

Leadership Assessment

The Backbone of a Strong Leadership Pipeline

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Leadership assessment is the backbone of a sustainable leadership pipeline. However, organizations often struggle with determining how to identify leaders with potential, which assessment approach to use, and how to apply assessment results.

The Aon Hewitt Top Companies for Leaders[®] research reveals that companies known for strong leadership differentiate themselves through a pervasive focus on assessment for every leadership stage, from front-line through executive levels. They also employ a wide range of assessment measures and strategically integrate assessment with other talent practices. Using information gleaned from top companies' practices, scientific research, and Aon Hewitt's extensive practical experience, organizations can dramatically strengthen their leadership pipeline by considering six Guiding Principles for leadership assessment.

A Strong Leadership Pipeline is Essential to Growth

In today's global corporate environment, strong leadership is an organizational imperative, and companies must deftly balance their current and future leadership needs. Leaders not only ensure the efficient operations of the organization; they also drive performance and influence their company's reputation. A robust leadership pipeline is essential to meeting revenue goals, innovation, engagement, and growth.

Despite the need to power a solid leadership pipeline, the current business landscape creates a context in which organizations struggle to successfully fill their talent gaps. The graying of the workforce signals the impending retirement wave of the Baby Boomer generation, which will inevitably create leadership vacancies. Further, global economic instability fuels the war for talent, and organizations engage in fierce competition for the best and brightest while simultaneously striving to develop their internal leadership bench strength. The VUCA (Volatile, Unpredictable, Complex, and Ambiguous) business environment

Aon Hewitt Top Companies for Leaders Research

Founded in 2001, the Aon Hewitt Top Companies for Leaders study is one of the most comprehensive longitudinal studies of talent management and leadership practices around the globe. Our first results, published in 2002, demonstrated the link between financial success and great leadership practices, and identified differentiating elements found only in top companies. The current study, conducted in 2014, marks the eighth iteration of this foundational research. The pool of competing organizations was the most competitive we've seen to date, demonstrating that even those that didn't make the Aon Hewitt Top Companies for Leaders list are pushing in the right direction. For additional information, visit our website at aon.com/topcompanies.

"The lack of potential leaders is the most pressing HR challenge organizations expect to face."

– *Industry Week*

"85% of executives across the globe agree that the definition of effective leadership has changed within the current decade."

– *Center for Creative Leadership*

"Mid- and senior-level leaders are viewed as the most critical roles in organizations, yet are also the most challenging to attract and retain."

– *Aon Hewitt Top Companies for Leaders Study*

"Attracting and retaining talent ranks among the top 5 most critical risks organizations face."

– *2015 Aon Global Risk Management Survey*

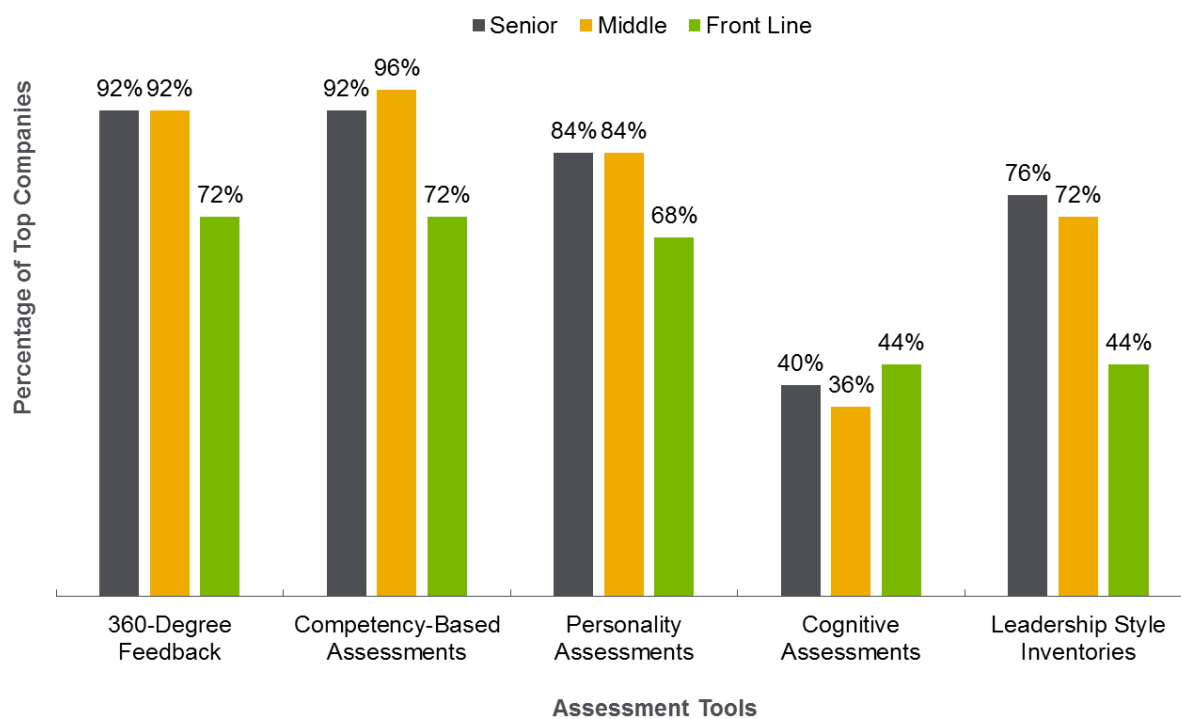
"Organizations with top-tier leadership teams outperform by 18.8%."

– *Corporate Leadership Council*

creates a pressing demand for leaders who are highly agile and adaptable.

Survey after survey indicates that organizations face significant problems in filling key leadership roles and have grave concerns regarding the adequacy of their leadership pipelines. Aon Hewitt’s Top Companies for Leaders research on leadership and talent management demonstrates that organizations that can successfully drive leadership growth through an emphasis on growing leadership capabilities at all organizational levels thrive despite the challenges in the dynamic global marketplace.

Aon Hewitt Top Companies for Leaders® Incorporate Assessment at Every Leadership Level



According to Top Companies for Leaders findings, top companies possess an acute awareness that the need to acquire and develop outstanding talent is rapidly intensifying. A key differentiator of top companies is an exceptional focus on creating an extensive and integrated leadership pipeline that incorporates formal assessment strategies for every leadership level, a variety of rigorous assessment techniques, and integration of assessment into multiple talent practices.

Assessment at All Leadership Levels Fuels a Robust Pipeline

Top companies recognize that assessment is the cornerstone upon which a sustainable leadership pipeline is built. Not only do world-class companies utilize a range of reliable and valid assessment methods, but notably, they also learn from their assessment results. Assessment allows these companies to generate a full picture of their current leadership abilities, identify gaps in their future leadership, and

formulate targeted development plans for potential leaders in order to fill those holes. Specifically, 100% of global top companies use assessment to identify deficiencies in their leadership skill sets versus only 76% of all other companies. In addition, 96% of global top companies implement accelerated development plans based on these outcomes, compared to 71% of other participating companies.

Guiding Principles for Leadership Assessment

Clearly, assessment plays a principal role in leadership pipeline development. However, the way in which organizations approach assessment, as well as the methods and tools they utilize, significantly impact the effectiveness of assessment in powering a strong and sustainable leadership bench. As Church and Rotolo (2013) point out, many organizations endlessly search for the assessment technique that will be most fruitful in developing future leaders. Given the vast array of assessment methods available, organizations may struggle to form an assessment strategy, choose appropriate tools, and utilize results in an informative and actionable way.

Keeping in mind some fundamental guiding principles can help in developing an assessment approach that is both effective and sustainable. Aon Hewitt's point of view on leadership assessment is based on the scientific literature, extensive experience with thousands of organizations, and exposure to the practices of the Top Companies for Leaders since 2002.

Guiding Principle #1: Assess potential to “make the curve” at each leadership level

Top companies distinguish themselves by their commitment to investing in leaders at all business levels and their pervasive focus on appropriate assessment at front-line, mid-, and senior executive levels. An insufficient pool of leadership talent at lower leadership levels will inevitably lead to limitations in talent at higher levels. Designing and implementing assessments for each crucial curve in the leadership pipeline is an efficient, reliable, objective, and cost-effective way to develop and prepare internal talent for their next leadership step.

Kaiser and Bartholomew (2011) point to the importance of creating tailored assessment plans for every stage of the company hierarchy. In their novel empirical study, the authors illustrated that unique leadership capabilities are required at each leadership level. These results indicate that organizations cannot rely solely on previous performance to understand the capacity for lower-level managers to successfully fill more senior-level leadership positions. This study conveys how necessary assessments are to obtain an accurate evaluation not only of current leadership capabilities but also the potential to “make the turn” at subsequent steps in the pipeline.

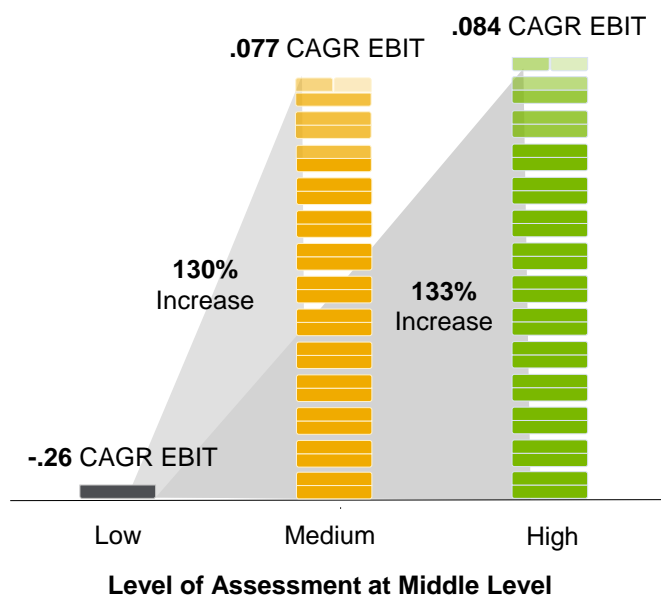
Therefore, an important step in planning for assessment is to define the competencies required for success at each leadership *level*, particularly those competencies needed to “make the curve” at key career transitions. Assessment instruments that specifically measure these competencies can then be developed and implemented.

Charan's classic leadership pipeline model describes six key leadership stages and the critical competencies that individuals must cultivate in order to successfully transition to each subsequent stage (Charan, Drotter, and Noel, 2001). Assessing individuals against these competencies will then yield important information regarding areas in which future leaders need to develop in order to be ready for that next level. By focusing on the capabilities needed for the upcoming phase of the leadership journey, assessments can effectively evaluate a leader's potential for success in future stages of the pipeline. Assessment information can then guide leaders' development so they will be prepared to perform effectively at the next level.

IBM, a consistent Top Companies for Leaders winner for the past 15 years, recognizes the need for assessment at all levels. Its talent practices include a regular evaluation of leadership capabilities for those currently in leadership roles as well as evaluation of leadership potential and the functional skills of IBMers globally. The results of these assessments are then used to guide potential career paths and personalized development plans for each IBM leader.

Interestingly, Top Companies for Leaders analyses reveal that organizations that devote resources to assessment at all levels reap financial benefits. Companies that conducted assessments at senior leadership levels had 15% higher relative performance in profitability than companies that did not. Moreover, companies that conducted assessments at mid-leadership levels had 35% higher relative performance in profitability. A closer look at the relationship between assessment and financial outcomes shows that a significant relationship exists between delivering assessments at the mid-leadership level and CAGR Earnings Before Interest and Taxes (EBIT), an important financial index of company growth. Companies with a high utilization of assessments at the mid-leadership level showed a 133% increase in CAGR EBIT compared to those with a low utilization rate.

Assessment Drives Financial Results: Relationship between Mid-Level Assessment and CAGR EBIT



Additionally, in contrast to all other companies, Aon Hewitt Top Companies for Leaders repeatedly emphasize the inclusion of front-line managers within their assessment practices. In fact, all other organizations reported difficulties in developing front-line managers, and 76% of all other companies (versus 56% of global top companies) responded that their talent pipeline at the front-line level was insufficient for future success.

Guiding Principle #2: Align assessment practices with organizational strategy and context

Ensuring a close compatibility between organizational strategy and assessment practices is a central feature that demarcates top company winners from all the rest. Eighty-eight percent of global top companies report that their leadership assessment practices are explicitly aligned with organizational strategy, compared to only 41% of all other companies.

A common mistake in designing leadership assessment and development programs is failing to take into account the context and unique challenges faced by the organization. Scientific findings (e.g., Vroom and Jago, 1995) and practical experience repeatedly indicate that leadership behaviors and styles are differentially effective depending on the situation. In fact, a recent *McKinsey* article (2014) specifically notes “overlooking context” as one of four key reasons that leadership development programs fail.

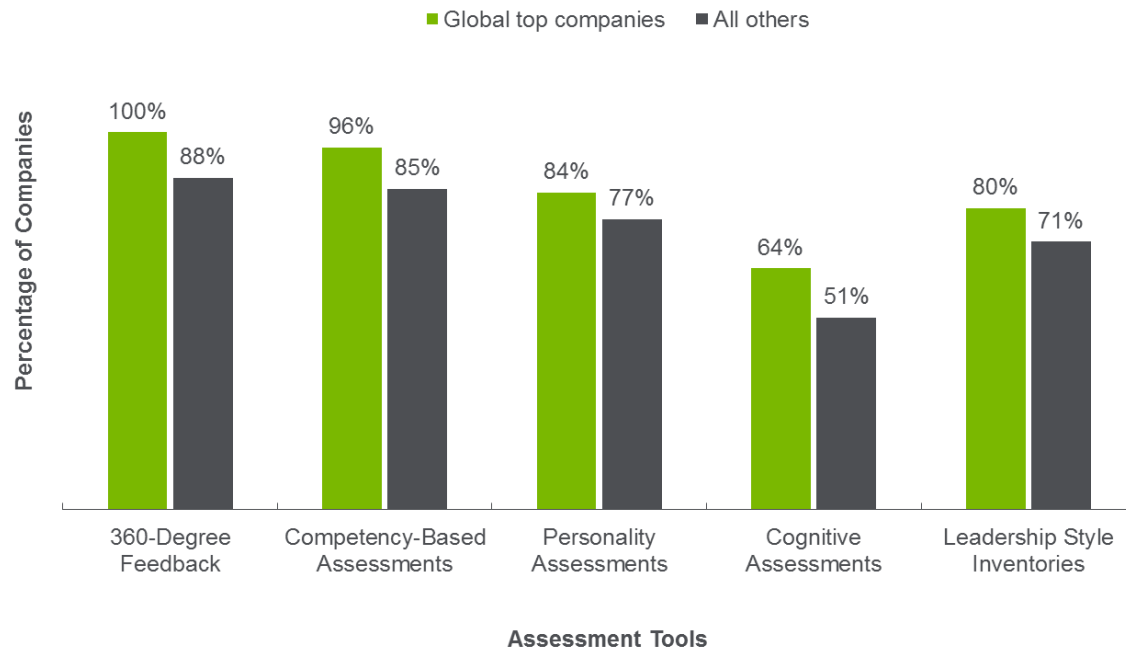
The culture of the region in which the organization is located, the organizational culture and climate, the industry, the economic situation, and the organization’s financial state are just a few examples of context that can impact organizational strategy and, consequently, the leadership skills needed in that organization. For example, an organization making a strong effort to globalize will likely emphasize leadership capabilities such as cultural adaptability and possession of a global mindset. This organization will need to orient its talent practices appropriately so it can assess and develop leaders on those core competencies.

Guiding Principle #3: Use a variety of valid, objective assessment techniques

The use of multiple valid methods to assess defined competencies is an integral part of an assessment approach. Scientific research has discussed the benefits of using multiple methods for decades (e.g., Nunnally, 1978; Groth-Marnat, 2009; Scott and Reynolds, 2010). However, organizations often make the mistake of depending on too few methods for assessment. Different measures better assess particular types of competencies. For example, distinct tools exist that best evaluate personality, cognitive ability, motivation, and behavior.

Additionally, more precise results can be reached when multiple measures are used to assess the same set of competencies. Converging the results of multiple instruments with regard to leadership competencies can lead to enhanced developmental feedback, career planning, and improved reliability and validity overall. When these results diverge, a deeper dive into the reasons behind any discrepancies can afford more profound insight into development opportunities. Top Companies for Leaders findings clearly reveal that global top companies are more likely than other companies to employ a variety of assessment techniques across all leadership levels. Many of the top companies discussed their use of 360s, cognitive ability tests, personality tests, interviews, and other tools in assessing leaders.

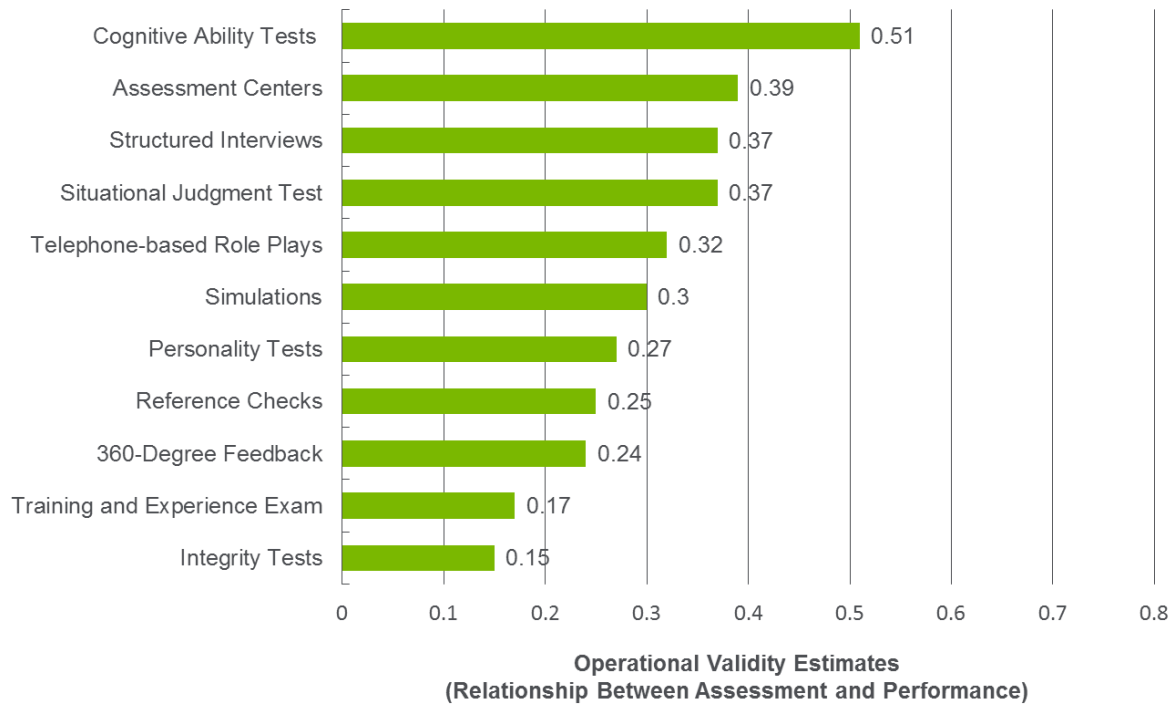
Top Companies Employ a Variety of Valid Assessment Tools



Valid and objective feedback assessments help companies understand individual capabilities, guide development, and inform talent planning

The accuracy (validity) of the methods used to predict future performance is of critical importance. Organizations may use assessment results to determine which employees are categorized as top talent, which of them receive certain developmental opportunities, and which are ultimately promoted into more senior leadership roles. If the assessment methods are not accurate in forecasting performance, organizations may allocate time and resources toward developing employees who are unsuitable for future leadership positions, and overlook others who should have been included. This process would lead to wasted organizational efforts and be unfair to employees. In addition, validity is essential to the legal defensibility of the process and is required under EEOC guidelines when assessment information is used to make employment-related decisions.

Assessment Centers that Integrate Multiple Techniques are Particularly Valid



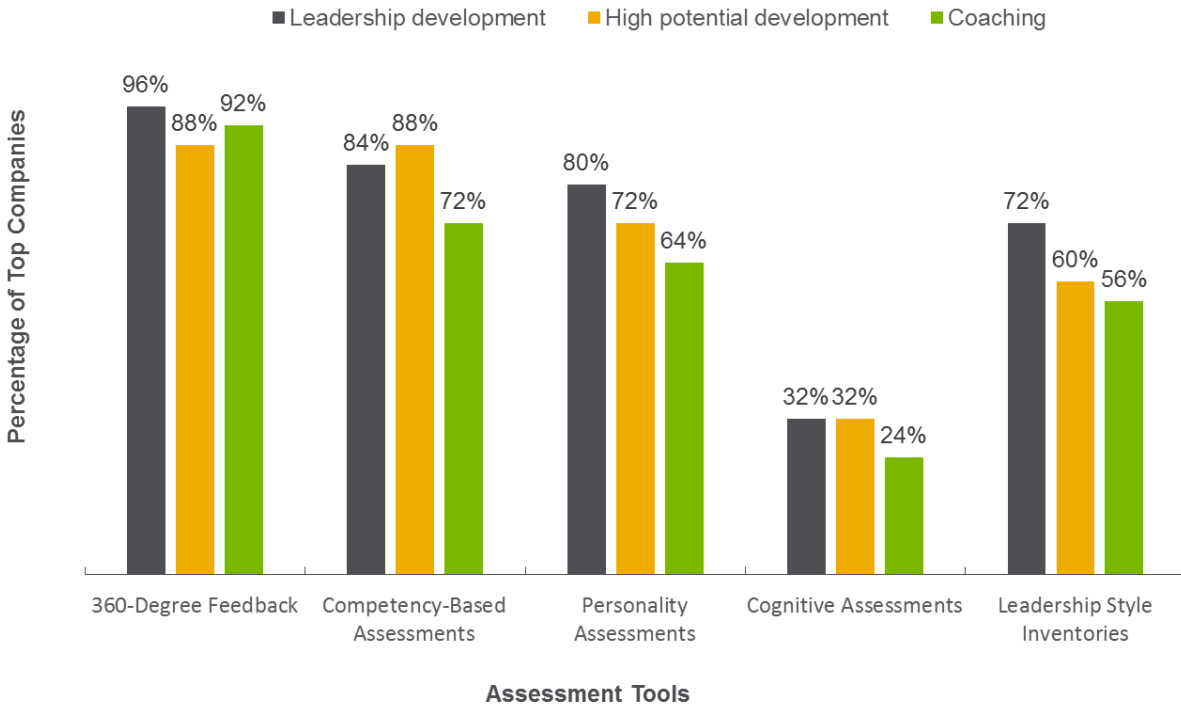
* Please note that the validity data comes from a wide range of different empirical, review, and meta-analytic articles.

Assessment centers that employ multiple assessment methods have been shown to be particularly strong predictors of leadership performance (Arthur et al., 2003; Becker et al., 2011; Hermelin et al., 2007; Thornton and Gibbons, 2009). This approach has been used for decades and was popularized by the landmark Management Progress Study done at AT&T in the late 1950s. With a conventional assessment center, participants are invited to a physical location where they complete a number of assessments. Assessment centers may include tests of personality, motivation, and cognitive ability, all of which can be strong predictors of leadership performance (Barrick and Mount, 1991; Huffcutt, 2011; Schmidt and Hunter, 1998).

Guiding Principle #4: Integrate assessments across talent practices, with competencies as the common denominator

Notably, top companies are characterized by their seamless integration of assessment into talent practices. Specifically, top companies strategically and explicitly incorporate assessment with other talent practices, particularly leader development, high potential identification, and coaching.

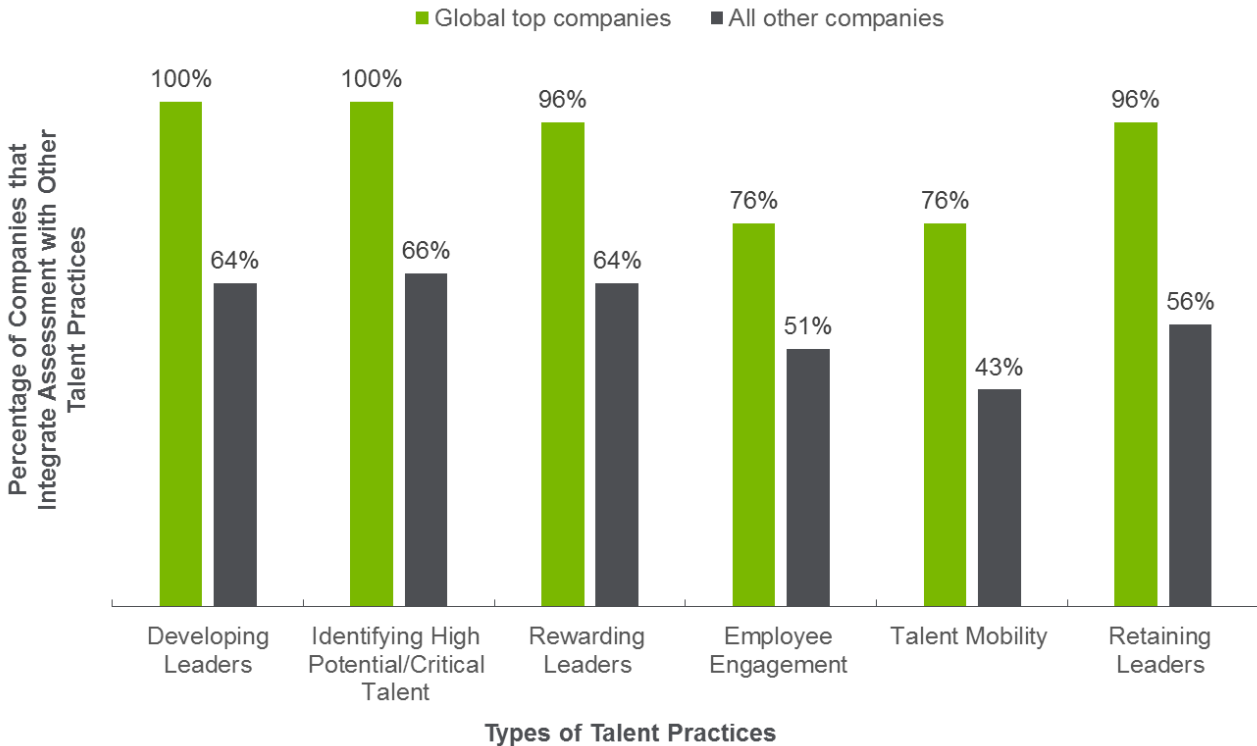
Competencies Provide a Common Denominator



Data reflects practices of the global top companies for leaders

One hundred percent of global top companies responded that their assessment and development procedures were explicitly aligned, versus 64% of all other companies. While other companies may have similar talent practices in place, their practices often operate in isolation from one another. In contrast, top companies exhibit an unparalleled cohesiveness among their leadership and talent practices that ultimately enables the promotion of a powerful leadership pipeline.

Integration Creates Rhythm for Assessments Across Talent Practices



Top Companies for Leaders winner ArcelorMittal provides a good example of intimately linking assessment, high potential identification, and development. When high potentials are nominated, they are put through a robust leadership assessment process to validate their selection as high potentials. Those who pass this assessment (approximately 80%) are appraised in terms of succession planning, and an individual development plan aligned with their succession options is formulated.

A fundamental practice underlying this integration is the mapping of assessment tools to competencies. A comprehensible competency model clearly conveys the organization’s vision for leadership and imparts which leadership competencies are most important to the organization. Mapping of assessments to competencies helps ensure coverage of those competencies most important to the organization. Further, communication is enhanced when assessment results are presented in the common language of the competency model. Employees receive feedback in a consistent and standard format, and can better understand the competencies on which they need to focus in order to progress.

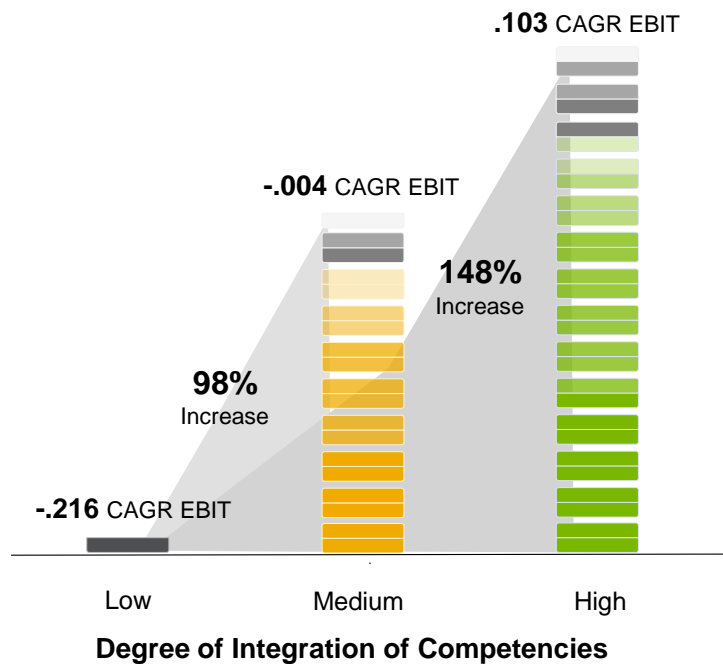
Intel Corporation, ICICI Bank and Sime Darby Berhad are a few examples of Top Companies for Leaders winners that report having a defined leadership competency model and applying that model within their talent practices. Moreover, top companies are more likely than all other companies to use competency-based assessments for the purposes of leadership development, coaching, and high potential development among all leadership levels, ranging from front-line to senior management.

For example, Intel outlines its expectations, competencies, and behaviors for leaders. Expectations are divided into three major categories: grow the business, lead our people, and execute with urgency. Each is supported by a list of specific competencies (e.g., building organizational capability; strategic orientation) and a set of descriptive behaviors. Leaders are measured against these expectations on an annual basis using multiple approaches.

Early identification, assigning responsibilities ahead of time, and providing perspectives from varied domains are the salient features of ICICI Bank’s leadership potential assessment and development processes. These practices ensure creation of a leadership bench equipped to deal with adaptive challenges. ICICI Bank has defined a set of leadership competencies (“DNA Anchors”) that guide employee behavior and serve as the foundation for all people processes like recruitment, performance management, learning and development, succession planning, etc. The leadership potential assessment process is designed to select individuals for distinguishing strengths rather than to exclude for shortcomings. The 360-degree feedback process is based on the DNA Anchors, and is used as an input for individual leadership potential assessment as well as for the individuals’ own development.

Incorporating defined leadership competencies into talent practices, including assessment, is unquestionably a best practice as well as a trademark of top companies. In line with this idea, Top Companies for Leaders analyses demonstrate that the extent to which organizations integrate their leadership competencies is significantly related to whether or not they are classified as top companies. There is also significant correlation with several financial indicators of growth and return (CAGR Operating Income over Five Years; Operating Income Percentile Rank within Industry; CAGR EBIT over Five Years; EBIT Percentile Rank within Industry).

Impact on Profitability: Integration of Competencies and CAGR EBIT



Guiding Principle #5: Aim to make assessments realistic and engaging

Participants garner valuable information from the assessment tools and procedures that organizations employ. Based on the types of assessment methods used and the way in which those methods are administered, participants form reactions and perceptions regarding the organization's values and culture (Gilliland, 1993; Truxillo and Bauer, 2011). Participants can even gain insight into a particular position, and subsequently use that information to ascertain whether that position would be the best fit for them (Truxillo and Bauer, 2011).

Participants' reactions and attitudes can significantly impact their motivation to perform their best during an assessment (Gilliland, 1993). When participants are fully motivated and focused during assessment, they are more likely to exert effort and showcase their true skills—thus allowing the organization to gain a more accurate picture of their abilities.

Further, participant reactions reflect their attraction to and intentions toward the organization. This not only lends weight to participants' commitment to and satisfaction with the organization (Truxillo and Bauer, 2011), but also impacts the way in which participants discuss the organization with others and the extent to which they recommend the organization to others. Therefore, assessment tools and procedures additionally have the power to shape an organization's brand and reputation (Bruk-Lee, Drew, and Hawkes, 2013).

It is widely accepted that participant reactions are noticeably enhanced when they perceive the assessments to be job-related and valid and feel as if they have a fair opportunity to perform (Gilliland, 1993). When assessments are engaging and realistic, participants are much more likely to feel as if there is a strong connection between what they are asked to do in the assessment and the actual abilities needed for the job. As participants are asked to exhibit job-relevant behaviors in a realistic assessment, such as a work sample or simulation, they are also more likely to feel as if the assessment provided them with the fair chance to display applicable competencies.

Because participant reactions to assessments can have such considerable implications, it is imperative to understand the way in which participants experience different types of assessments. For example, trends toward gamification and the use of other innovative technology in the assessment domain have forced the question of how participants respond to this novelty. Recent research has shown that reactions to technologically innovative assessments have been consistently positive (Pommerich and Burden, 2000; Tuzinski et al., 2012). Bryant and Malsey (2012) explain that participants particularly favor multi-media assessments.

Guiding Principle #6: Ensure assessment processes are practical and sustainable

A hallmark of top companies is that leadership practices are institutionalized. Flexibility, efficiency, and scalability are essential to the long-term sustainability of assessment processes. Assessment tools must be flexible enough to appropriately align with the organization's competencies, language, and business context. Further, flexibility in assessment delivery, administration, cost, and reporting is essential to establishing assessment procedures that can practically span geographical location and organizational level. Tools should balance the need for remote versus face-to-face administration, provide efficient administration processes for participants and administrators, and minimize travel expenses that don't add

value. Given a globally dispersed workforce, many organizations must be able to implement assessments in globally diverse locations, and with minimal administration requirements.

To assess all leadership levels in an organization, assessments must be scalable given the volume of front-line and mid-leadership level positions this likely entails.

In terms of reporting, the type of output that results from the assessment process can significantly impact its usefulness and long-term acceptance within the organization. Generating assessment results quickly and providing the data in formats that can be used for multiple purposes increases the return on investment made in assessment. For example, being able to tailor reports toward specific purposes—such as selection versus development, for participants versus managers, or summarized versus detailed in format—is very valuable.

Long-term sustainability requires efficient incorporation of assessment results into multiple practices. For instance, it is vital that results be efficiently linked to developmental planning for future leaders in most situations. In fact, world-class companies recognize that the links between assessment and development must be strong. Compared to 49% of all other companies, 72% of global top companies report that they use assessment data to inform developmental plans.

In a discussion of formal assessment practices in large, high-functioning organizations, Church and Rotolo (2013) highlight the need for consistency and interrelatedness among assessment and development strategies. They point out that greater consistency with regard to strategy, approach, and tools will reduce complexity and facilitate the incorporation of assessment data into developmental efforts.

Top companies purposefully connect leadership assessment and development in their companies. In line with their focus on in-role development, one global top company explained that its leaders complete assessments at two points in time: first, a substantive assessment for leaders entering a new leadership group to guide development planning over the course of the new role; second, a “Mid-Assignment Leadership Assessment” for all leaders every three to four years to guide ongoing development and provide input to talent reviews. The format of the assessments varies by leadership group, but includes as a common component a structured 360 review based on the company’s corporate leadership attributes.

As alluded to in the aforementioned case, assessment results can be used for more than just individual developmental purposes. For example, the results of a 360 assessment can inform strategic development opportunities for individuals and also be included in talent review and succession planning processes by noting the strengths and areas of opportunity required for readiness. The ability to efficiently leverage leadership assessment information hinges on strong data management systems that allow access to information when it is needed, yet at the same time ensure the appropriate level of confidentiality.

Leadership Assessment Guiding Principles - Highlights

1. Assess potential to “make the curve” at each leadership level.
2. Align assessment practices with organizational strategy and context.
3. Use a variety of valid, objective assessment techniques.
4. Integrate assessments across talent management practices, with competencies as the common denominator.
5. Aim to make assessments realistic and engaging.
6. Ensure assessment processes are practical and sustainable.

Organizations that align their assessment strategies with the Guiding Principles outlined above are poised to excel in leadership assessment. As described, many top companies exemplify these Guiding Principles in their assessment techniques and approaches. The development and implementation of a strong assessment plan that spans organizational levels, is compatible with organizational strategy and culture, and operates in tandem with other talent practices will enable organizations to build and fortify a durable leadership pipeline.

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