



TECHNICAL REPORT SERIES

*Validity at the Top*



## **LeaderMorphosis Technical Report Series – Validity at the Top**

### **Issue**

The challenge of hiring or promoting leaders into critical roles is greater today than at any point since the postindustrial era began. Most would agree that the success of a company starts with leadership ... it simply matters who is in charge. Companies across the globe spend billions on search firms to help them in their quest for finding top talent. HR departments in conjunction with assessment and consulting firms spend billions more identifying high potential leaders to develop and promote. Despite the money, time, and resources devoted to the challenge of hiring or promoting the best and brightest into senior leadership roles, the failure rate in upper management positions exceeds 50% and has been estimated to be as high as 75% (insert reference).

### **Traditional Approach**

The professional community who is called upon to address this issue would typically identify it as a selection issue and recommend better assessment procedures (interviewing, testing, etc.) as a means of ameliorating it. They would also suggest that validating the assessment procedures using some form of a criterion validation study would be key in determining the effectiveness of the procedures. To date, the traditional approach has not worked. If it had worked, we would not continue to see failure rates exceeding 50% even when sound assessment procedures have been employed.

### **Why the Traditional Approach Has Failed**

There are a variety of reasons why the traditional approach has failed. It begins with the failure of many companies to even consider using effective assessment procedures, opting instead to rely upon interviews, past performance, or simple word of mouth. However, that only scratches the surface of the problem. The real issues lie with something that the traditional approach cannot overcome when hiring or promoting at the top. To begin with, sample sizes are often very small. There are only so many senior leaders in an organization. Second, success is very difficult to define at the top. It can take years to see if a leader is truly successful. Third, range restriction in terms of both assessment results and criterion performance is ever present. Those considered for positions at the top have already been quite successful, so it should not come as a big surprise that range restriction would be an issue. Finally, and most important, more than half the leaders who should be examined with respect to the traditional approach are not even available to be studied because they are no longer part of the organization. Remember, managerial failure is estimated at 50% or higher. Predicting individual differences under these circumstances (with the traditional assessment and criterion measures that are typically in use today) is nearly impossible.

## **Alternative Approach**

The purpose of this article is to propose an alternative to the traditional approach to hiring or promoting at the top. This approach relies upon a systematic study of those who have failed at the top. In other words, instead of informing the decision process as to who will succeed in a senior leader role, make sure a leader does not get hired or promoted if he or she demonstrates characteristics that will result in failure. This approach has many advantages over the traditional approach. First among them is that the criterion measure begins with hard data ... leaders who have failed. There is a strong and growing literature around the causes of managerial failure and a systematic taxonomy for classifying the characteristics most often responsible for failure (insert reference). This approach also has the benefit of being a potential game changer in terms of on-boarding a newly hired or promoted leader. If it is determined that one or more of the characteristics known to result in failure are present in a leader's profile and the organization is still determined to put the leader in the new role, steps can be taken to minimize the impact of the potential derailing characteristic(s).

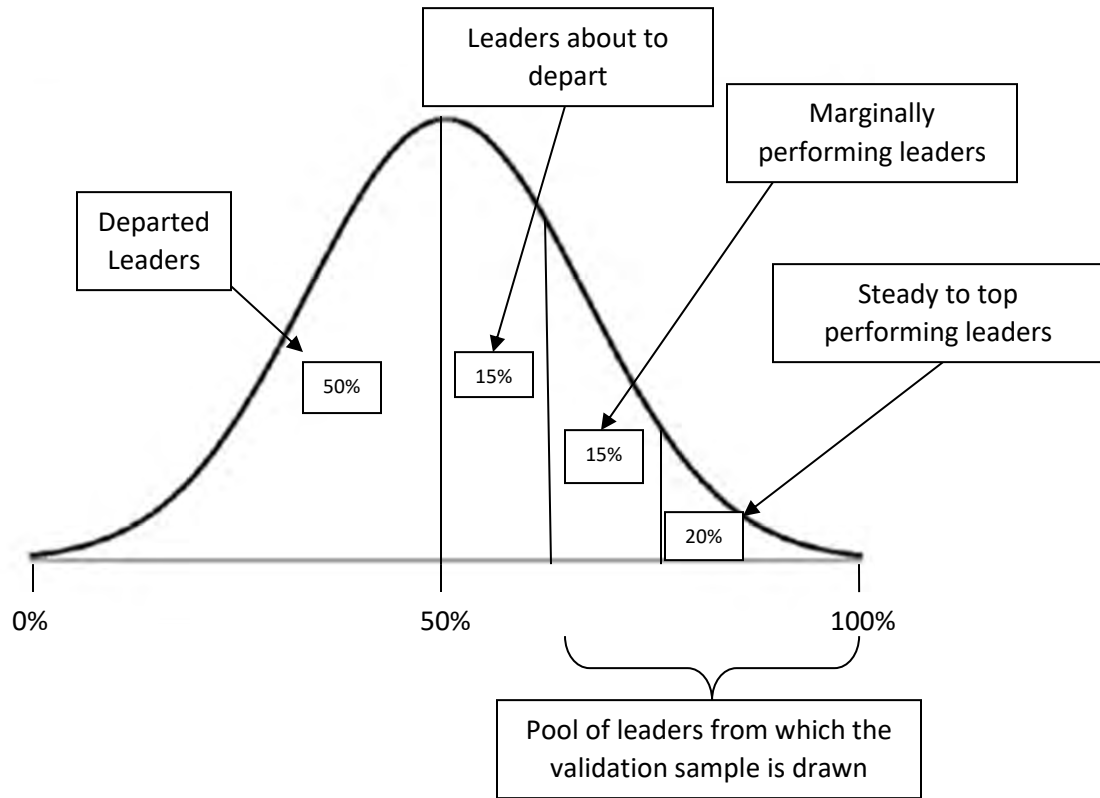
The alternative approach should result in a shift in thinking with respect to hiring at the top. The objective would no longer be a search for the holy grail in the form of a super star leader. The objective would be to minimize failures by putting solid performers on the playing field and on-boarding them in a way that increases their probability of success. Ultimately, the cream will rise to the top, but the milk underneath will be far less sour!

## **Model for the Traditional Approach**

The traditional approach typically relies upon a sample of leaders drawn from a very restricted population that includes some combination of marginal, steady, and top leaders. Departed leaders and leaders about to depart are not part of the sample because they are not available, choose not to participate, or are simply excluded. This approach will result in as much as 65% of the leaders in an organization (past and present) being excluded from any meaningful analysis. Furthermore, those selected as part of the sample will likely demonstrate range restriction with respect to both predictor and criterion measures because they have had a degree of success within the organization otherwise they would not be leaders in the first place. The outcome of the traditional approach under these circumstances is minimal validity and even less utility in decision-making.

The following figure (See Figure 1) illustrates the distributional characteristics of the traditional approach to validation. The pool from which a validation sample would be drawn can reasonably be estimated at 35% to 40% of the possible pool and it would include some combination of marginal, steady, and top performers.

**Figure 1 – Distributional Model for the Traditional Approach**



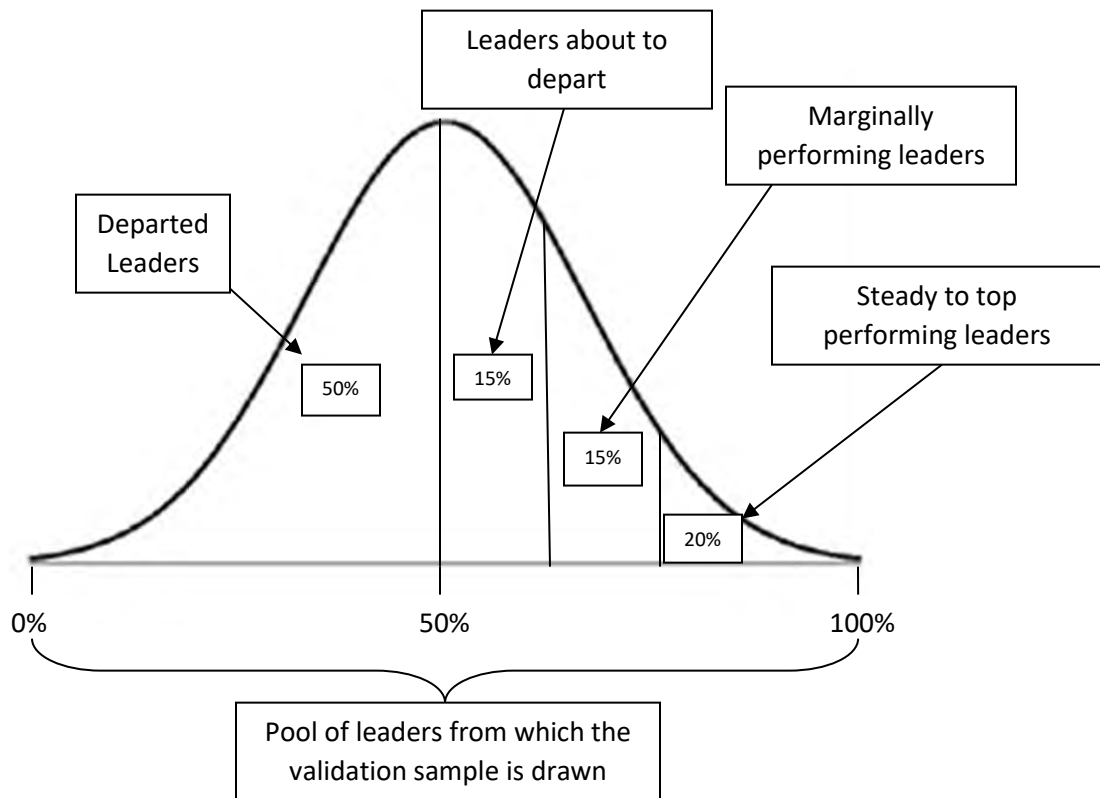
**Model for the Alternative Approach**

The alternative approach typically relies upon a sample of leaders drawn from the entire population of leaders. In fact, it places heavy emphasis on the 65% of the leaders who are neglected by the traditional approach (i.e. those leaders who have departed or are at risk for departure). The rationale behind this emphasis lies in the range restriction issue. Leaders who have departed or are at risk for departure are far more likely to have predictor and criterion results that differ significantly from those who are promoted through the ranks with performance success in top positions. An important point here is that results might not differ simply in terms of good versus poor performance. The alternative model considers the fact that there are contextual differences between all organizations and these contextual differences are important in understanding success within an organization.

The outcomes for the alternative approach includes maximum validity, a clear understanding of the factors that contribute to leader failure, improved utility of decision-making information, and on boarding data that could be used to improve leader performance and retention.

The following figure (See Figure 2) illustrates the distributional characteristics of the alternative approach to validation. The pool from which a validation sample is drawn would include a careful examination of departed leaders and leaders about to depart. This would result in 100% of the potential pool of leaders included for consideration in the sample to be studied.

**Figure 2 – Distributional Model for the Alternative Approach**



### **Challenges Using the Alternative Approach**

The alternative approach is not without its challenges. In general, it requires more discipline and commitment on the part of an organization. There are four specific challenges an organization will face with this approach:

- Commitment to a long-term process of improving the leadership talent pool
- Willingness to use assessment tools (predictors) at the highest levels of leadership
- Willingness to collect criterion data that includes characteristics of managerial failure

- Willingness to spend time and resources evaluating departed leaders

The alternative approach is not for every organization. However, for those willing to take on the challenges outlined above, the results could be instrumental in making dramatic leadership talent improvements.

### **Building the Database**

A key difference between the traditional approach to validation and the proposed alternative approach is the development of a database covering the issues related to those who have departed the organization. Exit interviews are typically used to gather the perspective of those who have departed. These data may provide some utility for the organization when considering such issues as management practices, compensation, benefits, etc. However, they are of little value in understanding separation from the organization from the perspective of those leading the organization. In other words, when a leader departs an organization there is very little effort made to understand the departure from the perspective of those witnessing the events leading up to the departure. There is even less effort made to systematically incorporate such information into hiring or promotion decisions to prevent similar departures from occurring in the future. There are two sides to every story when a leader departs an organization, but for a host of potential reasons, only the departing leader's perspective receives systematic attention from the organization in the form of an exit interview.

The alternative approach requires gathering data from those who have knowledge as to why a leader(s) departed the organization. The following summarizes the steps necessary to gather the needed data:

1. **Identifying an SME team** – The SME team is key to this approach. There are two characteristics that are important for team members. First, they should have broad visibility to large number of leaders who have left the organization over the past 3-5 years. Visibility means that they are somewhat familiar with the performance of the departed leaders and to some extent can speak to the reasons the leaders departed. Second, they should have good people judgment and be able discuss performance issues in behavioral terms. The team should be 5-7 people who can devote at least a full day for a review of departed leaders and participate in subsequent rating activities.
2. **Screening departed leaders** – HR will need to develop a list of leaders that have departed the organization over the past 3-5 years. A rating scale should be used to gauge the knowledge the SME team has regarding the departed leaders. Rating scale criteria should be designed to ensure that there is ample performance knowledge regarding a departed leader among the SME team before that leader can be included in the study sample. Ideally, a group of 50 to 75 departed leaders can be developed with each leader rated as “well-known” by at least two of the SME team members.

3. **Pre-work** – HR should then gather available information on all departed leaders much in the way succession management information is prepared. External consulting support could be utilized to help organize the information for the SME team discussion. The outcome of this step will be a profile of each departed leader in a format that facilitates SME discussion and data collection.
4. **SME off-site discussion** – This should be a full-day discussion of all the departed leaders in a succession management style format. External consulting support can be used to facilitate the discussion to ensure participation and the inclusion of perspectives from all SME team members. The outcome of this step will be a combination of subjective and objective data for each departed leader covering issues ranging from performance to organizational fit.
5. **Rating form development** – Content analysis should then be conducted of all the information gathered on the departed leaders from the SME off-site. This analysis should be used to develop a customized rating form that can be employed in evaluating the sample of departed leaders from the perspective of the organization. It is important to note that the rating form could include a combination of generic factors as well as factors specific to the organization.
6. **Evaluation of departed leaders** – The SME team should be asked to rate each of the departed leaders in the study sample using the rating form developed in step 5. In addition, data collection may be expanded to other individuals capable of evaluating a portion of the sample of departed leaders. Ideally, each departed leader should be rated by 3-5 people to allow for an estimate of inter-rater reliability for the rating form.
7. **Prediction model** – The evaluation data can then be used as a criterion measure for developing a prediction model for use by the organization in the evaluation of future leaders.
8. **Combining data with traditional approach** – The prediction model developed in step 7 should be combined with data from the traditional approach to create an overall prediction model.
9. **Ongoing data collection** – The criterion measure can then be added to the ongoing exit interview process for leaders departing the organization as a method of collecting data for future model improvement.
10. **Model updating** – An annual process should be implemented to update the prediction model and provide the organization with ongoing decision-making and on-boarding information.

## **Summary**

A case can be made that the traditional approach to validation will have limited utility when it is applied to the top leaders within an organization. An alternative approach involving the systematic evaluation of departed leaders has the potential to add considerable information to an organization interested in improving its leadership talent. The alternative approach proposed is not meant to supplant the traditional approach to validation. Rather, it is designed to overcome many of the inherent issues that arise when sample limitations are a situational reality. Organizations using assessment methods to evaluate leadership talent have a responsibility to pursue validity evidence related to those methods and the traditional approach to validation will successfully address that responsibility. Organizations that are interested in creating a competitive leadership advantage over their industry rivals should consider adding the alternative approach to their validation efforts at the top.