

Accelerated Leadership Development Tops the Talent Management Menu at McDonald's

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The fast-food giant played catch-up after unprecedented top management turnover drew down its pool of high-potential "ready now" leaders. By aggressively focusing on talent management and leadership development, the company now has a tempting selection of accelerated leadership development programs for high potentials, and is rapidly building bench strength around the globe. The evolution of its efforts began with its first leadership competency model and the integration of key talent processes. Regional, functional, and global leadership development initiatives soon followed, along with a rigorous companywide talent planning process. The company is now turning its attention to high potential talent at lower organizational levels.
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Consistency is a priority at McDonald's—no matter where you eat in the world, you know what to expect at the Golden Arches. But prior to the late 1990s, this laser-like focus on consistent processes did not extend much beyond our restaurant operations. There were few common global processes and systems in functional areas such as IT and Human Resources: As a prototypical high-growth organization, we had a history of putting processes in place in reaction to—rather than anticipation of—a need. However, with a maturing organization and a changing business landscape came the realization that we could not continue to be effective without establishing common frameworks across the key areas of the business, including talent management. And when the company lost three CEOs in just two

years, filling the leadership pipeline became an immediate corporate priority.

A Shifting Business Landscape Calls for New Capabilities

McDonald's Corporation, headquartered in Oak Brook, Illinois, is the leading global foodservice retailer, with \$21.6 billion in annual revenues (2006) and 465,000 employees worldwide. In virtually every one of the 100 countries in which it does business, McDonald's holds a leading share in the globally branded quick-service restaurant segment of the informal eating-out market. Of its more than 30,000 restaurants worldwide, which serve 52 million people daily, more than 70 percent are independently and locally owned and operated.

Founded in 1955, McDonald's grew very rapidly through continuous expansion domestically and globally. With its strong growth rate and focus on internal promotions, the company provided outstanding advancement opportunities for talented individuals. Twenty of the current top 50 leaders—including CEO Jim Skinner—began their career in McDonald's restaurants, and more than 67,000 McDonald's restaurant managers and assistant managers started as restaurant staff.

By the mid-1990s, however, the informal eating out landscape was changing. McDonald's faced strong competition from an increasingly diverse set of competitors beyond the traditional quick service restaurants—specifically fast casual restaurants, grocery stores, and convenience stores. It was

becoming more difficult to grow sales through new restaurant openings, and the company began to look for ways to diversify. McDonald's undertook a number of new ventures between 1999 and 2002, including the purchase of Boston Market and Donato's Pizza, a majority interest in Chipotle Mexican Grill, and a minority stake in Pret A Manger sandwich shop.

As the company sought to respond to the changes in the business landscape, leadership development began to emerge as a need. In the past, the company had depended on its high growth rate to provide the opportunities for individuals to obtain the skills and experiences needed to advance to the leadership ranks. This was no longer the case. The company needed a consistent, intentional approach to selection and development of leaders.

As the company sought to respond to the changes in the business landscape, leadership development began to emerge as a need.

To begin to address the issue, in 1999 we developed McDonald's first competency model, shown in **Exhibit 1**, which comprised four leadership and nine core competencies for managers and individuals with management responsibilities in staff areas (excluding restaurant operations). The core competencies cover a broad set of essential skills, knowledge, abilities, and behaviors that directly support business strategies and culture at McDonald's. The functional areas developed additional competencies to address the critical knowledge, skills, and abilities specific to those parts of the business.

In addition, we created and implemented the following tools to integrate the competencies into hiring, selection, and development processes:

- Job profiles to identify the most critical competencies for a given position
- Selection tools to support the model

- Individual development plans (IDP) to identify each employee's strengths and developmental opportunities with respect to the position's competencies

While the competency model provided a much-needed framework for linking employee development to leadership capabilities, it did not adequately address the issue of intentionally identifying and developing our future leaders. In August 2002, then CEO Jack Greenberg established the Executive Development & Succession Planning group, whose initial charge was to formalize the succession planning process and develop programs to strengthen the competencies of our officer population (vice president and above). The ensuing analysis of leadership development and succession needs revealed a number of gaps:

- Lack of understanding of the critical skills and competencies needed to address current and future business challenges
- Limited ability to accurately identify and accelerate the development of high potentials
- Declining leadership diversity profile
- Lack of proactive steps to retain top talent

We started to develop succession management processes and a leadership development curriculum to address these gaps and were making progress when a series of unanticipated leadership changes took place that would soon expand the mission of this team.

"Righting the Ship"

In the fourth quarter of 2002, McDonald's announced its first-ever quarterly loss, and Jack Greenberg stepped down as CEO. Jim Cantalupo, a recently retired executive with 28 years of service, was asked to return as chairman and CEO effective January 1, 2003. Cantalupo had excellent credentials for the role: As president of McDonald's International from 1987 to 2002, he had led the

Exhibit 1. McDonald's Leadership Competency Model

Core Competencies

Change Orientation

Involves one's openness to change as well as the ability to identify where it is needed and how to make it happen.

Communicates Effectively

The ability to convey one's thoughts verbally or in writing in an articulate, confident, and compelling manner.

Continuous Learning

Involves the ongoing effort to learn from one's own experience, from other people, and from resources around him/her as well as to contribute to the learning of others.

Customer Focus

The orientation to keep in close touch with the needs and perspective of internal and external customers, and the commitment to take actions that serve them and benefit the business.

Drives to Excel

The ability and willingness to not only make continuous improvements but also the commitment to do what is necessary to help the organization make positive quantum leaps in its results and overall performance.

Holds Self and Others Accountable

Involves taking personal responsibility for meeting commitments and ensuring that results are achieved. It includes ensuring that expectations are made clear, priorities established, focus maintained, and tough decisions addressed.

Problem Solving and Innovation

Involves the ability to approach problems in a logical, organized manner and develop effective and innovative solutions that help to significantly enhance business performance.

Teamwork and Collaboration

Involves working cooperatively and collaboratively with others, and acting in ways that support the success of the overall McDonald's team and system.

Values and Respects Others

The ability to relate to and work with others in ways that draw out the positive potential of differences. Encourages and supports diversity of thoughts and perspectives.

Leadership Competencies

Coaches and Develops

Involves working with others in a helpful, purposeful way in order to increase their competence, confidence, and capability to make significant contributions to McDonald's.

Maximizes Business Performance

Demonstrating and practically applying an understanding of the key drivers and financials of McDonald's business in order to help maximize its long-term performance

Maximizes Team Effectiveness

The ability to lead teams to achieve business results by selecting the right talent, getting the most out of each team member, leveraging the synergy of people working together, and creating team confidence and enthusiasm.

Strategic Perspective

Involves the ability to understand, formulate, and communicate sound business strategy and to implement it in a clear and consistently focused manner.

extraordinarily successful global expansion of the brand.

Upon his return, Cantalupo took a different tack, a back-to-basics approach to running the business. His goal was to “right the ship” and grow the core business by driving increased sales at existing restaurants and slowing the addition of new restaurants. Key to his approach was the development of the Plan to Win (PTW), a strategy for aligning and focusing the organization. Developed in conjunction with then Vice Chairman Jim Skinner and President and COO Charlie Bell, the PTW served as the catalyst for the company’s return to sustained profitable growth. People emerged as an important element of the PTW, although at the time the strategy was devised, no one could have predicted how quickly and prominently the people aspect of the plan would be put to the test.

Following the development of the PTW, we began to consider how to better align the organization relative to identifying, assessing, developing, and moving high potential talent. It became apparent that the existing performance management system was a barrier, and that a foundational shift was needed in order to move beyond the current practices.

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Performance Management—Laying the Foundation

Prior to 2003, McDonald’s had employed a five-point performance review system for its staff employees. More than 80 percent of the employees were rated in the top two categories, Outstanding and Excellent. A middle rating of Good meant someone was on the way out the door, and the lower ratings were rarely used. Additionally, through the leadership succession planning process in place at

the time, more than 60 percent of our officers were rated as high potentials. At the same time, the company was not profitable and its stock price was falling precipitously, which pointed to a glaring disconnect between the processes and business outcomes.

To address this issue, we introduced McDonald’s Performance Development System (PDS). As shown in **Exhibit 2**, the PDS cycle, which begins with the creation of individual goals that support the business strategies and ends with the year-end assessment of performance, integrated for the first time the processes for individual performance management and development, succession planning, and forecasting of leadership needs. The new system also featured several new elements:

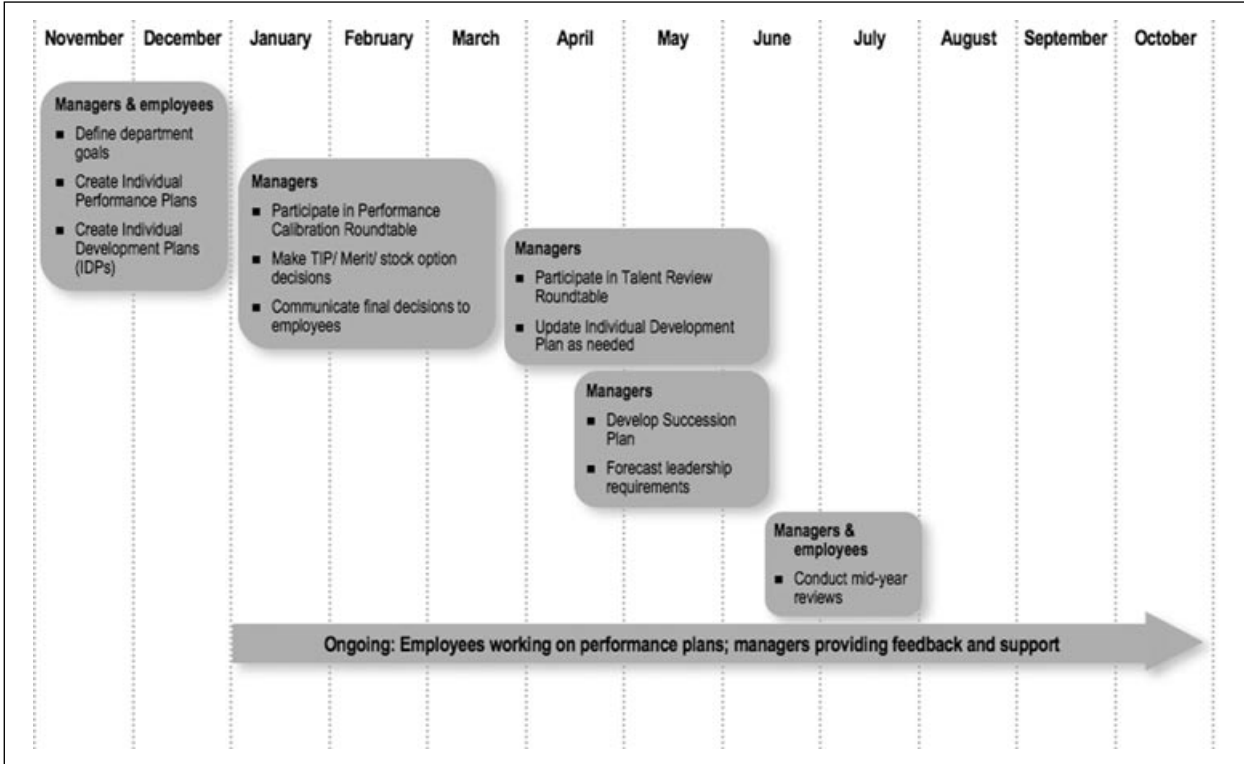
- Incorporated the competency model and job profiles
- Replaced the five-point rating scale with a new 3-point scale and the expectation of a normal distribution for performance ratings (20/70/10 guidelines)
- Established calibration roundtables for differentiating performance within groups of employees and for identifying high potential talent
- Added the concept of “Performance Drivers” to the rating process so that 25 percent of an individual’s performance rating is based on *how* results are achieved

As expected, there was very strong resistance to the new system. Leaders received constant complaints, and at our town hall meetings, there was always at least one question about when we would abandon PDS. To the credit of our senior leaders, they stood by the new system and spoke of how it supported our PTW strategy to rebuild the business.

Accelerating Leadership Development

During this same time, we also turned our focus towards how to develop a diverse pool of future

Exhibit 2. The Performance Development System (PDS) Timeline



leaders to meet the shifting needs of the business, which led to the creation of the Leadership @ McDonald’s Program (LAMP). The goal of LAMP is to accelerate the development of high potential leaders across the organization, using leadership development as a process to drive business results, shape organizational culture, and build leadership depth. The program is directed to high potential individuals at the senior director and director levels and occasionally newly promoted officers.

LAMP is run over a nine-month period and focuses on providing leadership skills that can be applied and practiced in each participant’s day-to-day job. The program broadens participants’ understanding of strategic business issues and challenges from a multifunctional, multicultural perspective; provides an opportunity for building internal and external networks; and encourages and supports a mindset of

continuous learning. LAMP creates a development-rich environment that participants are expected to fully leverage.

The program has seven key components:

- Leadership Assessment Center
- Individual development planning and coaching
- Executive dialogues
- Leadership development modules
- University experience (Thunderbird International School of Management)
- Action learning
- Executive recommendations

The development framework for LAMP, shown in Exhibit 3, is based upon three leadership challenges: leading oneself, leading others (individuals and teams), and leading/contributing at the

Exhibit 3. LAMP Framework



organizational level. **Exhibit 4** provides an overview of the sessions and details of the timeline for a LAMP class.

The first LAMP class began in June 2003 with 22 participants from six countries, 60 percent of whom were women, 44 percent were minorities, and 40 percent were from staff functions (Marketing, Finance, HR, Legal, and Strategy). The first LAMP session was such a success that the presidents of both the Europe region and the Asia-Pacific, Middle East, and Africa (APMEA) region requested parallel programs to build their talent pools. The following year, the European Leadership Development Program (ELDP) and the APMEA Leadership Development Program (ALDP) were launched, and LAMP began to focus on the Americas.

By 2004, a strong foundation for talent management was in place. In addition to the strong launch of LAMP, the PDS performance calibration sessions were starting to produce the desired ratings distribution, and work was underway in the compensation area to align our reward programs with PDS to further drive differentiation. In the midst of these successes, events occurred that thrust the people element of the PTW into the limelight as a critical aspect of our turnaround efforts.

Weathering a Succession Crisis

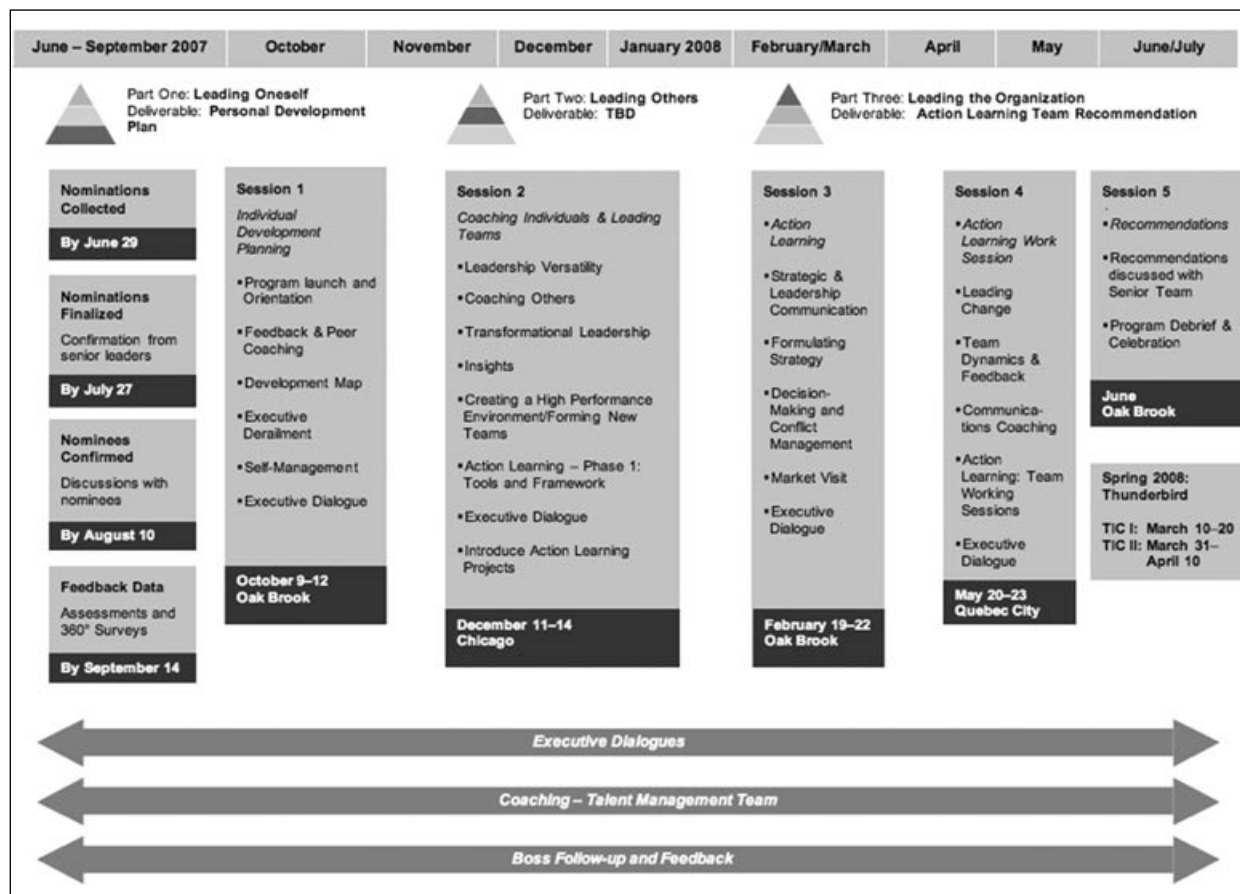
In April 2004, Jim Cantalupo unexpectedly died of a heart attack just prior to the start of McDonald's worldwide convention. At an emergency meeting of the board of directors, 43-year-old Charlie Bell was selected as Cantalupo's successor.

Young and energetic, Bell had joined McDonald's as a crewmember in Australia in 1975 and quickly rose through the ranks. At age 19, he was the youngest restaurant manager in the history of McDonald's Australia, and he became managing director of the country at 33. Bell subsequently ran the McDonald's APMEA and Europe regions and served as COO before being appointed CEO.

Following Bell's appointment, the *Wall Street Journal* cited McDonald's "as a possible textbook case on solid succession planning." The *Journal* went on to state, "The swift decision gave immediate reassurance to employees, franchisees, and investors that the fast-food giant has a knowledgeable leader in place who can provide continuity and carry out the company's strategies."¹

Six weeks after being named CEO, Charlie Bell was diagnosed with colorectal cancer. He remained at the helm of the organization until November 2004,

Exhibit 4. LAMP Timeline



when he resigned due to his deteriorating health. Jim Skinner, a 33-year veteran with global experience, was promoted from vice chairman to the role of CEO effective December 2004, making Skinner McDonald’s fourth CEO within a two-year period.

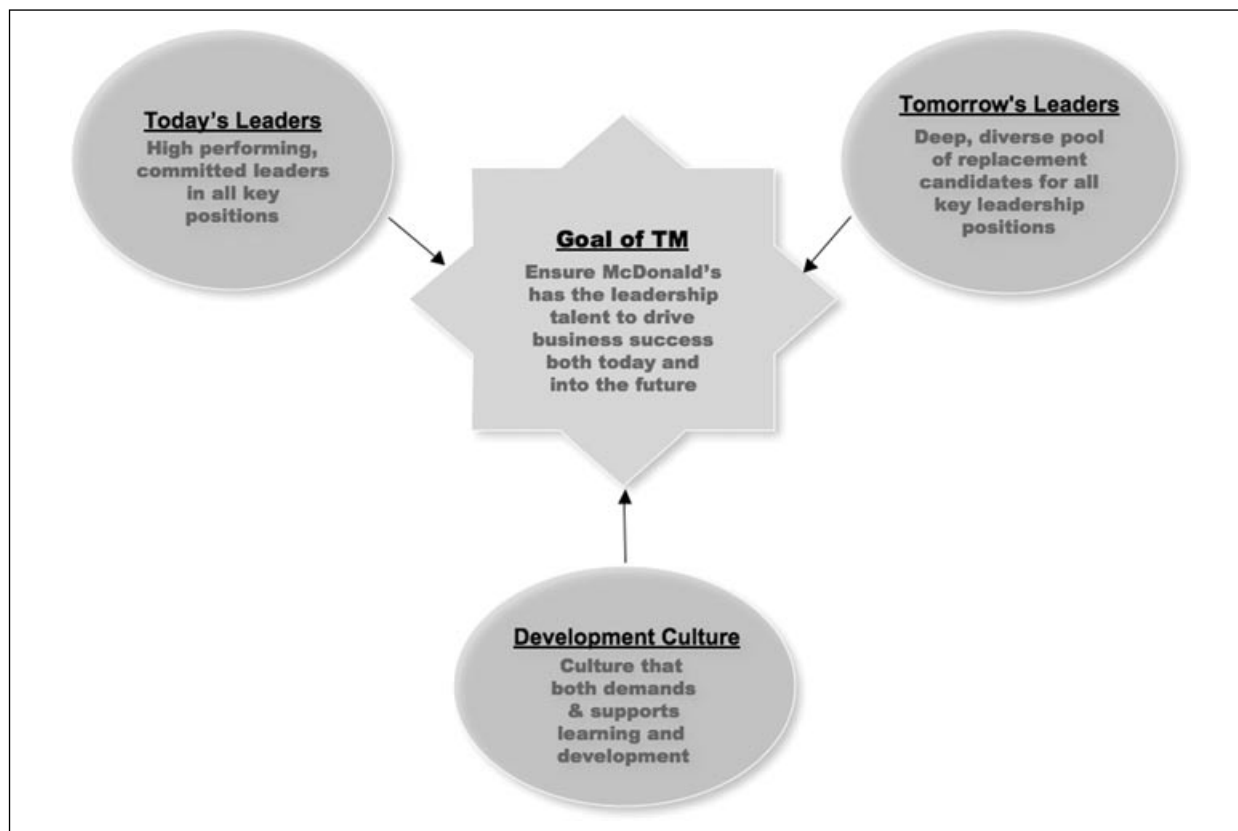
Once again, the company was praised for having a deep enough bench to manage yet another unexpected top-level succession need. However, the series of accompanying moves resulting from the changes in CEOs meant the company’s senior leadership talent pool was being rapidly depleted. We needed to identify ways to continue to quickly build the re-

placement pools and have effective actions in place to address gaps.

All Eyes on Talent Management

When Jim Skinner assumed the CEO role, talent management and leadership development became one of his top three priorities. By this time, the Executive Development & Succession Planning group, which had pioneered the programs discussed previously, had changed its name to Global Talent Management (GTM) to reflect an expanded goal—ensuring McDonald’s has the leadership talent to drive business success today and into the future.

Exhibit 5. The Global Talent Management Group's Mission



We created the message map shown in **Exhibit 5** to summarize our mission and its three-pronged focus: today's leaders, tomorrow's leaders, and a development culture.

The GTM team's expanded charter reflected the evolution to an integrated approach to leadership talent management and encompassed the following:

- Staffing for officer positions
- Preparation of the annual global succession plan presented to the board of directors
- Leadership development
- Leadership assessments
- Executive coaching
- Talent movement across different business units

The team's focus remained at the top of the house—all officers globally and high potential senior directors and directors, the feeder pool for officer roles. (HR business partner leads in the various regions and functions oversee talent management below the director level.)

Talent Management Planning Process

As we entered 2004, talent reviews at the officer and director levels were occurring throughout the global organization. The talent review calibration roundtable, an outgrowth of PDS, was fully implemented as a process for ensuring consistent application of criteria for identifying high potential leaders. Yet many regions and functions were not fully integrating the talent review process into their

business planning process. As a remedy, McDonald's implemented the annual Talent Management Planning Process. Developed with the same rigor as the annual budgeting and strategic review processes, a strategic, holistic talent management plan provides direction for each function and business unit in the area of talent development and succession planning for director level and above.

The talent plans have several components:

- Three-year leadership forecast
- Incumbent talent review to assess leadership team strength
- Replacement/succession plan
- Feeder pool analysis
- Diversity analysis
- Action plans to address identified gaps

Country, regional, and global level plans are completed each spring. The COO meets with the presidents from each area of the world (operating region) to review their talent plans; the CEO meets with the executive vice presidents to review the talent plans for the staff functions. The output from the various plans is consolidated into an overall plan that is discussed with the board of directors each July. These plans provide a solid view of the state of talent in any given area of the organization, as well as for McDonald's as a whole.

Supporting the Talent Management Process

The GMT team subsequently developed and delivered two workshops that educate and train McDonald's leaders and HR business partners to fulfill their respective responsibilities for talent management.

Talent Management @ McDonald's. The Talent Management @ McDonald's workshop helps leaders understand what talent management encompasses, and their roles and accountabilities in the talent process.

Strategic Talent Management for HR. Our HR business partners are responsible for developing the talent management plans for their areas of the business, and we need to ensure they have the ability to deliver quality plans as well as provide ongoing coaching and advice on talent issues to business leaders. The Strategic Talent Management for HR workshop builds the capabilities of HR practitioners in the areas of leadership forecasts, developing a talent strategy, assessing talent, conducting talent review roundtables, and coaching leaders on managing performance.

Expanding Accelerated Development Opportunities

With the implementation of the annual Talent Management Planning process, we began to better understand the development needs and succession gaps across the organization. The success of LAMP, ELDP, and ALDP led company leaders to embrace the concept of accelerated development, and they looked to the GTM team for new ways to rapidly develop talent. Over the next couple of years, we introduced additional accelerated development programs targeted at different populations to meet particular talent needs of the company, country, or function.

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Global Leadership Development Program

We turned our attention to the senior leader level with the Global Leadership Development program (GLDP), designed to accelerate the development and readiness of officers across the company who have "C-suite" potential. Participants meet for three weeks over a five-month period to build executive leadership capabilities, focusing on the four key areas outlined in **Exhibit 6**: knowing the market and customer, responding to the customer, executing to

Exhibit 6. Global Leadership Development Program Curriculum



deliver results, and stepping up to a greater level of leadership. Along with gaining exposure to global business issues and external business perspectives, the leaders have the opportunity to add a global reach to their personal networks, and to increase self-awareness and motivation to grow and develop. The program, introduced in 2006, provides McDonald’s senior executives with direct exposure to top talent and, in the message it sends about the value the company places on each participant, helps to retain top talent.

Country Initiatives

Where growth or other factors have placed significant additional pressure on a country’s leadership pipeline, the GMT team, in partnership with the county HR leaders, has responded with programs to address those specific needs.

China. The China Leadership Development Program focuses on the senior manager level to build the leadership pipeline needed to support the country’s current strong growth phase.

Germany. The Germany Director Development Program identifies and develops those individuals who

can take on countrywide responsibilities within the next 18–24 months.

Functional Initiatives in the United States

The U.S. business created its own talent management department, a reflection of both its size as McDonald’s largest operating region and its desire to maintain a very strong focus on the talent management. The U.S. Talent Management team works very closely with the GTM team and the U.S. HR partner to deliver LAMP, to revise/create talent processes, and to design and deliver leadership development workshops. Several additional accelerated development programs, in particular, have been implemented in McDonald’s USA to address functional and operational leadership needs.

U.S. Restaurant Development Group. In response to a tight labor market and fierce competition for talented individuals with commercial real estate development experience, the Restaurant Development group decided to “grow their own” leaders. The Restaurant Development Leadership Program targets high potential employees at the manager and supervisory levels, who go through a one-year program of specific developmental activities; meet

quarterly and work on a business project; and also get exposure to leaders in the function.

The U.S. business has also extended the concepts of accelerated development beyond building leadership skills with two initiatives targeted at expanding the knowledge base of leaders in the functional (non-operational) organizations: the first to build business/operational knowledge and acumen for leaders wishing to obtain operations experience, and the second to develop strong cross-functional expertise for leaders staying on a functional track. Both programs are centrally funded and managed in partnership with our line and staff leaders to ensure a consistent development experience.

The expectation is that upon completion of the program, the candidates will be on the *ready-now* list for future operations officer openings.

Accelerated Operations Program. The U.S. business moves approximately one-third of its field leaders to different roles each year, and thus faces a constant need to keep the leader pipeline filled. To rapidly build the pool for regional General Managers by supplementing the pool of leadership talent already in the operations organization, the Accelerated Operations Program targets high potential senior directors and directors from outside of operations who have been identified in the talent review process as *ready future* (within two years) for officer roles. The selected individuals have strong leadership skills and have expressed an interest in moving from a staff position to a line role. Following an interview and assessment process, the successful candidates spend 24 months working in every operations position—starting as entry-level staff in the restaurants. The expectation is that upon completion of the program, the candidates will be on the *ready-now* list for future operations officer openings.

Cross-Functional Development Program. The Cross-Functional Development Program targets a similar population—high potential senior directors and directors identified as *ready future* (within two years) for officer roles—but, in this case, those who are on track to advance to a VP role within their current function. The 18-month program helps them develop a more strategic, cross-functional perspective through rotational assignments in other functions, such as Finance, Human Resources, Marketing, Operations, and Restaurant Development.

Reaching Beyond High Potentials

Our initial leadership development efforts focused on high potential talent, as we needed to address pipeline gaps as quickly as possible. A sustainable leadership pipeline, however, will need to draw from a broader pool of current leaders, and must be supported in the longer term by the development of talent at all levels of the organization. Both are the focus of recent development initiatives launched in 2006, initiatives that recognize learning, personal growth, and career satisfaction as important factors in individual performance and talent retention for all employees.

Leadership Institute. While we have elected as an organization to invest more in our high potential leaders, we do invest in all leaders. The Leadership Institute was launched globally as a virtual community that provides development resources—workshops, development planning, preparation for internal interviews, transitions support, and coaching resources—to guide all leaders at the director level and above in reaching their potential.

U.S. Career Development Initiative. The U.S. Career Development Initiative aims to ensure a healthy pipeline of talent at all levels of the staff organization. The initiative does the following:

- establishes a common philosophy around career development

- encourages employees to take responsibility for their career
- clearly defines roles for employees, managers, and the organization
- promotes the need for employees to get a breadth of experience, and
- provides tools and resources, including career planning workshops for employees and career coaching workshops for managers of people, to support the effort.

Measuring Success

Since we do not yet have a technology solution for managing our talent and performance management processes, the metrics for gauging progress towards the goals of our talent management programs and related processes, and for ensuring their alignment with the business, must be easy to collect, track, and communicate.

The Performance Development System

Five years after its introduction, the PDS is meeting the needs of the organization very well. It has been implemented around the globe, and a version has been developed for our restaurant management teams.

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Performance. Feedback from leaders identified a need to split the lowest of the system's three ratings into two segments—one for those employees who would be placed on a performance improvement plan, and another for those who clearly are not performing and need to be removed from the organization. To cover the latter situation, a new performance rating, Unacceptable, was added to the other three—Exceptional, Significant, and Some Improvement Required.

To date, the performance distributions are very close to the guidelines:

- Approximately 20–25 percent of employees are rated Exceptional.
- 70–75 percent are rated Significant.
- 5–7 percent are rated Some Improvement Required or Unacceptable.

Talent Reviews. The organization has also made strong progress in differentiating employees on the basis of high potential. The high potential designations are now approximately 20–25 percent of the exempt employee population.

Compensation. In another indication of better alignment among the various people processes, merit increases and short-term and long-term incentives are now tied to performance ratings, thus differentiating rewards according to performance.

Leadership Development

We continue to run our accelerated leadership programs for high potential individuals with strong success. We really pushed the initial program; now there is a definite pull from the business. Participants are now selected via a nomination process; the senior leaders of the regions and functional areas approve their nominees; and the COO and CEO review all nominations.

To date, 238 individuals have participated in the LAMP, ALDP, ELDP, and GLDP programs, as shown in **Exhibit 7**. Equally important is the diversity of the participants, with respect to gender, ethnicity, function, and geography. Overall, 41 percent of participants have been women, and as shown in **Exhibit 8**, participants have come from 45 countries in all regions of the globe. For U.S.-based LAMP and the worldwide GLDP, 24 percent of participants have been minorities (other regions do not track ethnic diversity in the way the United States does).

Exhibit 7. Participation in Accelerated Leadership Development Programs for High Potentials (as of December 2007)

<i>Program</i>	<i>Region</i>	<i>Sessions</i>	<i>Participants</i>
Leadership @ McDonald's Program (LAMP)	The Americas	5	113
European Leadership Development Program (ELDP)	Europe	4	56
APMEA Leadership Development Program (ALDP)	Asia Pacific, Mid-East, Africa	3	49
Global Leadership Development Program (GLDP)	Worldwide	1	20

The programs have such a strong brand that leaders constantly nominate more participants than we can enroll. Measurement of the programs' effectiveness, therefore, must go beyond simply the numbers. Because transformation as a leader is an important program objective, behavior change is an important indicator, and over the years we have received very positive feedback about the impact of the program on many of the participants.

We use the following primary measures, which are largely qualitative, to capture behavioral change

and other indicators of program impact and effectiveness:

- Observable behavior change as reported by "others"
- Senior Leadership involvement and commitment
- Ongoing funding and support for the programs
- The strength of the ALDP, ELDP, and LAMP "brand"
- Unsolicited feedback from leaders of program participants

Exhibit 8. Geographic Diversity in Advanced Development Program Participation



- Development of new programs focused on talent
- Increased leadership capabilities of our overall officer population
- Action Learning Project recommendations get high marks and receive consideration by senior management

In addition, we do track some quantitative metrics:

- Percent of participants promoted to VP level
- Retention of participants
- Boss/participant program survey results

Talent Management Plan

As part of McDonald's talent planning and succession process, leaders are held accountable for the following metrics:

- Strength of incumbent leadership team
- At least 95 percent meeting or exceeding objectives
- 100 percent of low performers on improvement plans
- Year-over-year diversity improvement
- 90 + percent of positions with strong successors
- 95 + percent retention of top performers
- Development plans in place for all leaders

These measures are included as part of the talent management plan and discussed during the annual talent plan review with the CEO and COO.

Looking Ahead

A focus for 2008 will be to strengthen our ability as a company to identify and assess high potential leaders by updating and refining some key tools and criteria that underpin our talent management processes, namely the leadership competency model and the criteria for assessing potential and readiness for advancement, to keep them relevant and increase

their validity. Work on these priorities is already underway.

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Leadership Competency Model

To ensure that McDonald's leadership competency model reflects changing business and organizational needs, a global, cross-functional team has conducted interviews with senior leaders throughout the company to determine the capabilities needed to continue to drive business success. The team will work on the transition to update the model for the various processes in which it is used.

Predicting Potential

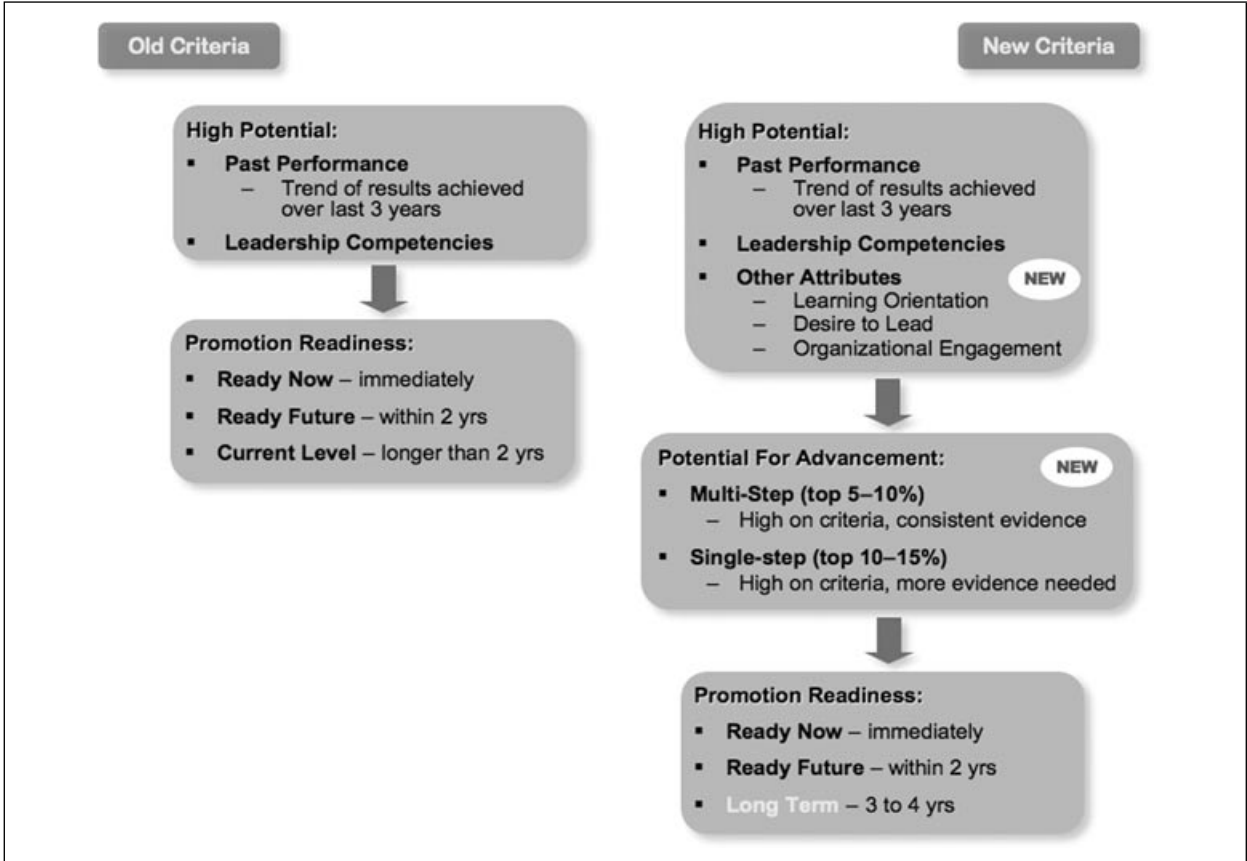
To aid us in better identifying and assessing high potential leaders, we have built upon the Corporate Leadership Council's research and model of employee potential to expand McDonald's predictors of potential. Learning orientation, desire to lead, and organizational engagement have been added to past performance and leadership competencies as criteria.²

For leaders rated high on these criteria, i.e., high potentials, an assessment of their readiness for advancement to the next level will now be preceded by an assessment of the size/degree of advancement they are judged able to make, i.e., single or multiple steps relative to their current role/level. **Exhibit 9** outlines the changes, which will be implemented during 2008.

Acknowledging the Challenges Ahead

Like other organizations, we still have many opportunities to improve talent management at the individual and organizational levels. I want to briefly

Exhibit 9. Expanded Assessment Criteria for High Potentials



touch on some of the challenges we are currently addressing.

Open and Honest Conversations with Employees About Potential

Relationships are very important in our culture. We have many long-tenured employees, and a number of those individuals have “grown up” together in the system. Further, there are managers at all levels who are uncomfortable (and/or unskilled) at delivering what could be a difficult message. This has resulted in some employees having unrealistic expectations regarding their advancement potential.

Assessing Talent Cross-Culturally

As mentioned previously, an area of focus for us in 2008 is to better assess high-potential talent across

the system. Many of the countries in the Asia-Pacific region have expatriates serving as leaders while we work to build the local talent pool. We recognize the need to continue educating such leaders about how to assess performance and behaviors in a culturally appropriate context. We are also continuing our work to identify valid assessment tools for potential that can be delivered in multiple languages and therefore used globally.

Better Use of Planned Job Moves to Accelerate Development

Following the development of McDonald’s talent management philosophy, processes, and practices, we found the need to address another cultural stumbling block—shifting the mindset of managers to view high potential talent as being owned by the

organization. We have implemented a number of new processes that are helping address this issue, but a “my people” mindset still exists in parts of the company, hindering the ability to leverage cross-unit and geographic job moves for developmental purposes.

Optimal Allocation of Development Resources

McDonald’s development philosophy is that the company invests in all employees, but more heavily in its high potential talent. While we are doing this for the Director level and above, very few development programs, aside from those available for all employees, focus on high potential talent below the Director level. To sustain a strong pipeline and retain top talent, we will need to allocate more development resources in the future to high potential talent at lower organizational levels.

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Managing Career Development and Growth in a Flatter Organization

During the company’s early days, the high growth rate and organizational structure provided many opportunities for upward advancement. Our needs changed, and in 2001 we moved to a broad-banded compensation structure, which removed a number of levels that had previously represented advancement opportunities. Yet, it is only in the past couple of years that we have begun to fully consider and address the impact of these changes, including how to help employees continue to find opportunities to grow and develop within the company.

Limited Technology Infrastructure to Support Talent Management Processes

As we seek to push the talent planning process deeper into the organization, it will be important to identify ways to automate the collection and report-

ing of talent data. Doing so will allow us to better identify trends and gaps across the organization in such areas as diversity and development needs.

Celebrating What We Have Learned

Given that we still face some formidable challenges, including those just mentioned, we nonetheless have learned a number of valuable lessons that have contributed much to our success thus far, and will likely be key to meeting the challenges ahead:

- **You cannot do more than the organization is ready to absorb, but you can create organizational capacity** by doing a few things really well and showing the value added (such as LAMP).
- **Keep it simple**—standardize on a few key forms and processes.
- **Lack of technology is not necessarily a barrier.** We were forced to focus on a limited number of priorities (and a smaller set of data) given our lack of automation. The result has been a stronger focus on open and honest dialogues about talent. Still, we want some technology.
- **Look for opportunities to address unmet needs.** Our marketers often say consumers don’t always know what they want, and that their role is to translate those needs into products that will fulfill a need (for example, our McGriddles sandwich, which made pancakes portable). We do the same in the talent area through identifying trends and emerging needs and developing appropriate tools and processes to meet those needs.

Conclusion

The past five years have seen the evolution of McDonald’s approach to talent management, from foundational processes linked to the company’s leadership needs to the creation of specialized programs for particular organizational levels and areas of the business. The work has been guided by the overarching objective of developing a robust and sustainable pipeline of leadership talent to drive near- and long-term success.

The Global Talent Management team, in conjunction with our business and HR partners, have made strong progress towards that overall goal. In 2007, McDonald's gained the #14 slot on the Hewitt *Fortune Magazine* global list of Top Companies for Leaders, as well as #11 in North America and #6 in China. The Hay/*Chief Executive Magazine* list of Best Companies for Leaders rated McDonald's as #18. It was the first time the company had applied for either award, and the results affirm the work we have done in the talent management arena. We will continue to leverage and build on our successes, remembering what we have learned while looking for ways to continue to add value and support the growth of McDonald's worldwide.

Notes

1. C. Hymowitz & J. S. Lublin, McDonald's CEO tragedy holds lessons for directors, *Wall Street Journal Online*, April 20, 2004.
2. Corporate Leadership Council, Realizing the full potential of rising talent, 2005. Confidential research report prepared for the Corporate Executive Board for the exclusive use of its members.

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