SPECIAL REPORT: TRAINING & DEVELOPMENT

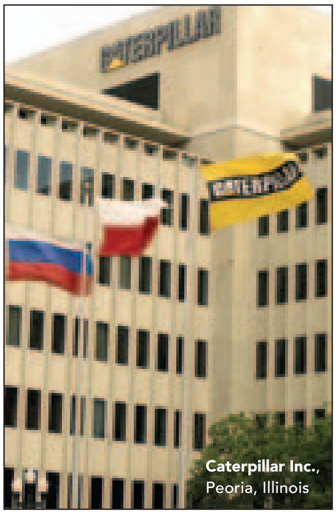
SECTOR SNAPSHOT

$56 billion Approximate amount spent by U.S.-based companies in 2006 on training programs and services.

7% Approximate percentage increase in spending by U.S.-based companies on training programs and services in 2006 over previous year.

Source: Bersin & Associates, February 2007

A higher standard for managers



Caterpillar Inc., Peoria, Illinois

FRANK POLICH/LANDOV

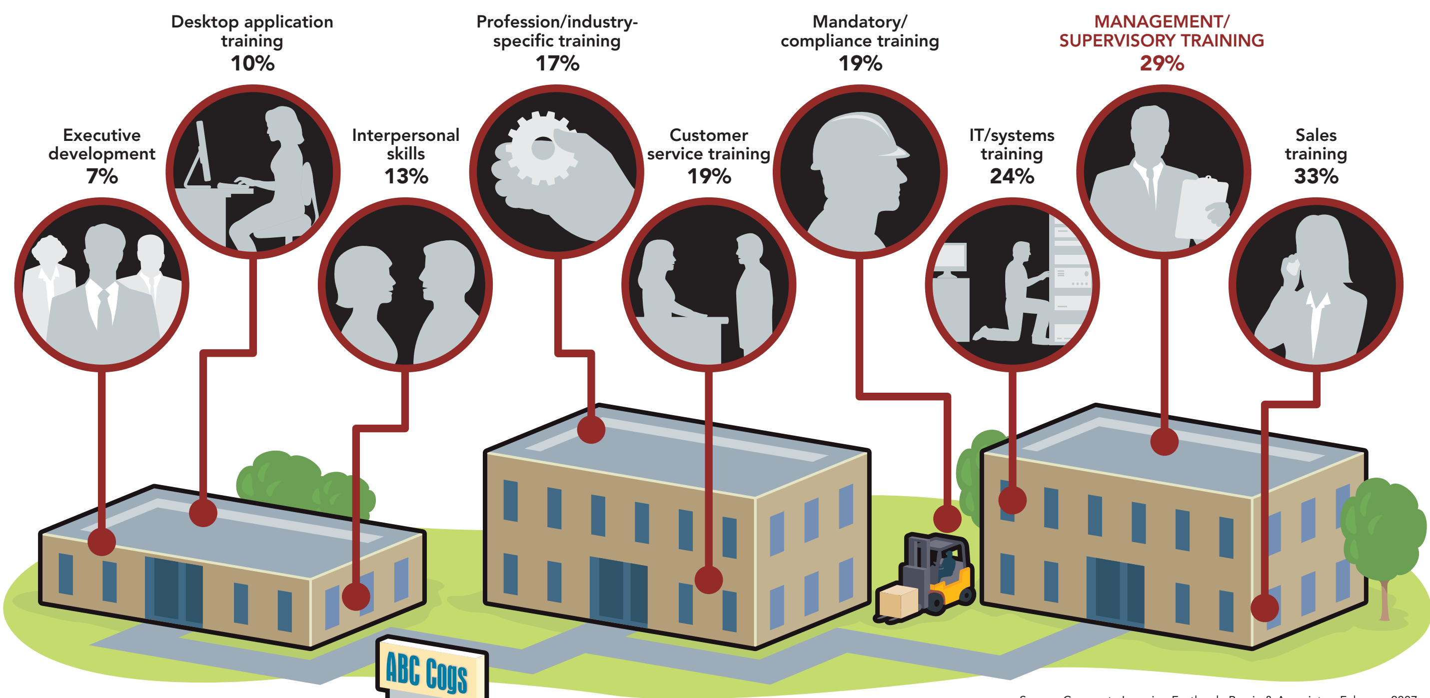
Spending on managerial training initiatives is soaring as employers wake up to profound skills gaps. They are now demanding managers with strategic vision, global business acumen and an ability to nurture their employees. **Stories by Garry Kranz • Infographic by Bryon Thompson**

CHRIS ARVIN is committed to nurturing managers at Caterpillar Inc. The company, which makes tractors, earthmovers and other heavy construction equipment, is trying to fend off domestic and foreign competitors. Having a highly productive and engaged workforce is pivotal in an industry in which margins are tight and talent wars intense. Arvin, 40, the dean of leadership at Caterpillar University, knows strong managers can serve as lodestars who guide employees to achieve extraordinary things. Likewise, poor managers have the opposite effect, leading to dissatisfied employees and higher turnover.

As Peoria, Illinois-based Caterpillar enters its 82nd year in business in 2007, managers are being held accountable like never before. Direct supervisors are responsible for helping employees map out long-term career paths with Caterpillar, a *Fortune* 100 company with about $36 billion in annual sales. They are expected to closely observe employee behavior to ensure that newly acquired knowledge is applied on the job. Managers at Caterpillar also are taught to be on the lookout for top performers who could benefit from job shadowing, job rotation and other forms of experiential learning.

TOP PRIORITIES FOR TRAINING EXPENDITURES

Companies polled by Bersin & Associates ranked the areas in which they intend to focus funding and resources for training in 2007. Management and supervisory training was a primary focus, largely due to the aging of the workforce.



Source: Corporate Learning Factbook, Bersin & Associates, February 2007

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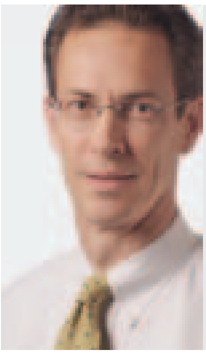
Outthinking Outdoing

Employee feedback helps Arvin know how managers are faring. In isolated cases, learning goals for individual employees may be embedded within a manager's own performance evaluation. The goal isn't to threaten or intimidate managers into complying, but rather to help them understand the tremendous influence they can exert on employee behavior.

"Our leaders all have jobs to do, and many of them are working supervisors. All we're trying to do is get them to realize, 'Hey, if we're going to provide these learning opportunities, you're the biggest driver of making sure employees apply it,'" Arvin says.

Caterpillar certainly isn't alone in its desire to develop savvy managers. Organizations in all sectors are waking up to profound employee skills gaps, particularly within their managerial ranks. Senior executives are starting to feel the pain, and their angst is trickling down to human resources and training directors in the form of higher expectations.



"More and more organizations are realizing they can't just leave it up to individual business units to buy a polyglot of training and roll it out whenever they see fit."

–JIM CONCELMAN, vice president of leadership development, Development Dimensions International

"Executives aren't losing sleep over training, but they are worried about how they're going to execute global business strategies. They are beginning to realize that identifying and developing leaders is a key part of that execution," says Jim Concelman, vice president of leadership development for Development Dimensions International, a Pittsburgh-based consultancy that has helped Caterpillar devise training strategies.

Soaring investment in manager training reflects CEOs' heightened interest. U.S.-based companies spent nearly $56 billion on training programs and services in 2006, a one-year jump of nearly 7 percent, according to research firm Bersin & Associates. (Bersin's report notes that its survey of 331 respondents is weighted toward smaller companies to reflect the makeup of businesses in the U.S., most of which are small.)

About one-third of that spending, or roughly $13 billion, was devoted to grooming leaders, including spending for manager training programs, outsourcing, trainers' salaries, content development, coursework and other services.

Bersin & Associates predicts that 2007 will be another record year for spending, with 63 percent of organizations sporting fatter training and development budgets. Moreover, management and supervisory training remains a top priority for 29 percent of companies, second only to sales training (33 percent), according to a February report by Bersin researchers. Overall, leadership development—including training for managers and supervisors as well as executive education (7 percent)—will receive a combined 36 percent of funding in 2007.

Josh Bersin, president of the Oakland, California-based firm, says companies are worried about where to find the next crop of line managers, supervisors and other management-caliber employees. One thing they know for certain: Demand far outpaces supply.

"The biggest problem that companies face today is an acute shortage of midlevel managers. They look around and just don't have enough qualified people" to promote to those positions, Bersin says.

Nor can companies simply poach the best managerial talent from competitors, "because they probably don't have enough managers either," he says.

Another study, this one by the American Society for Training & Development in Alexandria, Virginia, pegs corporate training investments much higher. According to ASTD's annual State of the Industry Report, U.S. organizations spend a combined $109.25 billion on learning and development each year, with about $79.8 billion consumed by internal training functions. Nearly $30 billion is spent on external services related to training.

Although ASTD's study does not provide spending estimates for manager training, it notes that of all learning content developed in 2006, about 9 percent was dedicated to people in managerial or supervisory roles. That is up from 7.4 percent in 2005.

The spending on training also is fueled by frustration over the current, less-than-stellar level of managerial ability, experts say. Poor managers are widely believed to be a leading cause of employee dissatisfaction and high turnover. In response, companies want managers who are capable of teaching concepts, inspecting performance before and after training, and reinforcing what employees learn.

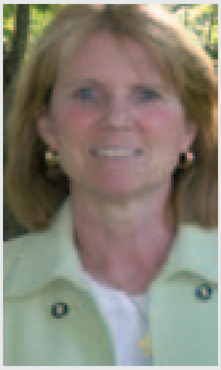
"Organizations used to focus on training every employee. Today, they've come to realize that they get more out of their investment by focusing on making sure managers have the right skills" to coach and lead, says Sharon Daniels, president of Tampa, Florida-based training firm AchieveGlobal.

COACHING TO COACH OTHERS

Although training dollars appear plentiful, companies are spending more wisely, says Jan Rose, a principal with Chicago-based HR consulting firm Capital H Group. The idea is to more closely align training initiatives to accomplish strategic objectives, such as increasing market share, bringing products to market sooner or reducing customer service calls. Management-training fluff—courses such as "How to Get Along With Difficult People"—is rapidly disappearing from corporate curricula.

"Instead of a wide, diverse set of courses developed from an employee wish list, companies are saying: 'Here is our business strategy. Let's work on the five or six skills gaps that are obstacles to achieving that strategy,'" Rose says.

Before launching its blockbuster $2.4 billion initial public offering in May 2006, MasterCard trained about 200 managers to deliver interactive learning to help its workforce prepare for the distinct changes that would ensue. Special attention was paid to educating employees about heightened scrutiny the company would receive, both from



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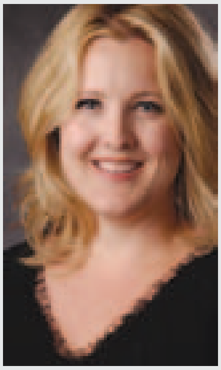

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–MINDY MacKENZIE, corporate vice president of HR, Campbell University

CORPORATE UNIVERSITIES GETTING A REFRESHER

CORPORATE UNIVERSITIES first emerged as training mechanisms in the 1970s. Championed by such early adopters as General Electric Co. and Motorola Inc., the concept rapidly took hold among many large organizations. More than three decades later, the idea is still going strong, although their purposes and applications are changing.

Rather than populating them with a slew of training courses, companies instead are taking a more targeted approach to structuring in-house universities, experts say. Global competitive pressure, coupled with an exodus of retiring baby boomers, is pushing many U.S.-based multinationals to zero in managerial and leadership competencies.

"The management ranks were cut so dramatically after the dot-com [collapse] that companies found their pipelines had run dry," says Sue Todd, president of the Corporate University Xchange, a Harrisburg, Pennsylvania-based research organization.

Today, companies are more concerned about top-line growth rather than bottom-line cuts to their workforces, Todd says.

Campbell Soup Co. in Camden, New Jersey, launched its initiative, Campbell University, about a year ago. It spans Campbell's business and operating units, including such food brands as Swanson, Pepperidge Farm and Godiva Chocolate.

Campbell kept its university structure intentionally simple, with about 30 program offerings, says Mindy MacKenzie, its corporate vice president of human resources. Except for compliance training, the company shuns e-learning modules "because usage rates are so low."

"We've taken a comprehensive view of trying to provide education, making sure that we define learning as being broad. It's not just going to a training class [but also] being mentored, having a coach, learning on the job—all those things," MacKenzie says.

Much of the training is geared toward improving the engagement skills of its managers, which Campbell ranks as a top priority for retention and career development.

"We launched Campbell University because we needed to clearly articulate [to employees] the learning and development opportunities at our company. We're focusing on what gives us the biggest bang for our buck, which is why we're focusing on improving manager quality and bringing our leadership model to life" through a set of fundamental values, MacKenzie says.

"We could not achieve [the company's] strategic 10- and 20-year goals unless we improved the learning environment."

–DAVID VANCE, former head of Caterpillar University

At Caterpillar Inc., a maker of heavy construction equipment, a corporate university was founded in 2001 in response to the company's aggressive growth plans for Asia and Eastern Europe. When executives began analyzing the skills and competencies of its leadership, they found a gap.

"We came to the conclusion that we could not achieve [the company's] strategic 10- and 20-year goals unless we improved the learning environment," particularly by upgrading the competencies of the company's 6,000-plus frontline managers, says David Vance, the retired former head of Caterpillar University and now a private consultant on corporate training.

It was no small task. Up until that point, each of Caterpillar's 28 global business units provided training autonomously, taking care of their individual training needs as they arose. Caterpillar pulled together a team of people from across its various business units around the world, sequestered them in the company's hometown of Peoria, Illinois, for six months and gave them the task of developing a corporate learning strategy based on long-range business objectives.

Although training programs were set up for individual job functions within Caterpillar, "what we focused on was providing centralized leadership to a decentralized learning function," particularly by developing a common global vision for learning, including leadership development.

Caterpillar has been recognized by Corporate University Xchange for using its university to align training needs with business goals and for advancing knowledge sharing among its 94,500 employees and 105,000 independent dealers.

Getting an exact figure on the number of corporate universities is difficult. Todd says some organizations choose not to publicize their training initiatives for competitive reasons, while still other firms simply apply the label of "corporate university" to their training function but fail to build in the strong governance or accountability that corporate universities typically entail.

Even so, the traditional structure of corporate universities is undergoing radical change. Bersin & Associates, an Oakland, California-based firm that tracks trends in corporate training, predicts that 2007 will see more companies migrate away from offering huge catalogs of training programs in favor of a shared-services concept in which learning organizations focus "more heavily on strategy, alignment, measurement and performance consulting."

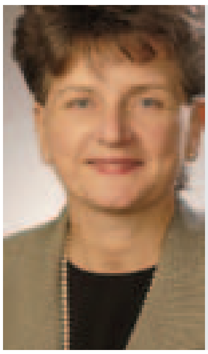
—G.K.

government regulators and from investors.

Representing a cross section of MasterCard's 4,600-person workforce, managers were trained as "table coaches" to facilitate discussion using a series of interactive learning maps created specifically for MasterCard by Root Learning Inc. of Maumee, Ohio.

"We wanted people to understand our strategy, our financial models and the roles they would play in executing that strategy," says Rebecca Ray, MasterCard's senior vice president of learning.

Training was delivered live and through e-learning modules. Most employees participated in live sessions set up in huge hotel ballrooms in 12 cities around the globe. Other sessions were facilitated in smaller MasterCard offices.



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–**REBECCA RAY**, senior vice president of learning, MasterCard

Table coaches probed employees about their individual job roles and helped them to understand their roles in helping the company achieve its strategic aims.

The sessions are regarded as the greatest single learning event in MasterCard's 41-year history, and Ray says participants left with greater insight into the company and greater enthusiasm for their jobs.

"Our table coaches did a fabulous job helping our employees understand where we needed to go as a company. It was one of the most powerful things I've ever seen," Ray says.

ENGAGED OR DISENGAGED?

Employee engagement is another motivation behind companies' emphasis on manager training. Campbell Soup Co. evaluates managers based on engagement scores culled from employee surveys. Every manager with at least five direct reports receives periodic engagement reports to use as a self-assessment tool.

But it's not simply a feel-good document for successful managers, nor is it a weapon used to hammer underachievers.

"Employee engagement is the metric we use to measure the health of our workplace. That means focusing on improving the quality of our managers," says Mindy MacKenzie, vice president of human resources for Camden, New Jersey-based Campbell.

MacKenzie speaks from experience. Despite having numerous well-known consumer brands—including its signature line of soups as well as products by Pepperidge Farm, Swanson's and V8—Campbell found itself at a crossroads in 2001.

Attempts to diversify, including an ill-advised effort at selling fitness equipment, proved a poor fit. A foray into the European soup market sputtered. Turnover in the executive suite didn't help matters. When Douglas R. Conant took over in 2001, he was the fourth CEO in 12 years. And Campbell had become a company of "disengaged, untrusting and unhappy workers," MacKenzie says.

"And we had gone from being the best food company in 1996 to being the worst food company," she says.

Conant and his executive team immediately set about trying to revive the sagging spirits. Upgrading the competencies of managers was paramount, especially helping them communicate effectively and facilitate employee learning. After six years of tracking results, MacKenzie says there is a direct correlation between engaging managers and improved business results.

"The business units [whose managers] have the lowest engagement scores also have the lowest business results," MacKenzie says. "Rarely is there an anomaly with that."

Companies' obsession with nurturing strong managers is leading to more highly integrated talent management strategies, experts say. Even bastions of the digital economy are feeling the pressure.

Launched 12 years ago, Yahoo Inc. has evolved from an entrepreneurial startup to a sprawling global enterprise with 12,000 employees. Such explosive growth can be a double-edged sword.

"When you're a fast-growing company, it's really hard to get everyone to stop and focus on career development," says Libby Sartain, chief people officer at Sunnyvale, California-based Yahoo.

To deepen its bench strength, Yahoo launched the Executive Leadership Series two years ago. Through the program, promising managers gain exposure to business issues and boost their chances of advancement. In addition, Yahoo last year began requiring all managers to undergo an intensive three-day training course "that covers everything you need to know about being a manager at Yahoo," including HR policies and procedures, legal issues and other business concerns. The initiatives have combined to help Yahoo boost its internal rate of promotions for senior positions by about 35 percent.

"If we had not done the Executive Leadership Series two years ago, I don't think we would have had as deep a bench as we do now," Sartain says. "Our goal is to fill senior positions from within about 70 percent of the time. In order to do that, you have to be developing your people. When people see career opportunities happening inside the company, they're more likely to stay."

OVERCOMING CULTURAL BARRIERS

Globalization and a shrinking labor pool are prompting more top executives to examine the competencies of their managers, says Pat Galagan, executive editor for ASTD. For one thing, companies realize they can't penetrate burgeoning markets in the Asia-Pacific region and elsewhere without first equipping managers to lead teams of culturally diverse, globally dispersed employees, Galagan says. Second, "no ready-made managers are coming out of business schools" in India and China, two of the fastest-growing regions. That's forcing U.S. multinationals to look into their own employee ranks for people who can lead teams of workers both stateside and abroad.

Finally, the changing face of organizations is forcing managers to learn new skills. Concelman notes how global organizations are flatter than ever, with lines of accountability blurred or indistinct. The baby boomer retirement phenomenon is manifesting itself in some of Europe's mature economies. Newer free-market economies are emerging in Eastern Europe and the Asian subcontinent. All these developments pose challenges for companies.

"More and more organizations are realizing they can't just leave it up to individual business units to buy a polyglot of training and roll it out whenever they see fit," Concelman says. "They need a common set of leadership expectations and a common set of development processes."

And they want people who can coach, nurture, inspire, encourage and spot potential leaders. As the world seems to grow smaller, the role of managers seems destined to grow ever larger. **wfm**

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