

McDonald's Corporation

Enhancing the Talent Management System to Support McDonald's Global Growth
Since 2001 McDonald's has introduced a series of significant changes to its HR systems to strengthen the organization's capability to develop the quantity and quality of leadership talent needed to support its continued global growth and vitality. This chapter focuses on describing five separate initiatives that have been introduced in the past five years to strengthen the areas of Performance Development, Succession Planning, and Leadership Development. For each initiative it describes how and why the changes were introduced, how they have been refined over time, and the positive impacts they have had within the business.

Intagliata, J., Kulick, N. & Crosby, D. *“Enhancing the Talent Management System to Support McDonald's Global Growth”*, Best Practices Institute, 2006., *in press*.

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Context for Global Talent Management Initiatives

The Need for Change

For most of its nearly 50 years of existence, McDonald's has been quite successful growing its business while utilizing a decentralized approach to managing its global workforce. As the size, complexity, and global character of the business has continued to grow (i.e. to more than 30,000 restaurants in 119 countries serving 50 million customers per day) however, it has become increasingly apparent that sustained success requires the development of more consistent and disciplined approaches to talent management and development. In response to this recognized need, McDonald's took a number of steps, starting in 2001 that have enhanced its capabilities for developing local leadership talent and ensuring management continuity throughout its global system. This chapter will provide an overview of McDonald's system for developing its management talent throughout the world and will focus on describing the design, roll-out, initial impacts and continued refinement of five major initiatives introduced to enhance this system since 2001.

A number of factors led the organization to the conclusion that enhancements in its talent management and development system were needed. First, after many years of outstanding business performance and growth, business performance was faltering. In spite of the problems in the business, McDonald's performance management system was producing performance ratings that were significantly inflated. Almost 90+% of the managers were rated either "Outstanding" or "Excellent" and over 75% were assessed as having the potential to advance to take on greater responsibilities. It was recognized by senior management that "something was wrong with this picture." It was clear that the bias toward inflated ratings of both performance and potential did not align with the overall performance of the business. Secondly, despite the very high ratings of employees' performance and potential throughout the system, when key

leadership positions needed to be filled, in too many cases the company was having difficulty finding individuals that everyone could agree were truly ready for these roles. These factors led senior management of the company to begin to take significant actions to upgrade the company's talent management systems and processes on a global basis. *(Note: While the initiatives to enhance talent development that are described in this paper were well under way at the time, the urgency for them was painfully validated when in April of 2004, McDonald's CEO (Jim Cantalupo) died suddenly and unexpectedly. Fortunately, due to the heightened attention that was being given to talent management at this time, his successor (Charlie Bell) was quickly and smoothly named to step into the CEO role. Tragically, not long after Charlie Bell was named as CEO he was diagnosed with colon cancer and died within a year. Once again McDonald's was challenged to address the succession issue at the very top of the organization and did so by naming Jim Skinner as CEO in January of 2005.)*

Business and Global Workforce Strategy

McDonald's strategy to develop its global workforce is designed to be aligned with and support the execution of its over-arching strategic business goal, which is "to become everyone's favorite place and way to eat". McDonald's has an overall "Plan to Win" that provides the global business with a common framework for developing tactics to reach this goal. The framework includes five key elements: 1) People, 2) Place, 3) Product, 4) Promotion, and 4) Price **(see Exhibit 1).**

This chapter will focus on some key elements of the "People" component of the plan to win. More specifically it will describe five major recent initiatives that have been designed and implemented to enhance the organization's global capability to develop and have "at the ready"

the quantity and quality of leadership talent needed for successfully executing its “plan to win” and ensuring the company’s continued growth and success.

Striking the Right Global/Local Balance

In order for McDonald’s to successfully execute its business strategy the company has determined it needs to excel at developing and successfully implementing a balanced global/local approach in managing and developing its global workforce. While global frameworks and parameters can be used to set the stage for success and align the entire business with regard to strategy, essential tactics, and a shared company culture—*at the end of the day, the actual execution of the company’s “plan to win” depends on the capability of local talent to develop and customize the elective tactics to fit their local culture and circumstances.* As a business, McDonald’s success relies not only on the leverage that comes from its coherent business strategy and focus on standardizing core operations/processes but also on its ability to adapt its tactics to fit the needs and preferences of specific customers in particular regions or countries and to develop a deep connection between McDonald’s and the local communities in which it operates. This connection is reflected in McDonald’s commitment to local charities, to Ronald McDonald Houses, and, most importantly, to the very people who own, operate, and manage McDonald’s stores in any locale, country or region. Given this, it is deemed highly important that the individuals operating the business come from, understand, and represent the communities and cultures in which the business is located.

All areas of world have freedom to execute in their locales as long as they stick within the basic parameters of the “plan to win” framework by: 1) developing an aligned strategy, 2) meeting customer needs within marketplace, 3) supporting the global brand campaign—“I’m Loving It”,

and 4) ensuring that their people *develop and demonstrate key competencies that reflect the core elements of the company's common culture and support its "plan to win"*. In addition to having the technical skills and expertise to do their specific jobs, staff throughout McDonald's are expected to be attentive not just to getting results but to doing so in a way that is aligned with the company's shared global company culture and values.

Customer and Employee Focus

Whatever is done within McDonald's is routinely assessed and measured against its impact on customers. Customer service and experience levels are key metrics that are embedded within the performance expectations for employees throughout the system. The company's focus on and commitment to Quality, Service, Cleanliness and Value (QSC&V) is strong. These variables have been shown to be strongly linked to customer expectations and loyalty. Any and all efforts to enhance the company's global workforce management system incorporate a focus on key behaviors (e.g. customer focus and service orientation) and results-metrics (e.g. speed and quality of service, food and environment) that deliver to customers what they value.

McDonald's has also paid significant attention to its employees and their development throughout its history. The company is well known for the opportunities it has given many of its people to grow with the company and to rise (over time) from working as a member of a store crew to its highest executive ranks. In addition, the company has placed strong emphasis on its managers' ability to create a work climate within which their employees are motivated to excel, give their best, and help to make McDonald's "everyone's favorite place and way to eat". For the past nine years, McDonald's has used its Commitment Survey to assess the extent to which the desired work climate is being created throughout the company. This survey gathers

employee feedback on a wide variety of specific management behaviors and practices that have been shown to be linked to employees' personal satisfaction and commitment and to the company's business success. More specifically the survey assesses employee satisfaction with: such factors as the support and recognition they receive, the extent to which their skills are utilized and developed, their workload, the degree of their empowerment, resource availability to get the job done, the quality of supervision/leadership, and their compensation/benefits. A manager's scores on the Commitment Survey are one of many important factors considered in rating his/her effectiveness and potential for advancement. In addition, turnover and tenure measures are used to evaluate the effectiveness of managers—especially in retaining top talent. The global workforce initiatives described later in this chapter were developed so that they reflect both the customer and employee focus described above.

Enhancement of the Talent Management System

Key Initiatives and Enhancements

As mentioned earlier, five separate initiatives were developed and have been implemented over the past 5 years to enhance McDonald's talent management and development processes and support the organization's goal of meeting the global leadership needs of the business. These include: 1) the re-design of the Performance Development System (PDS) for all staff positions throughout McDonald's, 2) introduction of the Talent Review Process for all officer level positions, 3) the development and roll-out of the *Leaders at McDonald's Program* (LAMP) designed to enhance the development of high potential individuals for officer level positions, 4) the introduction of the *McDonald's Leadership Institute*, and 5) the design and launch of the *Global Leadership Development Program*. Exhibit Two presents a graphic illustration of the timing for introducing these separate but well-integrated initiatives and programs.

Initiative #1: Performance Development System Redesign

Prior to 2001, McDonald's performance development system was comprised of : 1) An "MBO based" annual performance plan that measured performance against established annual objectives but included no assessment of *how* these results were achieved (i.e. leadership behaviors) 2) a five-point rating scale of overall performance ranging from "Outstanding" to "Unsatisfactory" 3) a personal developmental planning element based upon a McDonald's-wide competency framework that included 9 core competencies and 4 leadership competencies as well as a menu of "elective" competencies that could be chosen/applied as relevant in specific functional areas (see **Exhibit 3**), 4) a three-level assessment of career potential that combined performance and demonstrated leadership competencies, and 5) an annual compensation system element tied to the results of the annual performance rating

While the process for rating performance and potential was not unusual in structure and design, the outputs of the system reflected the culture of McDonald's at that time. Specifically, there was *significant rating inflation* for both annual performance (98% of managers were rated either "Outstanding or Excellent") and potential (78% of managers were rated as having the potential to advance in the business at least one level). Because there was significant inflation in such ratings there was little meaningful performance and compensation differentiation. Further, since almost everyone was rated not only as being an excellent/outstanding performer but also as having advancement potential it made differentiation for purposes of realistic succession planning very difficult.

Senior management realized that because the business had been so successful for so long, a *culture of entitlement* had set in. This was exemplified by many employees believing that their past success and associated rewards would guarantee their future success/rewards vs. their having to earn success each day with every customer. Senior management believed it was important to change the culture in order to help the organization become better able to face the challenging realities of a more competitive global marketplace. As one approach to signaling the need for this change to the organization, the top management team at McDonald's asked Human Resources to redesign the performance development system in order to 1) place a stronger focus on *accountability for results*, 2) increase performance differentiation, and 3) enhance openness to change and innovation.

The redesign and enhancement of the system (designed for all staff throughout the company—not just officers) rolled out in 2001 included the following changes: 1) the addition of six key expected leadership behaviors termed **“performance drivers”** (e.g. see **Exhibit 4**) as an element of how annual performance will be assessed so that managers would be measured not just on the “what” of their accomplishments but also on “how” they accomplished it. The performance drivers were very much like “competencies” but were written to measure the actual application of those competencies on the job vs. measuring one's level of capability. Further, these “performance drivers” were used as an additional key lever by top management *to signal the importance of needed culture change along certain dimensions identified as critical to enable the organization to compete more effectively in the marketplace* (e.g. greater accountability and performance differentiation, more innovation, etc.), 2) the introduction of a four-point rating scale (i.e. *Exceptional Performance, Significant Performance, Needs Improvement and*

Unsatisfactory-- to replace the five-point scale) with a rating distribution *guideline* of 20%-70%-10% for each category respectively (the last category of 10% includes both Needs Improvement and Unsatisfactory). The new four-point rating scale and distribution guidelines were put in place to help address the rating inflation problem, 3) a new incentive compensation plan that tied to the improved performance differentiation and ensured that those rated in the “top 20%” were receiving *significantly* higher compensation than those who did not, and 4) a revised assessment of potential that utilized a combination of performance, performance drivers, and position-specific competencies as criteria. This revised assessment of potential was also accompanied with a guideline that stated that no more than 25% (this guideline was set based on internal discussions regarding what was realistic as well as some external benchmarking done with outside companies) of managers in any given year were expected to be assessed as “ready” immediately for a promotion to the next higher level and “ready within 2 years” for such a promotion.

New System Roll-Out—Global vs. local Emphasis

How this new system was rolled out globally reflected the balance between the global and local approaches to workforce management. When it was introduced at a global HR meeting in June, 2003, it was clear that certain elements of the new system re-design were not suited for the foreign cultures and legal structures that existed in certain countries. As a result, all 119 countries were given latitude (labeled “freedom within the framework”) to make certain changes (e.g. the labels given to the three rating categories) while they were not permitted to customize other aspects of the process (e.g. rating distribution guidelines, the use of performance drivers in the ratings). Providing this flexibility made a key difference in how well the new process was

accepted by each country and, while many countries would have preferred to continue to use their own performance plan and processes, most willingly began the implementation of the new system and accepted the value of following the framework.

Results of Implementation

As with any major change that impacts employees' individual performance ratings and compensation, the introduction of the new Performance Development System (PDS) system was difficult and met some expected resistance. While this resistance was directed, in part, to specific concerns regarding particular changes made in the system (e.g. the number and labels for rating categories, changes in format, etc.), people's reactions also reflected the reality that the revisions in the performance management process were designed to help drive what were believed to be some needed changes in the company's management culture (e.g. enhanced accountability, greater differentiation in evaluating performance increased emphasis on openness to change/innovation, etc.).

The introduction of the new PDS system impacted significantly on the distribution of ratings for both performance and advancement potential. For example, in 2000 the vast majority of U.S.-based officers and managing directors received ratings ("outstanding or excellent") that were above the midpoint ("good") on the five-point rating scale. In 2001, however, only 25% were given an "Exceptional Contributor" rating (*this rating is for individuals who are judged to have "achieved results that far exceed expectations and requirements of the job in the face of challenging demands during the performance cycle and who have done so while modeling the values and behaviors expected of McDonald's leaders"*). Most individuals received a

“Significant Contributor” rating (*for “consistently meeting and perhaps exceeding some expectations and planned objectives while demonstrating the McDonald’s values and behaviors”*) that was perceived to be average because it was the mid-point on a three point rating scale. For the first time in their careers many managers (at the U.S. officer and managing director levels) had received ratings that were not labeled “exceptional or outstanding” and this was a shock and source of discomfort to them. In addition, a relatively small proportion of individuals were actually rated below the midpoint on the scale (i.e. “lower contributor/needs improvement or unacceptable performer”) which was highly unusual in McDonald’s culture. It should be noted, however, that the very year the new PDS was introduced, McDonald’s business performance was well below expectations and the stock price hit new lows. This softened the blow a bit, as managers could see that change was necessary and that McDonald’s was operating in a different world with new challenges that needed to be met in order to get the business turned around and once again moving in a positive direction.

As the new system has continued to be used the proportion of individuals in each of the categories described above has stayed in a similar range. As an example, 27% of senior level leaders in the US receiving the “exceptional contributor” rating in 2004 (vs. 25% in 2001) and 2004 happened to have been a year in which the company itself had exceptional performance. One of the challenges we have discovered along the way is that it is a challenge to keep the distributions of individuals across performance rating categories consistent across levels of the organization. In other words, ratings creep seems to be a natural tendency as you move, for example, from the VP to the SVP level. What we have done to address this is to emphasize the

importance of individuals being compared relative to those in the peer group at their specific level of the organization.

Ratings of Potential

Consistent with this more critical differentiation of performance, changes in distributions were also seen in the company's ratings of individual potential for continued advancement. In 2001, approximately three quarters of US –based officers and managing directors had been rated as having the potential to be promoted at least one more level. With a more critical and challenging succession planning review process instituted, 2002 ratings of this group's future potential were more realistic (e.g. the proportion evaluated as having clear potential for further advancement from their current officer level positions was closer to 35%). This proportion has remained in this same relative range since that time.

Lessons Learned

While difficult to do, our results would suggest that it's sometimes easier to “bite the bullet” and make a significant change all at once vs. trying to make incremental changes. The PDS change enacted in 2001 effectively lowered the ratings of more than 50 % of McDonald's managers on a year-over-year basis. This was all done in a single year but by year two, the organization had adapted to the new process. Other key lessons learned in implementing this initiative included the importance of: soliciting input from around the globe prior to program design finalization (the finalized system has been well accepted and has worked smoothly across widely varying geographic/cultural locations) and keeping the centralized, structured processes as simple as possible. Finally, we have purposefully given the organization time to get familiar with the new

system and have resisted any significant “tweaking” of it in the 2001-2006 timeframe. Some changes to further streamline the system are being planned for 2007 but they will not be major.

Initiative #2: Global Succession Planning and Development Process

Design of the Global Talent Review Process

Prior to the launch of the current global talent review process, succession planning had been conducted at McDonald’s for many years. Prior to 2003, this process was less formal, less structured, and less consistent across various areas of the world, yet it probably met the needs of the business which had an outstanding record of growth of profitability. As business growth slowed and competition increased, however, there was a recognized need to enhance the focus on leadership talent to align better with the new global business challenges.

Beginning in 2003 it was decided that the Talent Management process at the leadership level needed to be more rigorous and also more transparent. To achieve this rigor and transparency the Presidents of each area-of-the-world (i.e. U.S. Europe, Asia/Pacific/Middle East/ Africa and Latin America) along with each Corporate Staff Head (e.g. EVP-HR, EVP-Finance/CFO), etc.) were given a Talent Management template that consisted of a series of questions about their leadership talent requirements and the depth and diversity of their talent. (see **Exhibit 5**) They were asked to prepare answers to these questions for their respective organizations. It was made clear that these questions would form the basis of the in-depth Talent Reviews that each of them was scheduled to have with their immediate superior, who was either the Vice Chair or the Chief Operating Officer.

The stated purpose of these Executive Talent Reviews was as follows:

- Identify executive (e.g. Officer/MD) talent requirements for successfully executing their organizational strategy over the next 3 years and how these requirements will be met.
- Ensure that plans are in place in each organization to upgrade the executive talent via development, planned movement, strategic hiring, etc.
- Ensure the “next generation” (i.e. feeder pool) of leaders has been identified and is being developed

As can be seen from the questions listed in **Exhibit 5**, the Talent Review covered the broader aspects of Talent Management including forecasting needs, assessing current Officers/MDs, identifying depth and diversity of replacements pools and development planning. The premise behind these reviews is that the President and lead staff officer of each “area of the world” are responsible and accountable for ensuring that they are addressing the leadership talent needs in their area and are doing so within the framework of the template. Transparency was achieved as a result of the in-depth discussions that took place during the actual review meetings.

The Talent Reviews were held as planned in 2003 and resulted in a much more realistic and rigorous assessment of the “health” of the talent pools in each area of the world and each functional area than had been achieved previously within McDonald’s. The increased ownership that leaders were taking for the results of these reviews was reflected in the specific actions that they proactively initiated (e.g. accelerating the development of high potential managers, special recruiting initiatives, etc.) to respond to the current and anticipated replacement gaps that had surfaced. The HR support team was able to analyze the overall results of these reviews and look

for any organizational-wide interventions that would contribute to better addressing talent needs and gaps.

Talent Review Process Impact

Results of the one-year follow-up survey with executive management and HR leaders in each of the company's four major regions yielded the following observations regarding improvements in the talent review process as a result of the new process: 1) managers and the organization overall became much more aware of the strengths and talent gaps in each area, 2) more candid and more challenging discussions took place on talent and not only focused more crisply on strengths and development needs but also more effectively addressed when it's time to remove individuals from positions in which they are not performing and not developing, 3) more specific actions were being planned and taken to close replacement gaps and development talent in a more focused way, and 4) senior executives were placing greater overall priority on and taking personal ownership for talent management.

Metrics for Assessing Quantitative Impacts

In addition to the qualitative feedback described above, a number of quantitative metrics are currently being used to assess the impact of the talent review process. These include tracking:

- The number of Officers/ Managing Directors (MDs) considered to be strong contributors and evidence that those "not meeting expectations" have specific development plans in place and/or have been replaced
- The number of key leadership positions for which there is at minimum one "Ready Now" and one "Ready Future" replacement
- Improved year-over-year diversity in the talent pool

- The retention rate for strong performers and high potentials
- The percentage of recommended developmental job moves (i.e. these are identified in the Talent Reviews) that have actually occurred within the planned timeframe

As the process has continued to be used, the organization has done a better and better job each year of not only building up feeder pools (that are deeper and more diverse) but also with addressing issues with lower performers.

Next Steps for Talent Review

2006 will be the fourth year of conducting Talent Reviews using the current process. While the process has not changed for the most part, it has been done in a more comprehensive manner each year. This includes doing a more in-depth analysis of who needs development moves to enhance their experience and a process that facilitates this movement. In 2006 we will see comprehensive Talent Management Plans at the major country level which will enable us to roll-up the country plans into Area of the World plans and finally to an overall enterprise Talent Plan that is presented to our Board of Directors.

Our CEO has declared Talent Management as one of his top 3 priorities and the focus on this process has never been greater. Senior management has expressed a strong desire to spend more time in this arena and they realize that to successfully develop their talent, they must depend on their peers to provide development job opportunities (e.g. special assignments, project teams, new jobs) that cannot be provided unless people are able to move more freely across organizational boundaries.

Additional Positive Impacts

One additional result of the analysis which was part of the talent review process was the decision to develop a global executive staffing process designed to ensure that when an opening occurred for an Officer or Managing Director role anywhere in the world, potential candidates could be identified on a global vs. a local basis. Prior to 2003, there had been no formal process for identifying talent globally but rather the organization with the opening would identify candidates based upon their own knowledge of qualifications which, more often than not, led to a local candidate being selected. With the new global staffing process the organization with the opening comes to the HR organization for a list of candidates that have been identified via the Talent Reviews described above. As a result of this new process, *there has been more cross-organizational movement that has resulted in better selections and also more development opportunities for those moving to these assignments.*

A second additional impact driven by the results of a more robust global talent review process was the decision to design a program to build up the depth and diversity of the replacement pools for several Officer/MD roles and to expedite the development of the highest potentials for these roles. The global Leadership at McDonald's Program (LAMP) was the program designed and is described below as the third major recent initiative to enhance McDonald's Global Workforce Management System.

Overall, the executive Talent Review process introduced in 2003 and continued in 2004 has not only stepped-up the focus on talent management at the leadership level, but has made it more of an ongoing vs. episodic process that it had been previously. Our leaders all consider Talent

Management as a high, if not their highest, priority. It's less about a "binder being constructed once a year and then put aside for another year" and more about working the talent issue on an ongoing basis. It is also clear that by starting the process at the "top of the house" and having it accepted as useful and necessary, the process has been more easily implemented down thru the other management layers across the organization and regions.

Initiative #3: Design and Implementation of the LAMP Program

Specific Design Considerations

Based on what had been learned in global talent reviews and in earlier training programs directed at developing high-potentials within McDonald's, several particular areas of competency/skill gaps had been identified and were specifically targeted in the design of LAMP content. These included: 1) expanding participants' mindset from local to regional to global, 2) enhancing participants' ability to maximize business performance through strengthening financial acumen, and 3) enhancing participants' innovative, "out of the box" thinking . From an organizational perspective the goals of the program included: 1) building deeper bench strength for key leadership positions, 2) shortening the ramp-up time required for newly promoted officers and getting quicker business results, 3) becoming more effective at developing and retaining top talent, and 4) continuing to improve the diversity profile at the officer level.

The *Leadership at McDonald's Program (LAMP)* is an integrated approach to developing high potential talent. Using leadership development as a process to drive results, shape culture and build leadership depth, the program accelerates the development of future leaders. With a focus on strengthening and building the capabilities of McDonald's future leaders, the program leverages leadership development to improve performance and drive business results by:

- Increasing the ability of participants to improve business results in their current roles as well as prepare them for achieving success at the next level.
- Leveraging participants' on-the-job accountabilities as opportunities to learn and develop.
- Helping participants gain the insight needed to further develop individual leadership capabilities
- Providing opportunities to build strong peer networks – internally and externally (by having them work closely with McDonald's high potential peers throughout the program and with talented management peers from other companies/industries as part of the Thunderbird Program.

Participation

The program was piloted in 2004 with an initial group of twenty high potential Directors who were nominated by their regional, divisional or functional leadership teams. Selection criteria included:

- Individuals considered “ready now” or “ready future” for positions at the Vice-President level or higher based on results from the McDonald's annual Talent Review process.
- Succession plan gaps (priority for participation given to functions with a shortage of successors or other business priorities such as improving the diversity profile at the officer level).
- Participant and boss willingness to fully commit and participate throughout the nine month long program.

Group Sessions

LAMP was designed to help participants drive results in two ways – vertically (as leaders of their respective departments) and horizontally (as leadership team members). There are five key

program components. These include: 1) Executive Assessment and Program Orientation, 2) Individual Development Planning and Executive Dialogues, 3) Leadership Modules focused on Leadership of Self, Team and Organization with Experiential Exercises to Reinforce the Learning, 4) A two-week executive education program at the Arizona based Thunderbird Graduate School of International Management (highly recognized for its International management program) and 5) Business Improvement Recommendations Presented to the Chairman's and President's Councils. These program components are described in greater detail in **Exhibit 6**. All of the sessions were held at the company's headquarters in Oak Brook, Illinois with the exception of the two-week executive education component that was held at the Thunderbird campus in Glendale, Arizona.

Individual Learning Opportunities

Based on the assessment results, participants consulted with individual coaches to develop a "breakthrough business goal" – one that could truly drive business results in their areas of responsibility. Critical to this process was the linkage of personal developmental objectives to getting higher levels of business results. The assessment process and feedback to participants helped identify the competencies needed to enhance their contributions to the business. The development needs were then linked to the individual's breakthrough goal. To support and encourage individual learning, the following was made available to participants: 1) *Individual Coaching and Development Support* – Each participant was assigned a coach to discuss progress against objectives and receive objective feedback and developmental coaching throughout the program, and 2) *LAMP Online!* – A web-based tool that supports individual learning, facilitates dialogues about the business and tracks the progress being made against the LAMP goals and key deliverables.

Commitment and Expectations

LAMP required a strong commitment from participants and their direct supervisors in terms of time and behaviors. It was clearly communicated to participants and their bosses that participants would be expected to spend approximately 25% of their time on LAMP-related activities (e.g. attending LAMP group training session, working with their action learning teams, working on their personal development plans, etc.) Recommendations for managing the time commitment included using LAMP as an opportunity to develop the direct reports of the participants – by giving direct reports the opportunity to assume some of their bosses’ responsibilities while participating in LAMP.

LAMP Program Evaluation and Impact

Qualitative Feedback

A survey (see **EXHIBIT 7**) was conducted mid-way through the LAMP pilot program and also at the end of the pilot. It was given to both the participants and their immediate supervisors. It was evident from this survey that the primary goals of the program were met. Both groups surveyed gave the program high ratings and, importantly, reported seeing evidence of significant personal development. The most highly evaluated elements of LAMP included:

- the opportunity to interact with senior managers during the executive dialogues,
- the participants’ development processes being integrated with the current job and taking place over an extended time period (9-12 months) which significantly improved the probability that development would take place, and
- the experience of going to Thunderbird International University where they were exposed to thinking outside of McDonald’s and to leaders from other companies (i.e. Thunderbird

International University 2-week experience) which broadened the appeal and benefits of the program (e.g. opportunity to learn about “best practices”, different management cultures and leadership styles, and diverse ideas/approaches from varied companies/industries.)

An area identified for improvement was “boss involvement”, specifically, the need to get the participant’s immediate supervisor more directly involved in the process and more directly involved in assisting with their development. This feedback led to enhancements for the LAMP programs offered in 2004 where boss involvement has been significantly enhanced.

Quantitative Impact

In addition to the qualitative feedback described above that led to ongoing program design changes, a number of quantitative metrics are currently being used to assess the impact of the LAMP. These include: 1) Promotions: as of mid-2006, 34% of the 104 graduates of the LAMP Program have been promoted with more likely to come (e.g. of the 104 graduates, 41 have graduated in early 2006). These 104 graduates have come from 34 different countries (**see Exhibit 8**), 2) Retention: as of mid-2006 only 4% of the individuals in this highly select and talented group have left the company for other opportunities. It is a key objective of the program for its participants to know they are highly regarded and that the company will continue to invest in their ongoing development. and 3) Boss Feedback with early returns indicating that development is taking place as a result of LAMP experience and being demonstrated in practical ways on the job. In addition to these results, additional measures are currently being gathered to further evaluate program impact including: 360 degree feedback follow-up (to be compared to the “baseline” 360 results at program start), and self-assessment of personal change as compared to specific targeted change goals.

Evolution of the LAMP Program

Changes to the program itself have been relatively minor since it was introduced in 2004.

One element of LAMP that has been enhanced is the process for getting into the program. While the overall steps are the same we have improved the screening of those nominated to improve the overall quality of participants. This is done by making sure the senior management team in each Area of the World reviews each nominee and concurs with the judgment of the nominee's own manager that they are appropriate for the program. This higher level review has caused more attention on the part of those nominated to make sure they nominate quality candidates. We have also taken and continue to take further steps to enhance the active involvement of the managers of the participants in the program.

Continued Evidence of Success

The LAMP program has been very well received since its inception in 2004 --not only in the Americas but also in other areas of the world where it has also been implemented. We have completed three LAMP programs serving participants from the US business, Latin America, Canada and Home office and now call this program "America's LAMP". We have also completed our second European Leadership Development Program (ELDP) as of March 28, 2006 and will begin our second Asian/Middle East/Pacific Leadership Development Program in April, 2006.

One other interesting indication of the success of this program is that it has developed its own strong brand identity and equity within the organization. The value of brand identity is reflected in the differing names for the program in each region and the brand equity is reflected in the fact that so many employees want to be considered for participation. Overall, the support of the

program has increased over time among the senior leaders who are always asking us when the next program will begin. They also use their Talent Management plans to identify candidates for LAMP as this is built into our planning process.

Initiative #4: McDonalds' Leadership Development Institute

In 2006, the McDonald's Leadership Institute and the Global Leadership Development Program were introduced as the two latest additions to McDonald's arsenal to support leadership talent development by attracting and retaining high-performing leaders. The McDonald's Leadership Institute has been newly approved by the company's CEO and funded to provide enhanced development support for all leaders throughout the organization who are positioned at the director level and above (n=1,200-1,500). It will also house all of the company's high potential programs as well as provide development resources to all non-high potential leaders in the way of an "On-Line Development Resource Center", an in-house leadership curriculum, special learning events, executive coaching, etc.

The Institute is envisioned as a global community that drives McDonald's business by guiding leaders to reach their full potential. Unlike a "brick and mortar" approach--the Institute is not a physical place, but a community that provides a culture of learning and development and that can be accessed from any geographic location through our Leadership Portal and team of Institute Guides. Its goal is to be respected as an essential part of McDonald's business and a world class leadership institute offering sound guidance as well as challenging, innovative development opportunities and resources to an admired community of leaders. Its offerings that are currently in development include:

- Exposure to leaders from inside and outside McDonald's

- Participation in challenging development experiences
- Interaction and networking with other leaders globally
- Individual consulting and tools for development needs assessment, development planning and key transition activities
- Leading edge information on McDonald's, the industry, business practices and leadership

Initiative #5: The Global Leadership Development Program

The Global Leadership Development Program is also new in 2006 and focuses exclusively on the company's highest potential Officers and Managing Directors. The initial cohort for this program (as of mid-2006) is 21 individuals from 11 different countries—including North America, Latin America, Europe, Asia/Pacific and Japan. This program will focus on preparing participants for broader leadership responsibilities. It will also build a strong peer network that will be leveraged going forward as these individuals begin to move into top leadership positions throughout the company.

Overall Summary

Over the past 5 years, McDonald's has taken a number of significant steps to enhance its ability to develop leadership talent and ensure greater management continuity throughout its talent management system. This chapter has described five major initiatives that have been designed and implemented to enhance the system. These included: a major re-design of the company's global Performance Development System, a significant enhancement of the Global Succession Planning and Development Process, the design and implementation of a customized leadership development program targeted to developing high-potentials at the officer level (LAMP) and

finally, the recent introduction of the McDonald's Leadership Institute and the Global Leadership Development Program. In addition to the specific positive impacts associated with each of these initiatives that have already been described, the overall process has also demonstrated how broad scale initiatives to develop talent can be successfully used as a lever of culture building and change as well as the absolute criticality of top management owning and driving talent management initiatives—with Human Resources playing the roles of partner and enabler.

Exhibit 1: Framework For “Plan to Win”

Key Elements	Relevant Measures
People	<ul style="list-style-type: none">• Well trained• Fast and friendly service• Delighting customers
Place	<ul style="list-style-type: none">• Clean• Relevant• Inviting
Product	<ul style="list-style-type: none">• Food tastes great• Lots of choices• Hot and fresh
Promotion	<ul style="list-style-type: none">• Consistent with the brand• Relevant to the customers
Price	<ul style="list-style-type: none">• Best value to the most people• Affordable

Exhibit 2: Summary Of Talent Management System Initiatives

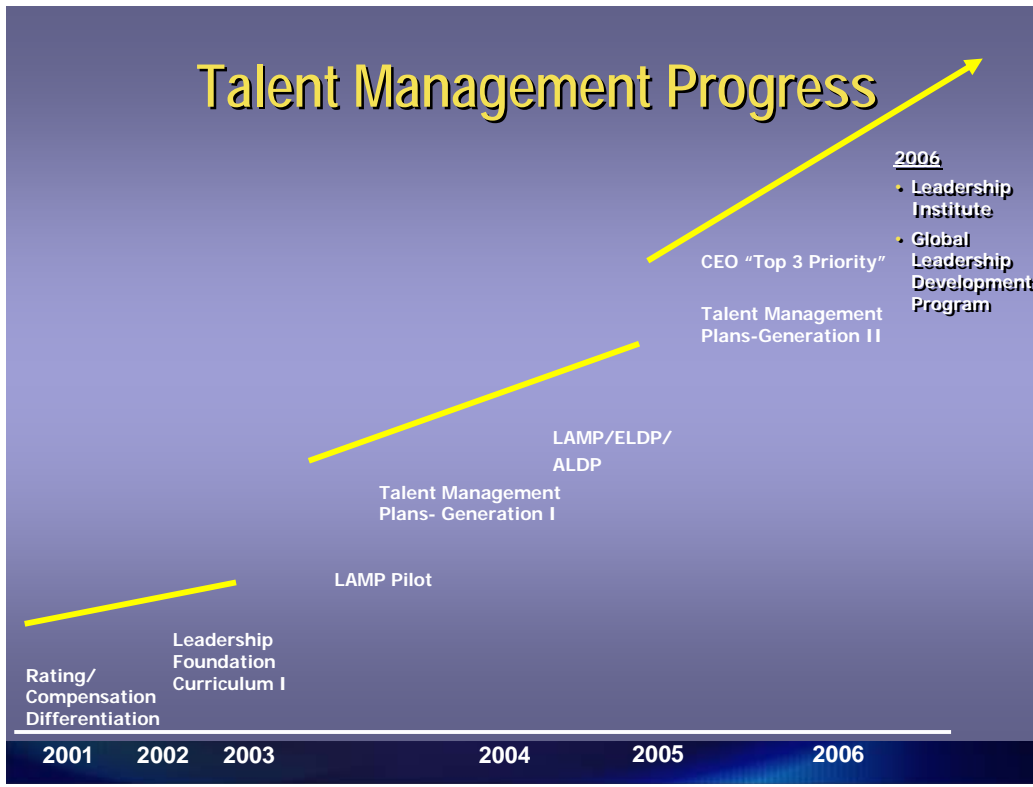


Exhibit 3: McDonald's Competency Framework

Competency Category	Specific Competencies
Core Competencies	<ol style="list-style-type: none"> 1. Change Orientation 2. Communicates Effectively 3. Continuous Learning 4. Customer Focus 5. Drives to Excel 6. Holds Self and Others Accountable 7. Problem-Solving and Innovation 8. Teamwork and Collaboration 9. Values and Respects Others
Leadership Competencies	<ol style="list-style-type: none"> 1. Coaches and Develops 2. Maximizes Team Effectiveness 3. Maximizes Business Performance 4. Strategic Perspective
Functional Competency Menu (elective)	<ul style="list-style-type: none"> • Job Knowledge • Leverages Resources • Decisiveness • Gathers and Uses Information • Impact and Influence • Negotiation and Conflict Resolution • Uses Technology Appropriately • Vendor Management

Exhibit 4 Performance Drivers

Performance Drivers	Sample Behaviors
Setting Clear Objectives with Results Accountability	Involves establishing high standards for performance, well-defined objectives and targets, and clear priorities for what must be accomplished, and taking full personal responsibility for doing what it takes to deliver promised results. For people managers, it includes ensuring that direct reports understand what is expected of them and receive regular feedback on their performance as well as clearly differentiating between top and lower contributors when evaluating performance.
Coaching & Valuing People	Involves treating people with dignity and respect at all times, demonstrating honesty and integrity in all dealings with others; ensuring that the highest quality people are being selected for the organization and are actively provided with opportunities to use their capabilities to contribute to the business as well as grow and develop their potential to do more in the future.
Strategic Focus & Business Planning	Involves being able to develop an effective organizational business vision and strategy that are based on sound facts and that are well thought through, communicating them so that others understand and commit to it, and translating the vision and strategy into a clear overall work plan as well into the individual goals and priorities that will guide and align the efforts of people at all levels of the organization.
Acting in the Best Interest of the System	Involves demonstrating consistent commitment to work together as a team to achieve the vision and what is in the best interest of the system. Shares information and resources with others to contribute to their success. Acts to break down silos or boundaries in order to help the business maximize the leverage from its combined resources.
Open Communications	Involves demonstrating strong “listening for understanding skills” and valuing diverse opinions. Conveys information and ideas in an, open, articulate, and timely manner that enables others to get their job done. Communicates in a high energy positive way that motivates people to achieve
Embraces Change/Innovation	Involves being open to new ideas and innovation and having not only the flexibility to adapt to change but also the energy and drive to initiate and lead it.

Exhibit 5 Talent Review Template Questions

I. Forecast of Corporate Leadership Talent requirements for next 3 years including positions, people and/or competencies

The answers to the following questions should be based upon the strategic plan for the business as well as the operational requirements:

- Specify the Corporate Leadership positions that will be added, eliminated or changed from the current organization?
- Expected retirements, terminations, promotions, transfers, etc.?
- What, where, when and how many openings are forecasted for the next 3 years?
- What, if any, changes in the competencies or roles will be required of the leadership team and how will they be addressed?

II. Assess and Develop Current Talent Pool

- Who are your A, B and C players?
- What actions are you taking to develop and retain your A players? Development plans including development moves? Retention strategy?
- What actions are being taken with your C players to improve or remove them?
- Who represents your next generation of leaders (e.g. “Ready Now/Ready Future” with higher level target positions)?
- Development plans including planned development moves?

III. Replacement and/or Diversity Gaps and Associated Action Plans

- What, if any, significant replacement gaps exist and what plan is in place to close this gap?
- What, if any, diversity gaps exist and what plan is in place to close these gaps?

IV. Summary of Planned Actions

Exhibit 6 Leadership at McDonald's Program (LAMP)

<u>Program Session</u>	<u>Session Description</u>	<u>Length</u>
1. Program Orientation and Executive Assessment	McDonald's contracted with Personnel Decisions International (PDI) to deliver the assessment process over a 3½ -day period. The assessment process included the following: 1) inventories of thinking skills, personality, work style, and interests, 2) 360° Feedback, 3) realistic work and business simulations with immediate feedback provided after the role play or simulation, and 3) background interviews. In addition to the assessment process, participants received detailed information on the LAMP leadership framework, program goals and key deliverables. They also had the opportunity to dialogue with senior executives. Upon completion of the assessment process, verbal feedback was provided to the participants by their assessors/coaches. A detailed written summary was provided approximately three weeks later.	4 days
2. Individual Development Planning and Executive Dialogue	During this session, participants received the written summary from the assessment process. Utilizing these results, participants' worked one-on-one with their boss and coach to create a development plan focused on driving results in their area of the business. Utilizing a custom development plan template participants identified the experiences, coaching and training required to achieve their goals. In addition, two executive dialogues during this session provided an opportunity to learn more about the business and leadership through direct interaction with senior McDonald's leaders.	2 days
3. Executive Dialogue and External Thought Leader	LAMP participants had another opportunity to dialogue with senior leaders during this session. A large portion of time during this session was devoted to building knowledge and skills around the critical components of high performing teams. A number of experiential exercises were utilized to enable the participants to apply and practice their learning's as they began to form their sub-teams which were responsible for developing and delivering a "business improvement recommendation" to the executive councils.	2.5 days
4. Executive Education Program	The Thunderbird International Consortia brings together select groups of non-competing, globally focused companies. Each Consortium program is two weeks in length and custom developed in consultation with representatives from each member firm. Thunderbird offers participants the opportunity to gain a broad understanding of global strategic issues and to strengthen their general management skills. Learning is reinforced through discussions, case studies, exercises and simulations.	2 weeks
5. Business Improvement Recommendations	This session focused primarily on a large team review and feedback session for each of the four sub-team's business improvement recommendations. Significant time was devoted to letting the sub-teams continue to develop their recommendations with feedback, support and coaching from an external expert in executive communications. An executive dialogue was also incorporated into this session.	2 days
6. Presenting Team Recommendations and Program Wrap-Up	At the conclusion of LAMP (February, 2004), participants will present their business improvement recommendations to the executive leadership councils comprised of approximately twelve senior-most executives of McDonald's. Each team will make presentations to the council members as well as discuss the overall impact of the program on their personal development and on their individual business results. Support from coaches, dry-runs of the presentations and group dialogue and feedback around each team's presentation will help participants prepare for the presentations.	2.5 days

Exhibit 7 LAMP Program Evaluation Survey

Survey Features	Approach and/or Results
Methodology	On-line (95% response rate)
Evaluation of Program Components	<p><u>Effectiveness of 11 Key Program Components:</u></p> <ol style="list-style-type: none"> 1. Executive Dialogue Sessions 2. LAMP Online! 3. Books 4. Learning Journal 5. Team Building Modules 6. Immersive Development Activities 7. Classroom Experiential Activities 8. Individual Development Plan 9. Breakthrough Business Goal 10. Overall LAMP Assessment 11. LAMP support team <p><u>Rating Scale Used</u></p> <ul style="list-style-type: none"> • 5 point scale ranging from: “Not Effective to “Highly Effective” • Narrative comments solicited as well for each program component
Evaluation of Overall Program Effectiveness	<p><u>Questions</u></p> <ul style="list-style-type: none"> • To what extent has LAMP better prepared you for a significant role at McDonald’s? • The LAMP Program has been worth the time and effort required for my development • I would recommend LAMP to others in my position <p><u>Rating Scale Used</u></p> <ul style="list-style-type: none"> • 5 point scale ranging from “strongly disagree” to “strongly agree”

Exhibit 8 LAMP Participants by Country



About the Contributors

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