

Pre-hiring assessment improves the executive talent pipeline

by Dana Landis, PhD, Kenneth R. Brousseau, PhD, and Pauline N. Johnson

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Companies understand that executive turnover is costly and, more important, know the value of a robust succession talent pipeline. Pre-hiring assessment appears to help on both fronts. It first predicts whether a candidate is the right person for the job, and then also indicates a candidate's promotion potential.

Executive talent readiness is coming to the forefront of business issues as the global economic climate begins to thaw. While no one is popping champagne corks yet, business leaders around the world are anticipating an improved economy. The sixth annual NYSE Euronext CEO Report, issued in mid-2010, found that 80 percent of CEOs expect improvement in growth for their companies through 2011.

Job creation is expected, too. According to the report published in *NYSE Magazine*, about 40 percent of CEOs in the U.S. and Europe surveyed said they will add to their workforce in 2011, and 45 percent planned to hold head count steady. But it should be noted that the bulk of new hires will be hourly workers, making it even more important that the small number of top-level executives brought on board be not only effective employees, but also strong candidates for advancement.

After all, in most cases, a company's next CEO comes from within its existing executive ranks. Succession planning is on the radar of most American companies, in part because of the Securities and Exchange Commission's recommendation that boards disclose their CEO succession plans as part of their oversight of enterprise risk. In the NYSE Euronext survey, 65 percent of U.S. chief executives reported having a formal succession plan for the CEO role, versus 14 percent of their European counterparts. As regulatory reporting demands expand, boards might reasonably be expected to bolster succession planning for other key positions, heightening the importance of a talent pipeline.

Determining what works

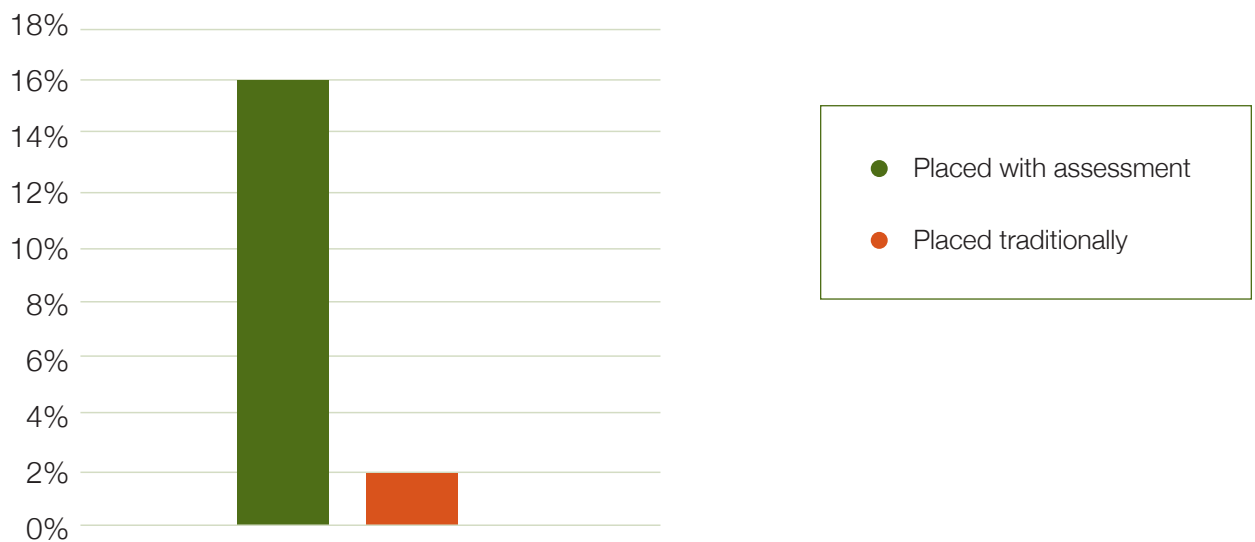
To identify the recruitment screening methods that would best serve clients' succession planning efforts, in 2010 Korn/Ferry International studied the long-term results of various hiring methods. Our findings indicate that pre-hiring assessment that includes comparison with validated benchmarks improves executives' retention – and prospects of promotion.


To determine this, we selected 286 C-level executives placed in North America by Korn/Ferry during 2006 in a wide range of industries. More than half of those in the sample (175) were placed using Korn/Ferry's proprietary assessment tool in addition to traditional screening methods; the remainder (111) were placed using only traditional screening methods.

We then looked to see which of the 286 executives were still with the same employer, and of these, how many had moved to positions of higher or lower responsibility (see Figure 1).

Figure 1

Percentage of retained executives promoted





Despite the turbulent business climate and high unemployment rates during the period covered by the study (2006 to mid-2009), 78 percent of the placed executives remained with the new employer, a key indication of a successful recruitment process.

In terms of job retention, there was no significant difference between assessed and non-assessed executives. But in terms of promotion, the assessed individuals showed a decisive advantage. Sixteen percent of the executives placed using Korn/Ferry's assessment had been given positions of greater responsibility, compared with slightly less than 2 percent of the non-assessed individuals – a statistically significant difference. In other words, companies who used assessments to choose executives were about eight times more likely to get a candidate that they would not just keep, but soon promote.

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Understanding assessment

What is the link between assessment use and executive success? First, it is important to understand Korn/Ferry's proprietary assessment tool, StyleView™, which poses questions that delve into how a candidate solves problems and makes decisions. Candidates are asked to put themselves in various theoretical situations, and based on their answers, we identify the *person's leadership style* and *thinking style*.

Leadership style reflects the way executives behave in situations where they feel the need to present an appropriate image to others. Thinking style indicates how executives behave in informal situations in which they are focused solely on the subject at hand, not interpersonal demands, such as when executives are alone or with a small group of trusted individuals.

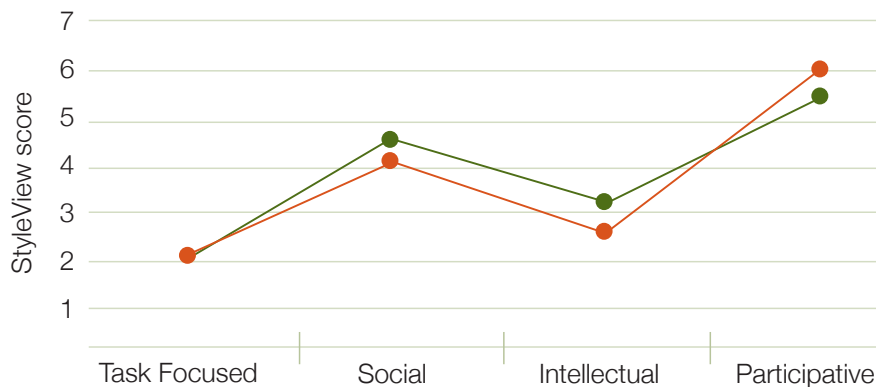
Korn/Ferry has compiled a database of more than 650,000 such executive assessments. A library of best-in-class profiles was created using subsets of this database, representing the top 20 percent of performers by position, management level, function and/or industry.¹ To determine a candidate's "fit," his or her StyleView scoring pattern is compared to the relevant best-in-class profile.

¹ Brousseau, K.R., M.J. Driver, G. Hourihan, and R. Larsson. "The seasoned executive's decision-making style." *Harvard Business Review*, February, 2006.

The job-fit calculations done by consultants take into account how closely the shape of an executive's style profile resembles the shape of the benchmark profile (see Figure 2), as well as the absolute values of any gaps that appear between the individual's and benchmark StyleView scores. This process helps to gauge the likelihood of success in a specific role and to pinpoint areas for further development and improvement.

Figure 2
Comparison to best-in-class profile

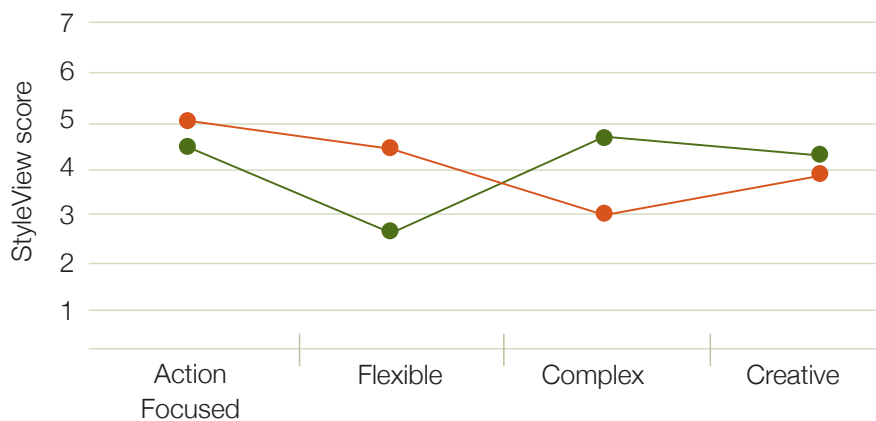
Leadership style



Assessments include comparing a candidate's StyleView scores to those of executives who have succeeded at the same position.

This is an example of a candidate's fit for a CEO position. While the candidate's leadership style aligns closely to the benchmark profile, his thinking style shows high flexible and low complex scores, suggesting a preference for stop-gap solutions over the careful strategic planning demanded of CEOs.

Thinking style



● Candidate
● CEO best-in-class profile

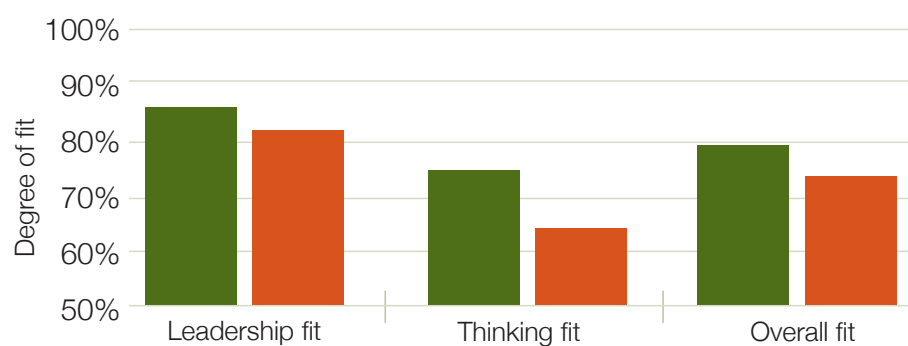
The value of benchmarks

To better understand the role assessment plays in recruitment outcomes, we analyzed how the benchmark comparison relates to job “stickiness,” that is, longevity with the employer.

From our sample set of executives, we drew out those who had been assessed prior to hiring in 2006, and divided this segment into two groups: those who were still with their employers in 2009 (Stayers) and those who were not (Leavers). When we compared the Stayers and Leavers for whom we had job status information in 2009 (175 out of the original sample of 187 assessed executives), we found a solid connection between assessment-based fit and job retention.

Executives who scored closer to our best-in-class profiles on the assessment were more likely to have remained in their jobs over the three-year period than those who did not fit the profile as closely (see Figure 3). Considering the unprecedented hardships businesses faced between 2006 and 2009, this higher retention rate is noteworthy.

Figure 3
Estimated fit with C-level benchmark profile



This illustrates how closely Stayers and Leavers fit the benchmark profile. The difference among groups may appear relatively narrow, but analyses of variances reveal that in each instance, the difference is solidly statistically significant. This indicates that conformity to the benchmark profile is one predictor of job stickiness.

Still, is job stickiness a fair indication of a high-quality candidate and placement? What if, for instance, the Leavers departed to take even better jobs at other companies? Additional analyses revealed that a noticeably larger proportion of the 44 Leavers were demoted compared to the 131 Stayers. These findings indicate that employers viewed the lower-fit Leavers as adding less value to the organization. It is reasonable to assume that the converse is true: higher-fit candidates are viewed as adding more value.

Our findings provide strong evidence that assessing candidates as part of the recruitment process and comparing their profiles to validated

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better prepared and well-suited, which benefits the employer. The executive also is more likely to keep the new position, a measure of success, if not outright job satisfaction.

A succession planning tool

Given the cost of hiring and turnover, pre-hiring assessment for senior executives appears to be an effective use of talent management resources. In a 2008 article in *Chief Executive* magazine, Nat Stoddard and Claire Wyckoff, authors of *The Right Leader: Selecting Executives Who Fit*, estimated the net cost of losing a CEO after 18 months at \$12 million to \$50 million in the United States, depending on the size of the company. The authors took into consideration the costs of hiring, total cash compensation, severance, and cost of disruption, among other factors.

Dismissals due to poor performance at senior levels are more common than many would think. A 2009 survey by *CIO* and *Human Resource Executive* magazines asked respondents why previous senior executives had left their company. Poor performance was cited as the reason for the departure of 23 percent of Chief Information Officers and Chief Financial Officers, 19 percent of HR leaders, 18 percent of sales executives, and 8 percent of manufacturing executives.



Grooming internal candidates for the most senior positions is indisputably the most effective succession plan. An individual who understands an organization's culture and goals can accomplish more in a shorter time than an outsider. Yet today's companies report lacking a deep pool of qualified internal prospects. In a global survey conducted in 2010 by the World Federation of People Management Associations and The Boston Consulting Group, 56 percent of the executives who responded said their organizations faced a critical talent gap for senior-level succession. More than half reported having to recruit from outside the company to fill executive positions.

Pre-hiring assessment that utilizes validated benchmark profiles appears to offer a distinct advantage for organizations that need to identify, recruit, and retain high-caliber executives. Identifying and comparing a candidate's thinking style, in particular, seems to be an excellent indicator of both immediate job fit and potential for higher responsibility. With the volatility of today's business climate, companies that utilize sophisticated pre-hiring screening methods will be rewarded with executives who are effective leaders for the present and the future.



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The Korn/Ferry Institute generates forward-thinking research and viewpoints that illuminate how talent advances business strategy. Since its founding in 2008, the institute has published scores of articles, studies and books that explore global best practices in organizational leadership and human capital development.

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Korn/Ferry International (NYSE:KFY), with a presence throughout the Americas, Asia Pacific, Europe, the Middle East and Africa, is a premier global provider of talent management solutions. Based in Los Angeles, the firm delivers an array of solutions that help clients to attract, develop, retain and sustain their talent.

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