturing and applying best practices), patents (which is about innovation), and finally promotion (which addresses our ability to communicate well with our constituents). That is how we consistently deliver value through high-quality assets that we build.

Another consideration is what you do with these assets and what you deliver to the stakeholders. We express that through a model that we refer to as the Five R Model. Everything ends with an R: faster, better, cheaper, larger, and steadier. These capture some tangible issues, such as financial metrics, and also some intangibles, such as customer satisfaction.

If this is the manner in which you are trying to meet your objectives, what is it that you should be doing? What is your strategy? We are proceeding with a mindset that strategy is not limited to what you do at the organizational level where you might be meeting the objectives of external stakeholders about a given thing. Strategy, in my opinion, is about asking the right kind of first questions and having the right kind of answers. Would you like to be the most respected company? Would you like to be the largest? Would you like to deliver specialized services in a given area? Those are questions that may demarcate a strategy for you, and they should be asked at various levels within the organization. If someone is in charge of a support function, then he faces strategic issues as well. He may have to constantly align his strategies with what is of importance to the company. Strategy is as much an imperative for him as it is at the organizational level.

And learning and development?

THERE IS A CONSTANT NEED FOR PEOPLE TO UNDERSTAND what is important to meet a goal. We believe that we have to break down the hierarchy and elevate most associates to positions of leadership because, in our view, leadership is not about the number of people who report to you or how many people are following you. Leadership is essentially about doing what ought to be done in the best possible manner. So we believe that it is value-creating entities within the organization that effectively come together to serve a larger purpose in a way that determines the design of the organization, not the traditional hierarchies.

We also believe that the vantage point in an organization is very important. If you ask someone what his strategy is, then it is in reference to what he does. Strategy is of importance for him no matter where he exists in the organization. Most often this question is asked at the organizational level and therefore strategy may become synonymous with what the organization's strategy is. So we go to great lengths to promote a mindset of growing and distributing leadership throughout the organization. And if we are able to perform well in this attempt, we believe that there is a chance that the organization will do better and be significantly enhanced.

Is that why you've established a leadership school separate from your learning center?

ABSOLUTELY. When we say that every Satyamite is a leader, it is not lip service. We truly believe that leadership at all levels is fundamental to the organization's performance. Leadership is an acquired trait that can be nurtured. And we believe that it is the responsibility of the organization to create an environment that is most conducive for leadership to grow.

Running an organization is about making sure that all the pieces work together. In my mind that is the fundamental value of leadership. It is self-evident.

“Leadership is not about the number of people who report to you or how many people are following you. Leadership is essentially about doing what ought to be done in the best possible manner.”

If the value of leadership is self-evident, how do you decide, as the senior leader of the organization, how much to invest in leadership?

THAT'S A TOUGH QUESTION. What we have learned is that any problem can be handled effectively if we have a way of breaking it down to its component parts and dealing with each one as a freestanding entity, and then synthesizing things to accomplish a desired state. So, in that sense, I am really alluding to balancing things. There is so much we need to do, and there is only so much we can afford to do. That analysis tells us that the organization can afford to make significant investments in leadership by setting aside time for associates' self-development and for development that proceeds collectively toward a certain task.

So that has led us to establish the Satyam School of Leadership and to determine that there is a need to have at least 10 percent of our associates provided with the right kind of motivation for self-development. That led us to recognize that it is not a small task to develop 3,000 people who work in 55 different countries. And there are those who are aspiring to attain leadership positions. Therefore, we concluded that we had to have the right kind of physical infrastructure and use the best technologies that exist today to also bring them together in a virtual environment. These fundamental assessments led us to put a medium- and long-term plan together for developing leaders.

Satyam is known for its commitment to social responsibility. Can you tell us about the work of the company's foundations?

WE GIVE ENORMOUS IMPORTANCE TO OUR ORGANIZATION'S SOCIETAL RESPONSIBILITY. The Satyam Foundation is focused on urban transformation. And there are a couple of foundations that we have established as a family. One is the Byrraju Foundation, which is focused on rural transformation. It has adopted about 160 villages in India that cover a population of close to 1 million people. The foundation provides something like 55 different services in these villages. We follow what we refer to as the 100 Percent Principle. It means that the gap between what is desirable and where we stand should be completely bridged in a very short time.

Here are some examples. In these villages, before we got there three years ago, only 50 percent of the people were literate. We are aiming to make 100 percent of the people literate by the end of this year (2006). Four percent of the villages suffer from hypertension and diabetes but don't have access to medical care, so we are providing free medicine to cover 100 percent of the target group.

With the Byrraju Foundation, we have established a few cooperatives that provide business process outsourcing services to meet some of our internal needs and some government needs.

Another foundation, EMRI (Emergency Management and Research Institute), was started with the vision that we should do our bit to create the equivalent of the United States' 911 services so that a whole range of emergencies could be attended to efficiently. We have been able to persuade the Indian government to set aside one single phone number—108—for emergency services. We signed a public and private partnership with the government of the state where we are headquartered to provide these services on an exclusive basis. So in a matter of 10 months or so since we have started, we have rolled out these services in about 50 towns and cities. Andhra Pradesh has a population of 80 million people and these 50 towns have a population of about 22 million people. Since we have started we have been able to save about 4,000 lives or about 30 lives a day.

As a pioneer in the Indian offshoring industry, what lessons have you learned there?

THE OFFSHORING MODEL, which is about virtual delivery of services, at one time was seen as particular to companies that got started in India but now it has become a universal model and is proving to be one of the most important disruptive technologies. As a company that has been in the forefront of this virtual delivery of services revolution, we are attempting to establish for our global customers the fact that we are in a position to deliver a wide range of services in a comprehensive manner that would match the best that we see in global systems integrators. We have made fairly good progress in the last five or six years in being able to deliver these integrated solutions, from consulting to business process outsourcing, and many things in between. Our goal is to provide our global customers with high-quality affordable solutions. In that sense, it's been a very exciting journey.

You had more than a billion dollars in sales last year. That's exciting too.

WE ATTAINED \$1.1 BILLION LAST YEAR. We were the first to do it in the shortest period in relative terms in comparison with any other company in India. We have been very fortunate to be in the right place at the right time. **T+D**

Ramalinga Raju was interviewed by **Tony Bingham**, president and CEO of ASTD, and **Pat Galagan**, executive editor, ASTD; pgalagan@astd.org.

The Business Context for India



India has the fastest-growing major economy in the world today in terms of purchasing power but future growth could be slowed down by lack of managerial talent needed to run its growing businesses. And India faces the rising expectations among managers and professional workers – who know they are in short supply – for higher salaries. Such a change could take away one of the main attractions of outsourcing to India – inexpensive talent. Below is a snapshot of the economy, some of the industry sectors, and the workforce demographics in India.

General Facts

- Land area: 3.29 million square kilometers
- Population: 1.045 billion
- Languages: India is a multilingual society with 18 principal languages recognized by the constitution. Hindi is the language of a large percentage of people (38 percent), while English is the preferred business language.

Economy

- World's fourth largest economy in terms of purchasing power. According to the projections made by KPMG, India's GDP would be the third largest in the world by 2020. (India in Business website, 2006)
- Second-fastest-growing economy at 6 percent a year for 15 years; can grow 7 to 8 percent annually for decades (*Newsweek* World News, March 26, 2006)
- Nearly doubled its economy since 1991 (*Times Online* UK, August 21, 2006)

Industry Sectors

- Manufacturing registered double-digit growth of 11.2 percent during the first three months of 2006. (India in Business website, 2006)
- The automotive industry grew 16.49 percent from April through August 2006, compared to the same time last year. (India in Business website, 2006)
- India's pharmaceutical market is the 13th largest individual market by sales, but the fourth by volume and product. (India in Business website, 2006)
- Software and services exports, including IT-enabled services, reached \$6.9 billion in the quarter ending June 2006, an increase of 32.29 percent compared with exports in the same period last year. (India in Business website, 2006)

Talent Pool

- 4 percent of total university grads have engineering degrees. (*Asia Times*, July 6, 2006)
- Young university graduates estimated at 14 million—1.5 times the size of China's, almost twice the number of the graduates in the United States. The country adds about 2.5 million graduates every year. (McKinsey.com, 2006)
- India has a literacy rate of 59.5 percent. (*World Factbook*)
- A study of HR professionals reported that between 10 percent and 25 percent of the country's graduates would be hired by multinationals, with the proportion varying by field of study. (*BusinessWeek*, March 22, 2006)

Ed Cohen
Senior vice president of the
Satyam School of Leadership



Developing Global Leaders the **Satyam Way**

The senior vice president of the Satyam School of Leadership talks about how the India-based IT company takes leadership development seriously.

BY ED COHEN

Since Satyam's listing on the Bombay Stock Exchange in 1992, our **revenue has grown more than 2,500 times** and our staff has ballooned from 100 to **nearly 30,000 associates.**

That rapid growth sparked a major culture change within the India-based IT company. We knew that our culture had to shift rapidly with our growth and that we needed to make decisions about what to retain, what to change, and what to eliminate. One part of our culture that we wanted to retain was the entrepreneurial leadership that embraces innovation without sacrificing quality. We did not want to join the ranks of the many other fast-growth companies that, over time, stagnated when they reached a size and scale that made it hard to sustain innovation and quality.

At Satyam, we have documented—for our employees—a description of how we do business, our core values, and our path to value creation into a book called *SatyamWay*. The book describes the organization's different parts and how those parts integrate as a whole to create value for Satyam's stakeholders.

One approach, one mindset

The Satyam Way is a mindset that facilitates our approach to the work we perform. The foundation includes four types of stakeholders: associates (Satyam's employees and suppliers), investors (shareholders), customers (internal and external businesses that are recipients of our services), and society (our responsibility to contribute to the communities in which we live). By matching the right associates with the right opportunities, we create value for all stakeholders.

The book, which is available to all 30,000 Satyam associates, has evolved over the years. It was updated last year to include a new paradigm for leadership—full lifecycle leadership—that empowers associates to create greater value and maximize innovation while maintaining quality. The company is divided into full lifecycle businesses (FLCB), which allows the leaders of the approximately 1,500 newly formed businesses to act as CEOs of the independent businesses. This leadership paradigm shifts the organizational structure from teams to independent yet interdependent businesses. We evolved from an emphasis on growth to an emphasis on balancing assets and outcomes for greater value creation. This value creation allows the organization to continue rapid growth, encourage entrepreneurship, expand innovation, and sustain quality.

Each FLCB is concurrently independent and interdependent. The interdependence comes from a common brand, a one-firm experience, and consistent measures. Ramalinga Raju, Satyam founder and chairman, continuously reminds us: "While each FLCB focuses on its distinct business area, it is essential for the FLCBs to

provide integrated and comprehensive solutions to our customers. FLCBs need to combine their skills, blend their attitudes, and fuse their energies to provide that synchronized and differentiated 'one Satyam experience.'"

Another way we are able to achieve the "one Satyam experience" is through metrics. The most important metric is the company's three-to-five-year mission, called the "north star." Satyam's north star is "to be one of the five most valuable global integrated IT services and business process outsourcing companies within the next three years." Every FLCB's mission should align with the north star.

Leadership development

The launch of the Satyam School of Leadership in November 2005, as well as other leadership initiatives—such as the full lifecycle leadership framework and web seminars involving distinguished

and international faculty—came about as part of Satyam's goal to strengthen leadership practices and its leadership pipeline. The focus of the school is to groom leaders for the future. Satyam stepped up efforts toward an integrated focus for leadership development through its proprietary full lifecycle leadership model, where entrepreneurial leadership opportunities are provided to the top 5 percent of Satyam associates in defined areas, such as relationships (with customers and alliances), service offerings, projects, and processes. The strategic intent behind the evolution of the school is to create leaders who are responsive in real time, consistent in decision-making choices that delight stakeholders, action oriented, and have the ability to work collaboratively in a

team environment.

Leaders must be able to provide integrated and innovative business solutions to their stakeholders and ensure "one Satyam experience." In designing the School of Leadership, Satyam set out to build an institution that develops opportunities to nurture the best-in-class global entrepreneurial leaders. Our initial priorities are to build FLCB management skills, expand global business knowledge, and enhance strategic relationships, executive presence, and innovative problem solving.

"Satyam has set for itself as its



primary objective the task of growing leaders faster than the competition," Raju says. "To remain competitive, we need to strengthen and spread this vision internally. The Satyam School of Leadership is built on the philosophy of expanding the entrepreneurial energy at Satyam to help us keep pace with the ever-changing business environment."

The leadership program supports associates of subsidiary companies as well, focusing on holistic business leadership skills and the needs of multiple stakeholders.

The school has measures of performance common to all at Satyam: Six P—people, process, product, proliferation, patent, and promotion— and Five R (each word ends in "r")—faster (cycle time), better (customer ex-



(Above) The Satyam Learning Center provides quality learning for company employees and suppliers. (Left) The Satyam School of Leadership, created to grow leaders faster, is expected to open in the middle of 2007.

pectations), cheaper (effectively use resources), larger (maximize scale opportunities), and steadier (be predictable)—measures.

We measure awareness, adoption, penetration, and impact of each learning opportunity. One measure we adhere to is having 80 percent of all learning take place either virtually or by some other alternative to classroom learning, such as coaching, mentoring, action learning, job rotations, and self-study. Another measure comes from Kirkpatrick's level three demonstration of competencies learned and conveyed to the workplace.

Using the Six P Model, leaders evaluate how prepared they are to deliver value in a consistent fashion. The Six P Model has many tangible measures, such as the associate delight index (people), the number of intellectual property patents won (patent), or the number of white papers published (promotion), which help measure progress and create action steps for the leader. The model ensures that every FLCB has the right assets in place to reach its business goals.

Leaders use the Five R Model to measure value creation. The model monitors how well the FLCB actions align for intended stakeholder impact. Each month, our online web-enabled system, called Startrac, tracks structured asset and outcome measures.

These measures evaluate the effectiveness of the FLCBs to build and maintain their assets. Having the right assets does not guarantee results, but having the right balance of Six P assets and Five R outcomes helps ensure success of an FLCB.

Future leaders

Satyam's Real Time Leadership Center (RTLTC) facilitates timely identification and resolution of issues and provides leaders with information to help them steer their businesses toward north star achievement.

RTLTC, founded on the principles of the Satyam Way, fosters and propels distributed leadership. It is a virtual shared platform that creates Satyam's next generation of CEOs by providing them access to critical business management and measurement tools, and leveraging the best practice experiences of colleagues across the organization. It significantly boosts the leaders' chances of success.

For more than a decade, Satyam had focused on addressing both the leadership development needs and general learning needs of the organization through its learning center. Capable of training thousands of associates a month, the learning center has state-of-the-art learning facilities that include classroom buildings, a conference center, and on-site dormitories.

In addition, the learning center reaches associates across the globe with its online learning courses.

The school of leadership develops learning experiences to enhance Satyam leaders throughout their careers. All leaders, who are required to understand the ins and outs of global business, have the opportunity to earn a certificate of global business leadership. Through a partnership with Harvard Business School Publishing and U21Global, Satyam leaders participate in a 22-week program. The virtual program includes videos, readings, threaded discussion groups, and global learning

circles. New leaders also participate in a one-year immersion process that begins on the day they are hired or promoted into their new roles. This program incorporates mentoring, coaching, e-learning, a one-week experience in Hyderabad, India, and active monitoring of each leader's progress throughout their first year. During the one-week experience, leaders learn about the Satyam Way, participate in a full lifecycle business management simulation, complete a community service project, and network with each other and the senior leaders of the firm.

Satyam takes learning seriously. Each step in a leader's career is filled with a variety of learning and development opportunities. We benchmark outstanding companies throughout the world, and utilize best practices from the book, *The Leadership Pipeline*, to plan the right blend of learning opportunities. **T+D**

Ed Cohen is senior vice president of the Satyam School of Leadership; Ed_Cohen@satyam.com. Portions of this article were reprinted from SatyamWay.



Photo by Alec Huff

At C Level:

Ralph Alvarez
PRESIDENT AND CHIEF OPERATING OFFICER
MCDONALD'S CORPORATION



TRAINING: they're lovin' it

McDonald's President and COO, Ralph Alvarez, and Vice President of Training, McDonald's USA and Dean of Hamburger University, Diana Thomas, agree on training's contribution to the company's success.

By Tony Bingham and Pat Galagan

McDonald's is a global institution with a 51-year history of growth from a single drive-in restaurant to a network of nearly 32,000 restaurants worldwide. It's possible that Ronald McDonald is more widely recognized in the world than Uncle Sam.

Despite taking some hits in recent years—the sudden deaths in 2004 and 2005 of two consecutive CEOs, the book *Fast Food Nation*, and the documentary film “Supersize Me”—the company's performance continues to improve. Revenue is at record-high levels, up 7 percent in 2005. A deliberate change in strategy—from growing numbers of restaurants to growing numbers of customers by improving service and selection—has paid off. Four million more customers visit McDonald's restaurants every day than they did four years ago. Because of McDonald's size, a 1 percent improvement in sales can result in \$100 million in income.



In April 2003, following a period of disappointing business performance, the company developed and implemented a turnaround plan. Called The Plan to Win, it has two pillars: operational excellence (consistency and customer focus) and leadership marketing (talking to customers in relevant ways). The plan concentrates on five critical success factors: people, products, place, price, and promotion.

At the same time, there was a renewed emphasis on measurement and accountability through efforts to make metrics consistent and uniform throughout the company. Performance measurement is based on customer and employee feedback from 19 countries. The Restaurant Operations Improvement Process (ROIP) gathers data in five ways:

1. employee commitment surveys
2. announced visits to restaurants
3. unannounced visits to restaurants
4. mystery shoppers
5. 1-800 number for customers.

While driving consistent metrics, the company also empowered its regional leaders to make changes on behalf of the customer. Restaurants may embellish the core menu with local innovation to reflect customers' preferences. McDonald's in Taiwan serves the Riceburger. U.S. restaurants have introduced "premium" coffee, bottled water, and salad meals. Local sourcing for ingredients is also permitted. In France, most menu ingredients are from French sources. France, where in 1999 a disgruntled sheep farmer bulldozed a McDonald's to protest creeping Americanization, is now the second highest-producing country for the company.

Close cooperation between leadership and learning at McDonald's accounts for much of its ability to drive common operational goals and metrics across nearly 32,000 restaurants in 118 countries. Ralph Alvarez, president and COO, and a 12-year veteran of the company, understands and supports that link as strongly as any corporate executive today. We talked to him about the learning culture at McDonald's and how training drives results and change throughout the company.

Q McDonald's is well-known for the amount of training it provides to its 1.6 million employees—from crew members to the executive level. Tell us from a COO's perspective how that training supports the organization's major strategies.

A As you know, we're a people-intensive business and in our Plan to Win, with its five points of emphasis, people are first. If we don't reach all the way out to the people at the front counters who deliver the moment of truth to customers, we fail. And if we don't operate consistently everywhere, we fail. That's what McDonald's stands for. The cheeseburger you eat in Illinois should taste as good as the one you eat anywhere else. That only happens when you have great systems and everyone from the crew members to the executives are trained in them.

During the last three or four years, we've broadened our menu a lot, and it's been a success. We would not have had success if we hadn't invested in a big way five years ago in our training systems. These training systems also contribute to knowledge-sharing throughout all of the levels of the organization.

In interviews with business magazines or industry analysts I'm often asked if our recent success is because of our new salads. And I've always said "No, our success is because of the training and replication systems we put in place that allowed us to change our menu and deliver operations at a higher level than before." I truly believe that's been a big part of why we've been able to make the changes that our customers are rewarding us for.

“Our success is because of the training that allowed us to change our menu and deliver operations at a higher level.”

Q What kind of metrics tell you that learning activities are working?

A We use direct and indirect metrics. You can measure specifically how much knowledge has been imparted and you can measure the results of training. One thing we have found is that when information is imparted it produces immediate results. That is true at HU (Hamburger University), where we train executives and managers and in the seed stores where we train local managers and crew members. A seed store is a restaurant where people from 15 to 20 surrounding stores get hands-on training. Then they go back to their restaurants and train their teams. We know that our training has produced results because we are able to do store-level verification through a mystery shopper program and our own consultants.

Another direct benefit of that process is speed. Four years ago, it would take us 18 months to roll out a new product. A lot of that was time spent on training. Now we have a process where operators and managers visit a restaurant where a product is being test-launched and learn directly about such issues as food costs, paper costs, handling procedures, supply chain issues, safety issues, and sanitation. The streamlined training has helped shorten launches from 18 months to about six months.

The other indirect measure that we look at is turnover. As you know, we're in an industry that has high turnover at the crew level but our turnover has gone down significantly. For many of our crew members, these are first jobs, transitional jobs, or after-school jobs, so we design training that will make them able to be productive and highly satisfied employees in a short period of time. That has a big impact on our 90-day and one-year turnover.

It also prompts people to stay with us long-term because they've been impressed with the system and want to make a career in the restaurant industry. We are second to none in career opportunities. Seventy percent of our managers started as crew. That's our farm team to grow our management from.

“When we shortcut training, we see it in lack of performance of products.”

Q Do you link any of the metrics on the training side to your key organizational metrics?

A They're absolutely the same. We have a variety of metrics. Right now we're measuring results for a new product—our chicken snack wraps. Did we merchandize it properly? Did we deliver it properly? We measure order accuracy, ingredients, portioning, temperature, and many other factors. The majority of those results link right back to training. And I'll tell you that when we shortcut training, we automatically see it in lack of performance of products.

Q Do you look at learning's impact on comparable sales and guest counts?

A They are interrelated. I can tell you that after the changes we made in training we saw quick impact. Our comparable sales are up; our guest counts are up; our mystery shop scores are improving; our customer compliments are increasing; and our customer complaints are decreasing. These are all indications that the attention to training is paying enormous dividends. Our sales and guest counts are so highly dependent on training that we will slow down product releases if the proper training hasn't taken place.

We measure learning in several ways. Trainees are asked to evaluate classes and there are knowledge assessments in every class. We talk to their bosses about how they did before and after the training to determine if behavior has changed. And we have data that shows that the regions that have more people trained have higher sales and guest counts.



Whether it's a Big Mac or premium coffee, McDonald's is a recognizable brand worldwide.



Q Diana Thomas is vice president of training for McDonald's USA and dean of Hamburger University. What metrics are applied to Diana's performance as a top learning executive and how do they compare to outcomes that are expected of other senior leaders?

A We have common metrics for the top team that address how the business is doing on sales, profits, operational excellence, consumer perceptions, and so forth. We believe it's very important that all the officers are evaluated against them so they are all pushing toward common goals. Some departments have additional specific goals. For Diana, it is the success of training through HU and our 22 U.S. training centers. We look not just at attendance but at the actual imparting of knowledge. In post-evaluations, we look for impact.

The best thing that Diana pushed us to do was to create the interactive labs at HU so that learning is not just theory. The value of that has really shown up in evaluations from the students. We ask how much the class helped them do their jobs better when they went back to their stores. The majority of people coming to our training are not McDonald's employees; they're employees of our franchisees, and if those franchisees don't feel like they're getting value, they won't send their employees to training. The fact that our attendance has doubled and tripled in the past four or five years depending on what time frame you look at is a confirmation of that impact.

Q You mentioned the imparting of knowledge and its impact. How do you know if that's happened? What are you seeing in the stores or what metrics confirm that this has occurred?

A We test at the individual and the store level. We test at the seed stores, and we visit restaurants to see that the behaviors that have been taught have turned into actions that are touching customers. Additional confirmation comes from our mystery shoppers and customer hotline, but also from our consultants who are in there verifying that the transfer of knowledge has occurred.

We have a large number of owner or operator restaurants. In the United States, we have 2,500 different owners. It's all McDonald's but the restaurants are run as independent businesses. You can really see that those that are the strongest learning organizations take training to the max. You can verify that in sales, traffic, and most importantly, profit and loss. Those restaurants are looking at training as an investment, not a cost.

“We look at the actual imparting of knowledge.”

“Training is an investment we have to make in the leaders of tomorrow. We want to model that it's important.”

Q How do you know when you've investing the right amount of money in training?

A That's a tough question. As you know, we're investing millions in training. At the store level, we have a better understanding of the connection because the metrics are real-time. We look at many data points on a daily basis. What's harder and has to be more of an organizational belief is that the training you do at the manager and officer levels delivers value. That's a strong belief that we have. Training is an investment we have to make in the leaders of tomorrow. We require that our executives and managers have a minimum of 40 hours of training every year. We want to model that it's important. For example, I'm going to a class at Northwestern University this year, two days a month. It allows me to interact with people who have expertise in areas that we hope will make me a better executive.

Q In your new role as COO, where would you like to see McDonald's go with its training?

A I would like to see us take the great training work that we've done in developed countries and apply it where we've spent less time and have less infrastructure. I'd like to see us training in ways that establish the learning culture of McDonald's from day one and applying our learning tools, such as e-learning, more quickly than we have in the past.

The restaurant business is high energy and challenging, but when our employees are properly trained and become familiar with the environment, they fall in love with McDonald's. And when they do, the differentiator—the thing that continues their upward mobility—is training. Having a feeling of accomplishment and being in a learning mode is truly the differentiator from other choices they may have in their careers. That goes way back to Ray Kroc, our founder, and the start of Hamburger University, and it will continue wherever we do business. **T+D**

Ralph Alvarez was interviewed by **Tony Bingham**, president and CEO of ASTD, and **Pat Galagan**, executive editor, ASTD; pgalagan@astd.org.

McDonald's Company Profile

McDonald's is the world's largest fast food chain restaurant with a total of 1.6 million employees worldwide. Thirty percent of the company's locations are company-owned; the rest are franchises.

After the company's foundation in 1940, its product line has grown from hamburgers and fries to include more healthful dishes such as salads. Following its expansion to 120 countries, the chain has also developed localized food products, such as the Riceburger in Asia.

Since 1961, McDonald's managers have been trained at Hamburger University. Today the training facility includes the main campus next to the company headquarters in Oak Brook, Illinois, as well as six global training centers. McDonald's invests more than \$1 billion annually in training.

By the numbers

- Total restaurants 31,886 (2005); 31,561 (2004); 31,129 (2003); 31,108 (2002); 30,093 (2001)
- Franchised and affiliated sales \$38,926 million (2005)
- Consolidated revenues increased 7 percent to more than 20 billion (2005)
- Total revenue (in millions of dollars):
 - 2005: \$20,460
 - 2004: \$19,065
 - 2003: \$17,140
 - 2002: \$15,406
 - 2001: \$14,870
- Share price at year end:
 - 2005: \$33.72
 - 2004: \$32.06
 - 2003: \$24.83
 - 2002: \$16.08
 - 2001: \$26.47
- Total operating costs and expenses \$16,483 million
- Comparable sales increased 3.9 percent in 2005
- System-wide sales increased 6 percent
- Net income per common share was \$2.04 compared with \$1.79 in 2004
- Cash from operations increased \$433 million to \$4.3 billion
- The annual dividend was increased 22 percent per share, to \$0.67 or \$842 million

Food, folks, and facts

- In the United States, there are approximately 550,000 restaurants that generated about \$350 billion in annual sales in 2005. McDonald's restaurant business accounts for 2.5 percent of those restaurants and 7.3 percent of the sales.
- 20 of top 50 management started in McDonald's restaurants, including CEO Jim Skinner
- 67,000 McDonald's restaurant managers and assistant managers started as restaurant staff
- Hamburger University has more than 275,000 graduates worldwide
- McDonald's corporate and restaurant training curriculum has been awarded 46 college credit recommendations by the American Council on Education (ACE).

Source: www.mcdonalds.com