

# Ready

Volume 1, Issue 1 | November 2008

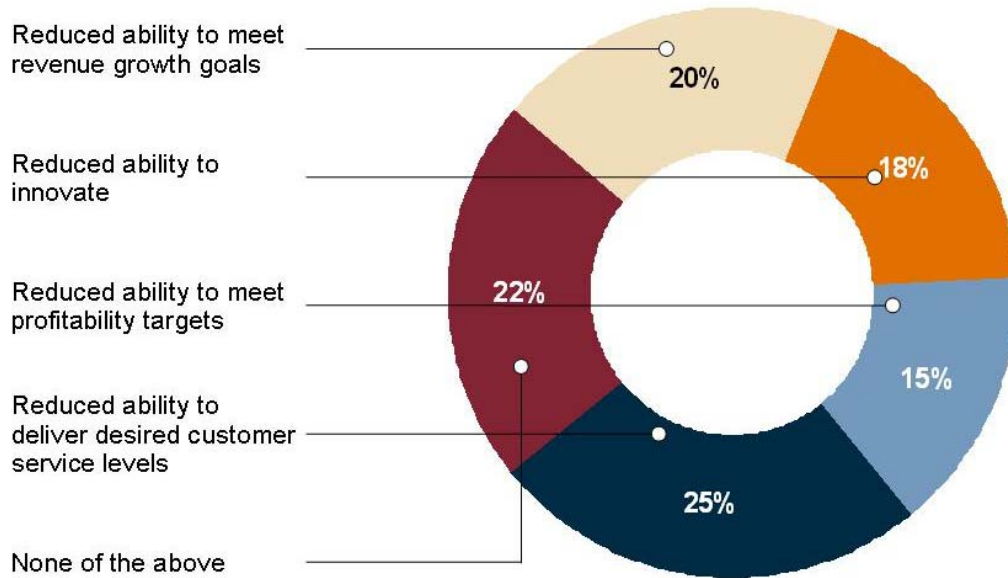
## Controlling Leadership Talent Risk: An Enterprise Imperative

By Seymour Adler, Senior Vice President and Amy Mills, Vice President

### Leadership Shortage Imminent

Grooming leaders is one of the most critical business needs in the modern workplace, and having the right people in place to lead your organization through tough periods of fast growth and economic downturns is critical. In the United States, the leadership shortage will grow dramatically over the next decade as greater numbers of baby boomers retire.

Studies show that organizations are already feeling the pinch of the leadership shortage. In Aon Consulting's **2008 Benefits and Talent Survey** [[http://www.aon.com/benefits\\_survey](http://www.aon.com/benefits_survey)], 56 percent of the respondents report that they are experiencing a shortage of qualified leadership talent. This is up from 40 percent from the previous year. The survey also revealed employers' biggest leadership shortage concerns, as illustrated below.



Source: Aon Benefits and Talent Survey 2008

### Opportunities to Prepare and Mitigate the Risk

Given the imminent leadership shortage and the influence leaders have on business outcomes and shareholder value (abrupt CEO departure can lead to 2.5 percent market capital loss), now is the time to determine the extent of leadership talent risk in your organization. By increasing focus on developing a top tier leadership program, corporations can:

- > Reduce turnover of newly hired executives through better onboarding, saving significant dollars for each new executive hired.
- > Increase unit performance by replacing average leaders with top-performing leaders.

# Ready

## Controlling Leadership Talent Risk: An Enterprise Imperative (continued)

- > Cut the talent turnover risk by assessing and hiring for cultural and job fit, in addition to skills, knowledge and abilities.
- > Help you hire better leaders and conduct assessments using virtual tools that dramatically reduce processing costs.

### Assessing Overall Leadership Risk

What exactly is this risk? Leadership talent risk is a measure of how likely it is that your organization will not have the leaders needed to direct and grow your business.

While losing key leaders has direct impact on the bottom line, it is more than just a financial burden; it impacts your organization's overall effectiveness, key client relationships, and employee productivity. By conducting an enterprise-wide, senior-management sponsored leadership risk assessment and developing a response to the collective risks, you can help ensure your organization will have the needed leadership talent to compete in this challenging economy.

The following model illustrates the steps necessary to this assessment:



Armed with the results of such a risk assessment, you can create a comprehensive solution strategy to lessen leadership talent risk. Risk mitigation strategies such as succession planning, leadership development, external hiring, and onboarding can be comprehensively and successfully implemented.

### Risk Mitigation Alternatives and Solutions

#### *Succession Planning and Leadership Development—Take a Look Inside*

Succession planning and leadership development ensure new leaders are ready and qualified to assume higher level roles as the needs arise. There are some best practices in succession planning that consistently improve leadership “bench strength.”

First, systematically assess your leadership talent. During this process, organizations should not only examine their current leadership “bench,” but also assess the potential leadership talent in their high performing professional employees. “High potentials,” as they are called, will benefit from objective, professional assessment against senior level skills. When valid assessments identify skill gaps, it is easy to focus development on areas of weakness.

# Ready

## Controlling Leadership Talent Risk: An Enterprise Imperative (continued)

The next step is to address skill gaps through systematic development. That is, create a disciplined approach to nurturing talent up and down the leadership pipeline, including, but not limited to:

- > High impact on-the-job activities linked to accelerated development (stretch assignments).
- > Targeted development programs including business simulations that allow participants to experience the consequences of their decisions.
- > Development opportunities customized to leaders' needs.
- > Leadership development activities framed in an organizational context.

Then, manage the pipeline and process:

- > Support new leaders—As new leaders move from level to level, there are new skills, new ways to budget time, new values that are required to perform effectively. New leaders need ongoing support, coaching, and mentoring. Ensure senior leaders have rich, productive conversations with their direct reports.
- > Continuously review—Look at the pool of talented successors in place, or nearly ready to be in place, as positions become vacant. Teach and coach senior leaders to better identify new talent.

In addition to effective succession planning, organizations can use more proactive recruiting techniques to address leadership shortages, including strategic workforce planning (such as analysis of both internal and external labor supply and demand drivers).

### *External Hires—Take a Look Outside*

When seeking candidates externally, using prehire assessments is a common practice. Assessments must be reliable, valid and legally defensible—and result in substantial return on investment. Thus, research-based solutions that are legally defensible and designed in accordance with the principles outlined in the Uniform Guidelines on Employee Selection Procedures (1978) and by the top psychological associations are recommended. For leaders, the most frequently applied assessments include interviews, ability/cognitive tests, personality tests, various survey questionnaires, computer-based business simulations, and role-play assessment exercises. Examples include the following:

- > Interviews: Professionally developed interviews can assess an array of leadership competencies such as influencing skills, business acumen and communication style. Behavioral structured interviews target key proficiencies and incorporate a broad variety of situational protocols.
- > Ability/Cognitive Testing: Ability/cognitive tests can assess leadership competencies such as reasoning skills, financial acumen and quantitative reasoning.

# Ready

## Controlling Leadership Talent Risk: An Enterprise Imperative (continued)

- > **Personality Testing:** Various personality tests can assess a number of “personality-oriented” competencies, such as stability, social interaction with others, and achievement orientation.
- > **Assessment Simulation Exercises:** Work Simulations (i.e., assessment center exercises) provide a realistic measure of participants’ current strengths and developmental opportunities. Simulations can measure a range of skills, from soft (e.g., communication, ability to establish relationships) to hard skills (e.g., technical proficiency, managing business complexity). Assessment simulations can assess various leadership competencies, such as networking, persuading, mobilizing and leading teams, empowering and influencing others, leading strategic change, sales leadership, and so on.

Assessment systems should match administrative capabilities and stand up to legal challenges, and, where appropriate, use technology to maximize efficiency (e.g., video or computer-based administration).

### *Executive Onboarding Coaching—Insuring Your Hiring Investment*

Whether your future leadership talent is nurtured from the inside or recruited from the outside, there are still many risks to mitigate once the leader is in the new position. There is a 50 percent chance a new executive will quit or be fired within the first three years. Forty percent fail within the first 18 months, taking with them an investment of hundreds of thousands of dollars. In addition, the cost of replacing a newly recruited executive could be anywhere from three to five times that position’s salary. Think about relocation costs—multiplied for the expatriate—as well as all the investment in recruiting, assessing, and selecting a new executive. Consider the client relationships that need to be rebuilt. There is real risk that needs to be managed.

Research has identified some of the “derailers” common to new leaders:

- > Lack of understanding and alignment regarding performance expectations, along with tremendous pressure to perform early on.
- > Hiring manager’s lack of full accountability for successfully onboarding the new leader.
- > Hiring manager’s focus on the short-term plan and immediate needs, rather than the long-term vision.
- > Lack of resources to help the new leader navigate through the organization.

To effectively address these derailers, coaching an executive through his or her onboarding period must be carefully planned. In an effective coaching relationship, an external coach is assigned to help the executive address defined skill areas targeted for improvement. Over the course of several months, the coach works one-on-one with the leader to increase effectiveness. Progress is monitored at key times during the engagement, usually halfway through and again at the close. When done effectively, executive onboarding coaching will:

# Ready

## Controlling Leadership Talent Risk: An Enterprise Imperative (continued)

- > Focus on outcomes: Success criteria must be defined and may include development and execution of a strategic plan produced at the 90-day mark, achievement of performance goals, and the retention rate of new executives.
- > Add value: This is achieved through an integrated and systematic approach to onboarding executives by identifying early “red flags” that indicate risk of derailment, and creating strategies for mid-course correction and contingency planning.
- > Create partnerships: Partnership among key players is critical to successful executive onboarding. In the partnership, stakeholders are identified, roles and responsibilities clarified, and diverse expertise leveraged. Metrics can evaluate and assess the strength of the partnership at multiple stages in the onboarding process.

### Conclusion

With leadership shortages threatening critical business issues—profitability, revenue growth, innovation and service—organizations must understand their leadership talent risk and take action. Some market-leading organizations are already studying the leadership trends and preparing. They believe in effectively managing the risk of a leadership shortage and are proactively identifying, assessing, developing, managing and retaining the right talent.

#####

*To learn more about leadership talent risk and how to ensure you will have the right leaders to direct and grow your organization, contact*

*Seymour Adler at [seymour\\_adler@aon.com](mailto:seymour_adler@aon.com) or 212-441-2065, or  
Amy Mills at [amy\\_mills@aon.com](mailto:amy_mills@aon.com) or 313-429-9401.*