mind group

Executive Assessment:

The Inconvenient Truth

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It's tough at the top. Reported rates of turnover in Executive ranks range from 20-60% in the first 18 months (Kelly 2009, Watkins 2003). Breaking that figure down further, around a third of CEO departures are forced, whether through negative market sentiment, underperformance or increasingly, through infighting with the Board. (Lucier et al 2007).

This matters; CEO performance alone accounts for a significant proportion of performance differences between organisations (14% according to Joyce, Nohria and Roberson 2003). Most people have had direct experience working with an Executive who's not able to perform the role and know how it can negatively impact organisational culture and results.

Often organisations ignore the statistics and continue to make Executive appointments without conducting valid assessment and due diligence. As a result, they bring in leaders who they later find are a poor fit. Without objective assessment data, they are also unable to proactively manage risks and support their Executive Talent to succeed.

Many professionals will read this article under the belief that due diligence is being performed in their organisation; in many instances however, it is not.

So what is not working and what *should* organisations be doing to conduct proper due diligence on Executive appointments?

What is not working?

1. Assessments from Search Firms

Many organisations still rely on their Executive search firms to conduct due diligence – the conflict of interest that this represents is often known but overlooked.

Placement fees can push well into 6 figures, so the incentive to get a candidate into a role is high. For search firms it is easier to pitch a candidate based upon their background, experience and organisational results. However, it is the leadership capability and character which determine success and failure (Burke 2006, Kiel 2015). From the search firms perspective, objective assessment data (on key leadership capabilities and character) can become an unnecessary risk to their placement fee.

Although some executive search firms claim to conduct assessments, they often do not use valid behavioural assessment practices. 'Proprietary tools' are closely guarded secrets, some of which, when uncovered, can be little more than lengthy unstructured interviews. It is reasonable for organisations to seek clarity and transparency on these proprietary processes before paying the high fees they attract.

Some higher quality search firms have indeed realised this conflict and, to add value to their services, do incorporate an *independent* assessment. Organisations need to seek out such firms to ensure they are getting the best candidates and value for money; objective data is needed for true due diligence.

2. Interviews

"The interview is the most flawed process in business."
Larry Bossidy

Interviews are a mainstay of selection. However, over 50 years of research points to the fact that they are less reliable and valid than other forms of assessment. The fact that individuals 'talk about' rather than 'demonstrate' their skills means that interviews are always a weaker line of assessment than simulations or observed work.

Anyone with senior leadership experience will know that demonstrating strategic, consistent and authentic leadership is quite a different challenge to talking about it. Moreover, leaders with particularly damaging and destructive personality types (psychopaths and narcissists) tend to excel at interview (Hogan 2005).

Of note is the still highly relevant work of Jim Collins (Good to Great 2001) whose review of Fortune 1000 companies revealed that those organisations with consistent and sustained above average performance were led by individuals characterised by humility, modesty and persistence – elements which tend to be overshadowed against 'charismatic' CEOs in an interview process.

3. 'Gut feel' of senior stakeholders

We all get a 'gut feel' about others, sometimes from as little as a handshake and 30 seconds of conversation. We learn to 'trust our gut' as it is often based upon true and valid experience and we are prone to kick ourselves when we go against our instincts.

Sometimes our instincts are right, sometimes they aren't – the trick is learning how to seek sufficient data to confirm whether your instincts are indeed accurate. Senior stakeholders involved in a selection or succession process will often 'trust their gut' over multiple points of valid data, paying attention only to the results which support their view – a cognitive delusion known as 'confirmation bias'.

Incompetent or even psychopathic leaders, if sufficiently charismatic, can 'fool the gut' of even the most experienced stakeholders. Objective, valid data is needed before anyone can confidently conclude that an Executive leader is right for an organisation.

4. Looking backwards – resumes and references

It is widely known that people embellish and exaggerate on their resumes. With the stakes so high for Executive appointments, one would be naïve to assume this information is true and correct. References are also widely understood to have poor validity, yet both are still widely used as key elements in an Executive selection process.

Even if the resume and reference are accurate, there is a broader issue to consider. A strong track record is a pre-requisite and may be a good indicator of likely future success, but it is a minimum requirement, not a differentiator at the Executive level (Bank et al 2009). The causal factors that led to an Executive's success are more critical to understand; in many instances this may be due to a strong team, organisational culture or even fortunate economic circumstance - none of which will necessarily follow them into the new role.

5. Executive candidates refuse to participate in a rigorous assessment process.

In our experience this sounds alarm bells.

Assessments at this level are purposefully challenging and Executives are often confident ‘pushing back’ against having to go through them. Typically excuses emerge such as ‘I don’t have time’, ‘my resume should speak for itself’ or ‘I have a high profile contact who can vouch for me’. Stakeholders keen to keep things politically positive can find themselves acquiescing to requests to bypass the process for ‘special candidates’.

Typically though, this refusal signals one of the following:

a. The participant is not competent for the role and they are afraid of being ‘exposed’.

b. They are providing a direct illustration of negative personality traits (such as arrogance and self-entitlement) which are likely to lead to problems if appointed.

c. The candidate has low levels of motivation for the role.

d. They are wary of having their performance and potential evaluated via an assessment processes that they do not understand.

Some candidates who refuse assessments have experienced unprofessional assessment practices in the past. Others have only a limited understanding of how executive assessment processes work, and the ways in which it can benefit them. A well-run assessment process with strong communication can quickly allay such reservations.

It is beneficial to insist on potential candidates undergoing the process. If candidates refuse, it is most likely that they are unsuitable and will be filtered out at minimum cost.

6. Executive myths

We are surprised with how often we hear the following as an excuse to sidestep assessment for Executive appointments:

> *“Assessment at this level is neither necessary nor appropriate.”*
>
> *“Executive roles are different so standard assessment methodologies will not work.”*
>
> *“Proper Executive assessment is too expensive.”*

Assessments are designed to give Executives the opportunity to *demonstrate* rather than merely *describe* critical leadership abilities against a predetermined benchmark. Appropriately designed and validated methodologies can only provide stronger data to make more informed decisions.

With regard to cost, a typical assessment would cost less than 10% of a recruiter’s fee; a small price to pay for the right decision and the information to support the chosen Executive to succeed.

7. Gender imbalance

The most prevalent selection methods clearly have a bias towards men. There are only 6 female CEOs in the ASX top 200. This is despite independent research indicating that women tend to outperform men on the majority of leadership capabilities and that effect becomes more pronounced with higher seniority (Zenger & Folkman 2012).

Having an objective assessment process would be expected to uncover the strongest candidates for the job based on capability. This would be expected to help correct rather than perpetuate the current imbalance.

What should organisations be doing?

A good assessment process at the Executive level should include the following:

1. **A clear and valid profile of what is required for success.** Approximately half of organisations do not have a clear success profile for their Executive leaders (Larker and Miles 2010). Without this, organisations are 'shooting in the dark'. This profile should detail required skills, experience, personal attributes and knowledge. This then becomes the driving force of assessment design and the 'true north' of appointment decisions.
2. **Effective design.** All critical aspects of the success profile are covered by the assessment. The Executive's 'dark side' and associated risks should also be reviewed.
3. **Inclusion of internal candidates.** Often organisations overlook internal talent, preferring to invest externally. It is always worth assessing and considering internal talent. Talent grown internally tends to be less 'risky' than an external appointment. They are also a critical point of comparison.
4. **Engagement of the participant.** The process should be fully transparent and the candidate should be thoroughly informed and supported throughout, both by the assessment provider as well as the hiring organisation.
5. **Multiple assessment methods.** An assessment process must have multiple data points to be considered valid. Typically these include personality profiling, cognitive testing, capability demonstration (e.g. simulations), behavioural interviewing and experience analysis.
6. **Experienced and trained assessors.** Studies show that assessment processes are significantly more effective at predicting success when assessors are suitably trained psychologists rather than managers. (Meta-analysis Gaugler et al 1987). This is because psychologists are experts in observing, recording, measuring and evaluating human behaviour. They clearly understand inherent assessor biases and have effective cognitive and operational strategies to ensure all candidates are assessed on an equal footing.
7. **Results reported in light of business context.** Assessment insights should be reported and decisions made in light of current and anticipated business contexts.
8. **Developmental feedback for candidates.** Whether an Executive is successful or unsuccessful with their application, the data gained from an assessment process can be pivotal in driving their future. They have invested a considerable amount of time and effort into the assessment process, and are entitled to receive timely, tailored feedback from a suitably trained and experienced professional. It is very important to ensure the entire process is constructive for candidates – even the unsuccessful ones – as they may someday become future partners or strategic customers.

9. **Support the successful candidate.** No candidate is perfect – there will always be potential risks that emerge from the assessment process. Openly recognising the risks and managing them through coaching, feedback, proactive development and support leads to significantly reduced rates of failure upon appointment.

Conclusion

On reflection, many organisations will recognise the inconsistencies in their current Executive selection methods. They also recognise the criticality of getting this right.

The most prevalent tools and approaches used at senior levels are not effective. Third party independent assessment is required for due diligence and to support individual Executives to succeed – a benefit to all stakeholders.

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