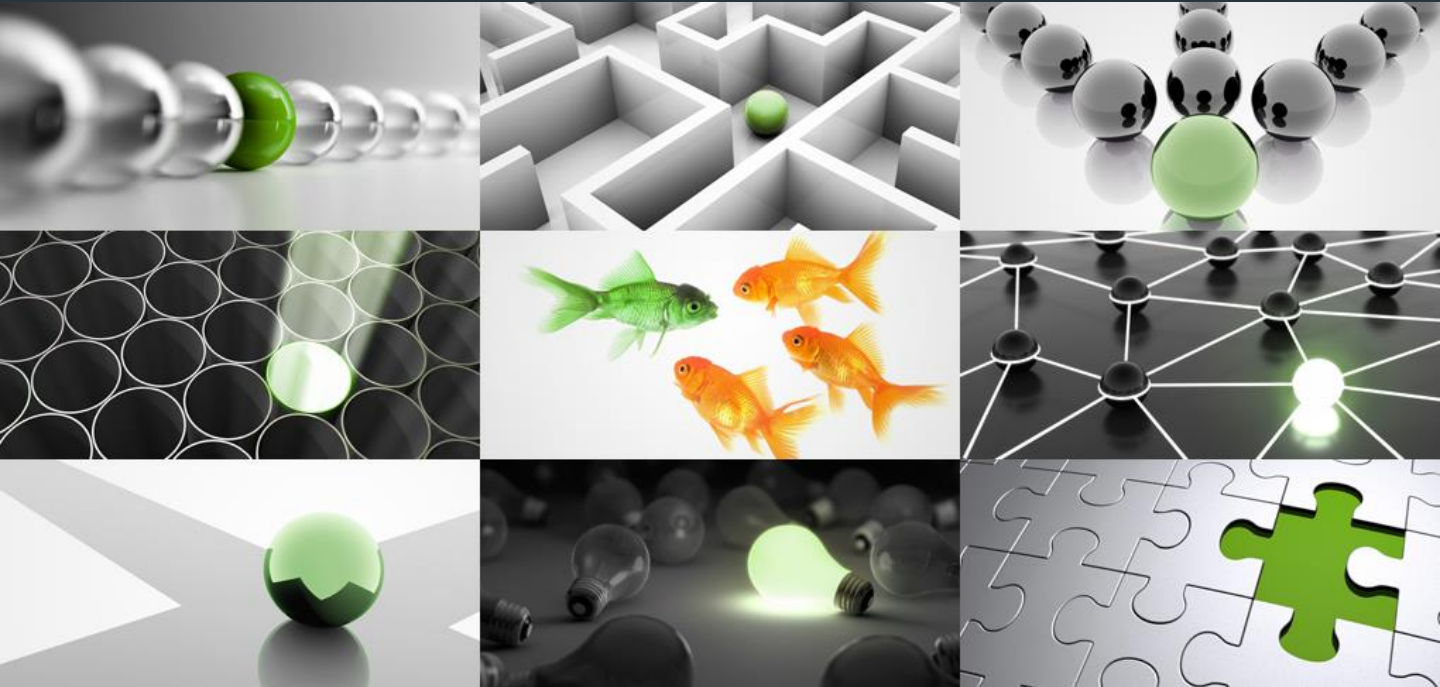


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Executive Report: Stepping up to the next Executive level

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1. Who will lead the company in five years' time?

How confident are you that the people in your leadership have the potential to step up to the next level and ultimately to the C-suite?

Fact: not all high performance employees have what it takes to be the CEO of the organisation. Nor will everyone who excels in a senior management position have the capability to move into an executive leadership role. Succession risk at the executive tier is a critical issue so how can organisations ensure that they have the right people in their leadership pipeline that are able to step up to senior level?

It is a challenge that all organisations must confront head-on. Poor leadership impacts every area of the business from productivity and performance to employee engagement and motivation so organisations must ensure the readiness of tomorrow's executive tier today. Moreover, leadership development is a powerful attraction and retention tool for the organisation's existing top performers as well as incoming talent. The more great leaders you have, the more you'll be able to attract, recruit and retain for the future.

Research indicates, however, that organisations aren't confident about identifying who they should invest in as potential leaders [ref Korn Ferry Succession Matters]. At the heart of this challenge is understanding how to assess the talent of these individuals. As well as failing to identify future leaders, another significant problem facing organisations is the misalignment of leadership development programmes to meet the demands of the future business landscape and operating environment.

Today's executives draw from an entirely different skillset to their counterparts of even just five years ago. And those individuals at the helm of organisations in future will require skills as well as have to exhibit behaviours that won't necessarily be part of a leader's armoury or make-up in 2015. They must understand how to survive in the much talked about VUCA world, characterised by 'volatility, uncertainty, complexity and ambiguity', and be sufficiently adaptable to deal with the impact of future developments.

Rialto Consultancy recently held an event entitled *Successfully Assessing Step-up Potential at Senior Levels* which explored some of the critical issues organisations faced in this area and it is evident that many are struggling to get to grips with the challenges this brings. Based on our expertise, knowledge and proven models, as well as drawing from recent research in the fields of leadership development and management thinking, we've produced this report to assist in the identification and assessment of those key individuals who can lead your business to success in the future.

2. The DNA of a future leader

What are the core competencies and behaviours that leaders must exhibit? And why high performance doesn't necessarily equal high potential?

It is essential to establish assessment methods that recognise high potential as distinct from high performance. While the two aren't mutually exclusive, studies shows that only one in six high performance employees display characteristics and behaviours that would suggest high-potential [ref CEB research]. Will an adept financial controller necessarily convert into the type of chief financial officer that the organisation requires for the next five years? Will they have the necessary strategic acumen for the present as well as in future? How effectively can they communicate a vision and persuade and influence others to believe in it? Can they envisage and manage major change and transformation programmes? And having perhaps worked as part of a close-knit team previously, how will they withstand the isolation that working at director level can bring? All of these issues needs to be explored with each individual.

John Mervyn-Smith, consultant psychologist at Rialto, explains that the definition of high potential can be quite narrow. "If someone has a high IQ, desire to take charge, capacity for strategic thinking, are extroverted, have great energy, are outcome-focused and have high degrees of emotional intelligence they tend to go far in organisations," he says. "But that isn't the same as having step-up potential and there is a danger that organisations confuse the two. People who don't tick all these boxes can be written off prematurely."

Organisations frequently make use of the nine-box performance and potential matrix. While this means appraisal isn't based solely on performance, nor is it down to one person's judgement, it still won't necessarily assess actual step-up potential. Mervyn-Smith reckons the capabilities and competencies required for strong leadership cluster under three headings: leading a business; leading people; and leading performance. Those with the skills for the latter two can progress in their careers, succeed in engaging and motivating people and bring about performance improvements but the real step-up occurs when it comes to leading a business. "That is when capabilities such as complex and strategic thinking, tolerance of isolation and resilience to external pressures come into play," he says.

Five key attributes required for stepping-up:

Resilience

In the VUCA world, resilience is essential to remain personally strong and to keep the organisation charting an even course. A 2015 study found that less than two-thirds of leaders believed they were either 'highly confident' or 'very confident' in their ability to meet the challenges of VUCA [ref DDI VUCA index]. Resilience has been growing as a desirable attribute long before the global recession and other significant events wrought massive change throughout the world of business. According to Mervyn-Smith it is both the number of pressures and magnitude of them when stepping up to the "inner circle" of a C-suite role that requires high levels of emotional and physical resilience including demands from the City, investors and even activist shareholders. Crucially though, the key is also to convey toughness and resilience to everyone around you and at all levels in the organisation. "Much is made about the contagious nature of anxiety," he says. "Bosses who leak anxiety tend to create a contagion that spreads to their people. So it is not only about being resilient but demonstrating resilience as well as high levels of energy and stamina."

Critical thinking-intelligence

Modern business leaders must be able to assimilate mounting levels of information and data from a wide array of sources and make informed decisions in an increasingly complex world. Critical thinkers tend to be astute learners and it is therefore unsurprising that in a 2015 interview with Forbes, General Electric's chairman and CEO Jeff Immelt identified "being a learner" as the most important personality trait for leaders (he cited resilience as the next most important). Leaders must be able to absorb, assess and analyse information to problem-solve and make appropriate decisions. Mervyn-Smith points to conscientious individuals he has encountered who exhibited many of the core competencies required to step up including resilience but who fall short when it comes to thinking strategically or coping with complexity.

Inherent optimism

It is self-evident that no-one would want to follow a leader who was pessimistic. Being and displaying optimism is fundamental to leading people and organisations to success. It can be difficult to identify an underlying sense of pessimism or a negative disposition especially if a person is placed in the high performance category and things go consistently well for them at work. But it is a trait that can manifest itself, for instance, when leaders find themselves up against it when company performance is falling through the floor and employee morale is plummeting. "Without optimism it is very difficult to lead at senior levels," says Mervyn-Smith. "Optimists show their people the future and are not cautious about it."

Tolerance of isolation

'Lonely at the top' may sound hackneyed but it still remains a truism about leadership. While the ability required to deal with this is often under-estimated, stepping up to executive level undoubtedly requires high degrees of self-sufficiency. At mid- to senior management level, individuals will find it possible to confide in peers but it becomes increasingly difficult at executive level when any sign of personal weakness could result in shredded reputations.

Emotional intelligence

Since Daniel Goleman's book, *Emotional Intelligence: Why it can matter more than IQ*, was published vast reams have been written about high levels of emotional intelligence being a major predictor of human success. Understanding why people feel like they do, seeing another person's point of view and an ability to empathise are essential at the highest level. While fewer leaders exist in ivory towers than perhaps a decade ago, many still fail to relate to those around them in the way they should. In the era of collaborative leadership, global partnerships and public-private sector working, EI is ever more important if relationships within these working arrangements are to flourish.

Diagnosing the leadership gaps

There is little doubt that the above behaviours will be required by leaders in the years ahead. In addition, organisations must continually assess the market conditions to make sure these behaviours-attributes remain relevant but moreover to tap into any new capabilities that will be required. Building leadership capability neither stands still nor can exist in a bubble and requires constant scrutiny.

Rialto has developed a leadership capability tool called Ahead of the Curve which helps with a number of these challenges. Based on extensive global research the tool has been developed to identify whether the capabilities and behaviours that are required to live in the VUCA world are present in the candidate being assessed for step-up potential. Leaders can gain an accurate picture of their capabilities benchmarked against both current and future needs. It can pinpoint skills gaps, risk areas and where development activity needs to be targeted. It is also being used by organisations to benchmark their own leadership frameworks to ensure they are an appropriate mix of what is required today in leaders.

3. Leadership science and measurement

How can organisations ensure they have the right process and practices in place to accurately assess individuals in their talent pipeline?

Methods for identifying and assessing leadership and step-up potential will comprise some of those used for traditional assessment and performance management but the examination needs to delve far deeper and also take advantage of more up-to-date ways of testing for behaviours and judgement. In addition, for any tools and methodologies to have long-term value, what they assess and measure must be closely aligned with the needs of the business and market conditions as well as the economic climate in which leaders will find themselves operating.

Predicting performance

Since the characteristics and behaviours for successful senior leaders won't necessarily show up in everyday performance, organisations must use appropriate methodologies to seek them out. Conventional psychometric testing can be called upon but some organisations are turning to situational judgement testing which measures an individual's aptitude for solving work-related scenarios and problems. This entails putting candidates through a series of exercises and scenarios linked to a typical day in the role and observing their behavioural style and powers of judgment to determine their suitability. Mervyn-Smith reckons simply asking a person how they would cope in a stressful situation is "too hypothetical" whereas situational testing is far more revealing and predictive. "What matters most though is knowing what you want to measure," he says.

In addition, the field of Big Data and predictive analytics are playing an increasingly important part in the talent management process. In essence, predictive analytics tools extract information from selected datasets and highlight patterns in this data that can help forecast outcomes. In the context of leadership assessment, the characteristics and behaviours of successful leaders could be identified and appropriate test results from an individual could then be mapped against these.

Although its use by organisations to identify and assess future leaders is currently limited, it offers huge potential. Ian Stobie, associate director at Rialto, suggests that organisations are still struggling to manage their data and to make sense of the whole area of predictive analytics but confirms there is definite demand for technology that can bring increased objectivity to the area of leadership development. “A lot of businesses have so much data but how do they know what’s relevant and how can they bring it together in a way that it can be used to rank and assess people and help them make investment decisions about who they should develop?” he asks.

To this end, Rialto has partnered with a UK university spin-off and is using patented computational techniques to build Cloud-based predictive models that can be readily used by HR departments (as opposed to data scientists) to assess and rank people and provide greater insight into development gaps. One of the areas we are focusing on is identifying the characteristics of a successful leader and balancing the differences between high performance and high potential. We are also using data from external sources to gain better insight into performance. “For instance, we can tie together a Net Promoter score for a customer and Net Promotor score for an employee and link it back to the team,” explains Stobie. “So there are various ways to try to identify who is performing well and the impact of this.”

4. 'Dark side' personality traits and defects

How to identify and limit the potentially damaging impact of so-called leadership derailers

Some potential leaders have skills gaps and character defects that only come to light once they are in the role. If not identified early, they can prove to be damaging to the organisation as well as the individual's career. Clearly, any leaders not in possession of the attributes and behaviours in Section 2 are likely to encounter difficulties. "They are predictors of step-up potential but also potential derailers if lacking," says Mervyn-Smith. He also lists an inability to let go, high levels of neuroticism and shying away from making tough decisions as other potential derailers. Various studies also confirm these alongside a host of other behaviours as derailers. The Fifth Annual Global Leadership Research Project [ref Chally Group Worldwide] identifies the top five causes of leadership derailment as:

- unwillingness to adapt to change
- lack of self-awareness and emotional intelligence/arrogance
- lack of ability to make strategic decisions
- lack of cross-organisational collaboration and leadership skills
- and not embracing culture and values of the organisation.

Meanwhile, those with responsibility for assessing leadership and step-up potential also need to be alert to some of the more idiosyncratic personality traits that can have a negative impact. These are outlined in the best-selling business book, *Why CEOs Fail*, by David L Dolitch and Peter C Cairo. They are:

- arrogance
- aloofness
- eagerness to please
- excessive caution
- eccentricity
- habitual distrust
- melodrama
- mischievousness
- passive resistance
- perfectionism
- volatility

While any of the traits and shortcomings highlighted can prove damaging, identifying them early can prevent them from becoming a derailment. "It is a case of determining which of them can be treated by development and which of them are fatal flaws?" points out Mervyn-Smith.

Preventative measures

To minimise the risk of leadership derailment a growing number of organisations are turning to simulation-based assessment to gain an accurate picture of how an individual will perform once they are in a step-up leadership position. As more accessible predictive analytics tools become available, it is likely that they will also be deployed. Organisations which have strong track records of developing their leaders in-house are using coaching and mentoring to specifically identify potential derailers in an individual's character before stepping up to a senior position. Indeed, according to the 2014 study, coaching or mentoring was the approach most often cited as the "best practice" to minimise leadership derailment by more than one fifth of respondents (21.2 per cent). It was also the development activity that half of CEOs reportedly spend most time on. Some organisations have mandatory coaching programmes in place for newly recruited or promoted executives to minimise the risks inherent in the transition phase. The study also reports that coaching and mentoring is also being built into formal onboarding and transition programmes.

Although the study found a wide range of interventions focused on this area, it also revealed that even the best run companies struggle to come up with a consistent answer to the problem of derailment and concluded that the answer may lie in seeking external help.

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5. Conclusion

Having identified those most able to step-up to the executive level, organisations need to devise tailored programmes of development which spells out where candidates are now and where they need to reach. This needs to be shaped to secure alignment between the individual and context/situation needs of the organisation.

To find out how Rialto can improve your performance in the new VUCA world contact us as follows:

Richard Chiumento on 020 3043 8640
Email: rchiumento@rialtoconsultancy.com

Monica Thaman on 020 3043 8643
Email: mthaman@rialtoconsultancy.com

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The Rialto Consultancy Ltd
25 Southampton Buildings
Chancery Lane
London WC2A 1AL
T: +44 (0)20 3043 8640
F: +44 (0)20 3043 8641
E: info@rialtoconsultancy.com
www.rialtoconsultancy.com