



Creating Successful Leaders

The Biggest
Missing Factor

Despite leadership investments accounting for one-quarter of the typical HR budget each year, **leadership programs are not translating into better performance on the job.**

Based on one of the largest and most comprehensive studies ever conducted on the predictors of leader success, we found that organizations need to rethink leadership selection and development:

- Move beyond general leadership models to add focus on context-specific leadership profiles
- Transition from static leadership programs to agile leadership processes
- Pivot from decisions based on intuition and experience to decisions based on data-driven intelligence

The evidence is clear: enhancing current approaches with a context-specific lens on leadership talent decisions will leave organizations better placed to develop and deploy the more varied, dynamic and precise leadership strategies today's environment demands.

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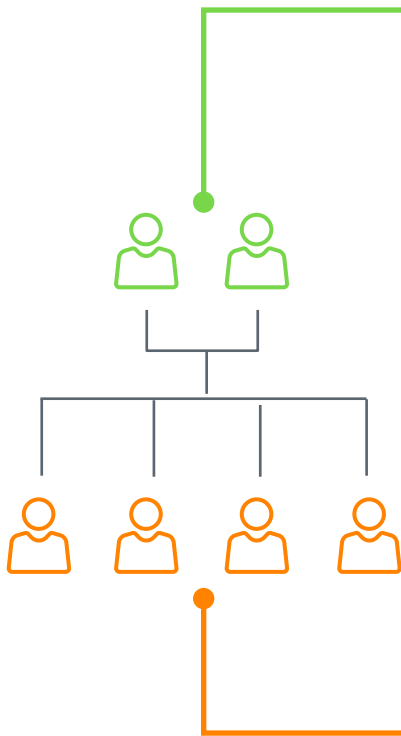
Introduction

Leadership Fit and Failings

Imagine this scenario... Leader A succeeds with a creative, self-motivated team that sparks continuous renewal and innovation. Leader B succeeds in a contentious and internally competitive group focused on revenue growth. Leader C successfully navigates through massive change stemming from a merger and a move into new markets. All is well.

But put Leader A, who is loath to micromanage a team, at the helm of Team B, and things could unravel. Put Leader B, whose strength is negotiating truces in a stable work environment, at the helm of a charge into the unknown, and chaos could ensue. Put Leader C, who thrives on rigorous change management protocol, in charge of the free-spirited free thinkers in Team A, and morale will plummet.

Looking across industries, geographies and roles, it's clear such mismatches are commonplace.



Leaders are struggling...

Nearly half of all leaders who move into new roles fail to meet their objectives.¹

Two-thirds of them are not adapting quickly enough to meet their business and strategic goals.²

Only 12% of leaders effectively contribute to the performance of other units or teams.

Source: CEB 2014 Enterprise Leadership Survey.

...and confidence in rising leaders is on the decline.

75% of all of senior leaders say that their business units do not have future-ready leaders in place.

13% of organizations reported having a strong leadership bench (down from 17% in 2013).³

Source: CEB 2014 Enterprise Leadership Survey.

What's Going Wrong—and Why Now?

The leadership problem stems from two opposing elements: Leaders are dealing with an increasingly complex and dynamic environment, yet they are generally being assessed, selected and developed using simple and static approaches.

There's no question that the work environment has evolved in ways that ratchet up the pressures.

Because of this added complexity in the work environment, decision-making and action have slowed; 50% of leaders need approval from more individuals to make decisions, and 52% spend more time reaching decisions.

The Work Environment is More Complex



Source: CEB 2016 Leadership Validation Study

Leaders are struggling to cope with the demands of increased complexity, interdependence and change. Meanwhile, their organizations have not enhanced their leadership strategies to reflect these realities.

So the world of leadership has irrevocably changed—and will continue to change—yet few organizations have enhanced their leadership strategies to reflect these new realities.

Many leadership models and initiatives assume the work environment is stable and predictable, and take a “one size fits all” approach where leaders are selected and developed on the basis of eight to 12 standard competencies. The thinking is that a leader is a certain type, and the qualities of effective leaders look pretty much the same. By that reasoning, you should be able to assess, select and develop leaders in much the same way—and standard leadership capabilities should equip leaders to perform effectively in any leadership role.

It's clearly not working out that way.



**Discoveries
from a
Groundbreaking
Leadership
Study**

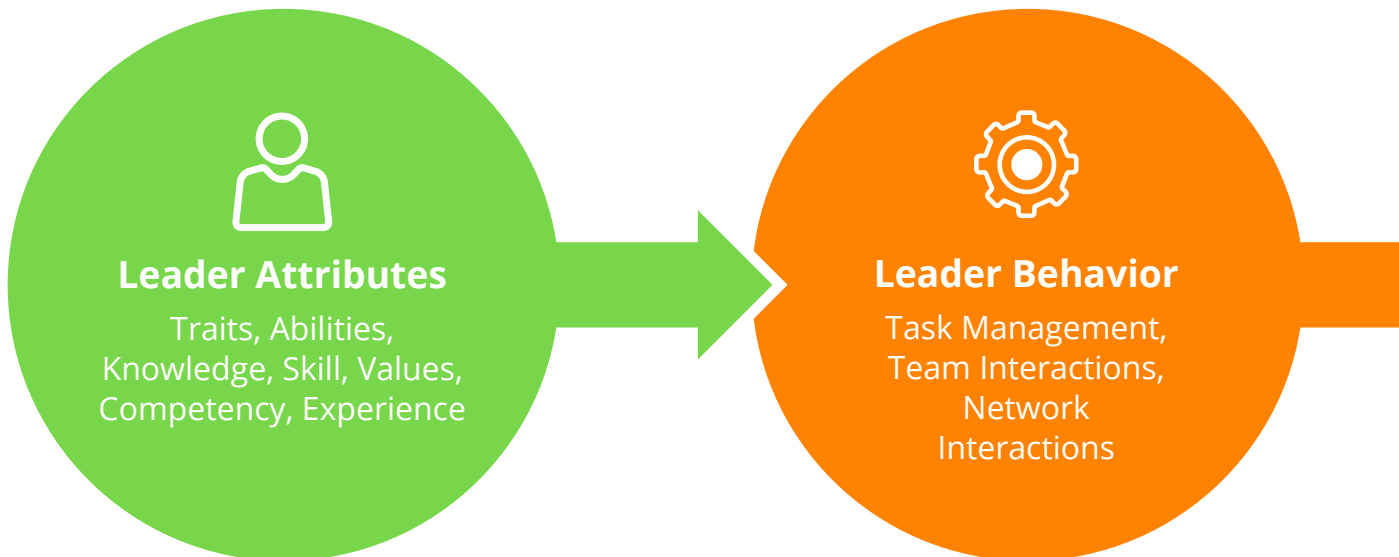
To gain insight into how to best resolve this disconnect between volatile work environments and static leadership strategies, CEB and SHL jointly conducted one of the largest and most comprehensive leadership research studies in more than 25 years. We assessed a huge number of leaders globally—almost 9,000 in all—in more than 80 companies.

We collected information about leader performance on the job and delved in depth to understand how leader roles differ. We also collected information on more than 60 aspects of the work environment, from team dynamics to organizational culture to industry conditions.

The research focused on understanding and modeling the impact of three categories of leadership factors:

- 1. Leader Attributes** (who they are), such as their traits, competencies and experience
- 2. Leader Behavior** (what they do), such as executing tasks, managing teams and interacting with colleagues
- 3. Leader Performance** (how well they did), such as the effectiveness of their business units and teams

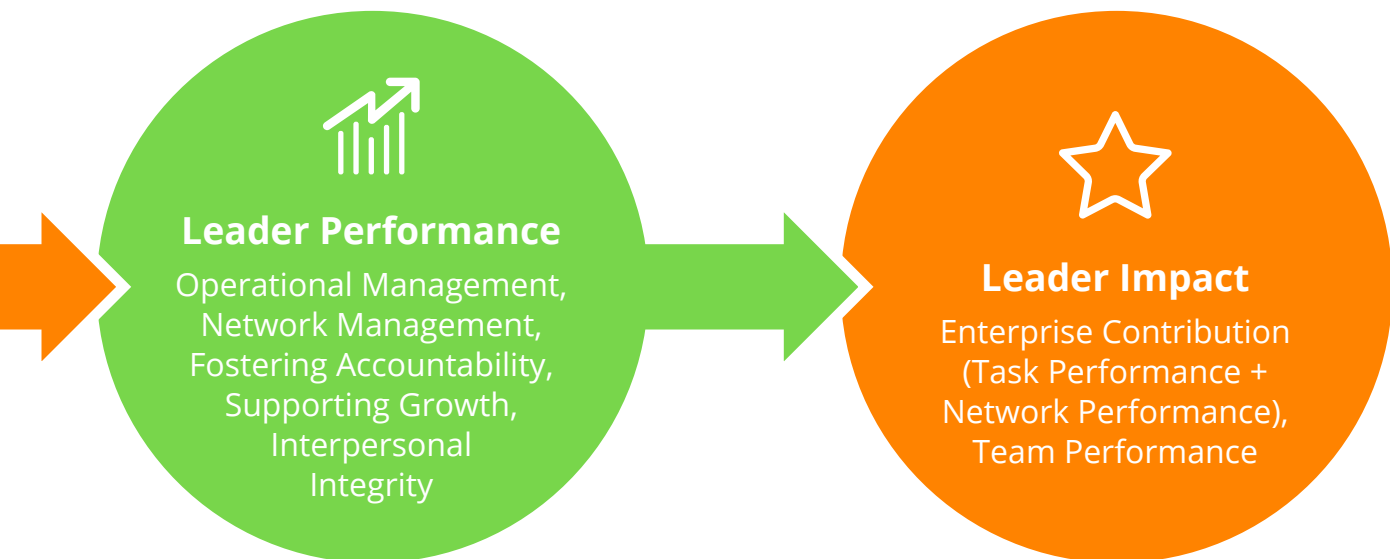
Our Leadership Framework



Source: CEB analysis.

We wanted to know: What is missing from the traditional approach to leadership that could be undermining outcomes? Is there an “X factor” that, when accounted for, enables us to better predict leader performance?

What was most surprising was that there is a factor that dramatically improves the ability to predict leader performance by as much as 300%. That factor is work context—looking beyond the tasks and responsibilities of a role to consider the role in the broader context of the team, organization and external environment.



Furthermore, out of hundreds of combinations of work contexts, 27 contexts matter greatly to making or breaking leaders' performance. As a whole, these highly influential contexts are more people-intensive, involve more change and risk and are more strategic in nature—meaning they require leaders to produce results by managing more complexity and uncertainty.

Sample Contextual Challenges



Drive Team Performance

- Lead geographically dispersed teams
- Transform a high conflict culture



Lead Change

- Deliver under high uncertainty and ambiguity
- Design and drive new strategies



Deliver Results

- Deliver high margins
- Deliver exceptional customer service



Manage Risk and Reputation


- Deliver in high risk taking contexts
- Represent the organizational externally

Source: CEB analysis.

How This Knowledge Can Triple the Odds of Success

Although these contextual leadership challenges are inherently demanding, leaders with certain traits and experiences can actually thrive in the face of them. The key is matching leaders to the context for which they are best suited and aligning development to challenges the leader or organization may face.

This research has led to a groundbreaking approach that enables any organization to assess, select and develop leaders with greater precision, which in turn leads to greater leader success. The gains are worth it:



When selecting leaders, factoring in the wider work context enables predictions that are **three times more accurate** on average than a one-size-fits-all approach.



Better prediction of high-performing leaders translates into a **22% increase in leader performance on average**, which in turn is associated with a 4% increase in revenue and a 4% increase in net profit.

Four Key Concepts Revealed

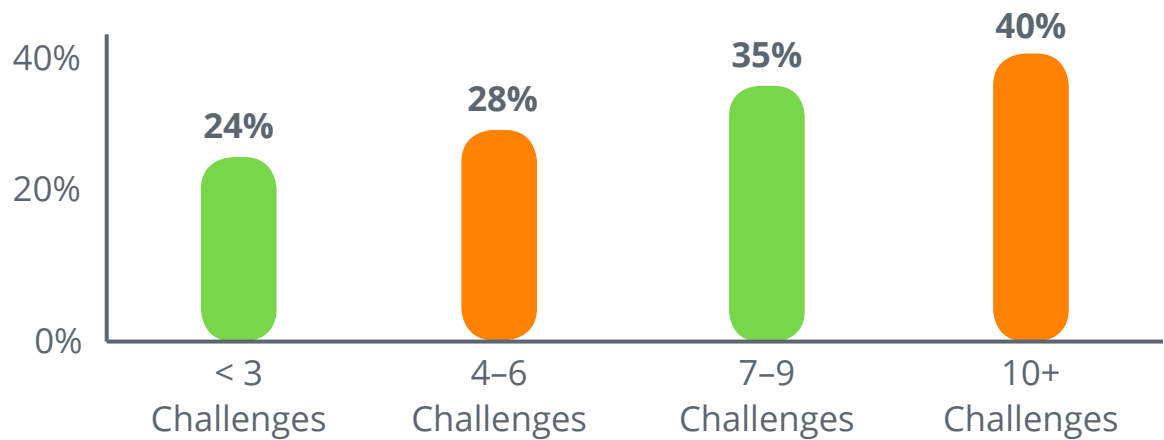
1 Context makes or breaks leader success.

Of the 27 contextual challenges identified as highly influential in determining success or failure, we found that leaders at all levels navigate an average of seven challenges simultaneously, and nearly one-quarter face nine or more challenges.

As the number of contextual challenges increases, so does the likelihood of underperformance. The percentage of underperforming leaders begins to increase significantly once leaders face seven or more challenges at the same time, which may explain the consistently high failure rate in certain roles.

Our study also revealed that certain challenges are more consistently difficult for all leaders. Frequent leadership changes, high uncertainty, low collaboration/low support culture, and high conflict culture have the strongest negative impact on leader performance. Of the leaders facing all four of these challenges at the same time, a huge percentage—nearly 68 percent—struggle with performance issues.

Percentage of Underperforming Leaders by the Number of Contextual Challenges Faced



On top of the demands of the tasks and responsibilities of their roles, leaders navigate an average of seven simultaneous contextual challenges.



Nearly one-quarter of leaders face nine or more challenges that diminish their performance.

n = 1893 leaders from LVS study.
Source: CEB analysis.

2 Who's the "right" leader? It depends.

Although contextual challenge can undermine leader performance, it doesn't by default spell failure. As noted earlier, leaders can thrive when facing challenges that are matched to their unique trait profiles.

While there are certain attributes and behaviors, such as conscientiousness that apply across most contexts there is no single universal or best profile for effective leadership across all contexts. The ideal mix of traits depends on the contextual challenges. For example:

- In situations that call for growing the business through cost-competitiveness, the best leaders tend to be methodical, organized and detail-oriented; thrive on being busy; and are competitive and goal-oriented.
- In a work environment that calls for driving creativity and innovation, the most successful leaders are ambitious, optimistic, gregarious, creative and career-oriented, and tend to critically evaluate information.
- The profile of successful leaders in most situations changes as leaders become more senior in their roles.

Given the differences in the profiles that translate into success, it's important to build on more general leadership profiling and add an additional lens that matches leaders to the contextual challenges they will face.

The ideal mix of traits
for a leader depends
on the contextual
challenges they are
likely to face.

3 Both attributes and experience count.

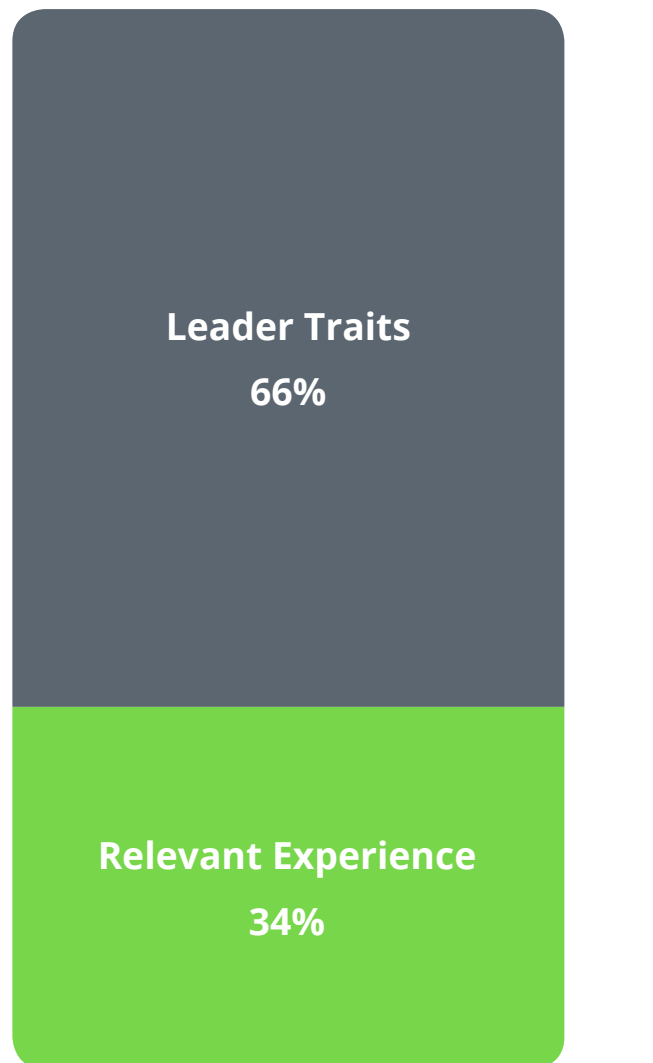
A leader's fit for the context is important, but experience counts for as much as 34% of leader performance. For example:

- In situations where leaders must manage global/ cross-cultural teams or lead through mergers and acquisitions, experience with creating a new inclusive culture and integrating workforces with different values and expectations predicts greater performance.
- For leaders dealing with low-collaboration or high-conflict cultures, experience with turning around an underperforming team has proven to be beneficial.
- For contexts that demand delivering exceptional customer service, leaders perform better if they have experience with boosting team performance, having P&L responsibility, and dealing with change and adversity.
- For leaders who must deliver under high uncertainty and ambiguity, prior experience with leading new strategies and taking on scope expansion will be advantageous.

The bottom line: As important as it is to optimize the fit between leader traits and the contextual challenges of a role, it is also critical to consider relevant experience in handling those challenges.

The Balance of Traits vs Experience

Percentage of Leader Performance Explained by Traits Versus Experience When Managing a High Conflict Team



Source: CEB analysis.

Having an objective,
data-driven way to
understand the context
around a leadership role
can enhance prediction
of leader success by up
to 300%.

4 Role varies even within one job title.

As we know, one leader's role can differ dramatically from another leader's role even when they have the same title. For example, a CFO in a growth business has a vastly different job than a CFO in a business focused on improving margins. A leader with a strong team does different things than a leader with a weak team.

Having an objective, data-driven way to understand the context around a leadership role—a bigger perspective with more granular understanding—leads to greater precision in leadership strategies and can enhance the predictive power of an assessment by up to 300%.



The Implications for HR

We've seen the performance costs of inaction—a 50% leader failure rate, a sharp decline in the quality of the leadership bench, and a scant one-quarter of business units headed up by future-ready leaders. And we've seen the dollar costs of putting the wrong leader in a role—underperforming teams, lost revenue, higher turnover risk—potentially adding up to several times that leader's salary.

As the contextual challenges leaders face intensify in an environment of constant flux, opportunities to turn leader performance around will likely erode further unless HR organizations make three key changes.

Focus on Context-Specific Profiles

Generic leadership models may be attractive for their simplicity and scalability, but they are limited in the insight they offer into the challenges in the work environment and a leader's fit to those challenges. It's time to build on general, one-size-fits-all leadership models as the basis for leader selection and development, and add an additional lens that measures fit for context.

In addition to overlooking the work context, a generic competency profile diverts attention away from individuals who have diverse experiences, backgrounds or unique perspectives. At the extreme, this practice inadvertently reinforces bias in decisions and results in leadership teams who all sound and look the same.

Shifting the focus to context-specific competency profiles not only optimizes the fit between leaders and their context and leads to better performance, but it also opens the door for more diverse leader profiles to be considered for key positions.

As the number of contextual challenges leaders face increases, leader performance will likely erode further unless organizations take a different approach.

Invest in Flexible Leadership Processes

Static leadership programs won't measure up in a work environment of nearly constant change. Leaders at all levels should be developed to manage emerging and dynamic challenges, which calls for flexible and agile leadership processes that are efficient and adapt easily to new challenges.

For example, we found that organizations with agile and adaptable HIPO processes for identifying and developing the careers of high-potential employees are 70% more likely to have a strong leadership bench⁵ and adapt well to new challenges in the environment.

Trust in Precise, Data-Driven Decisions

Many organizations have a stockpile of data on their leaders—their personal characteristics, past leadership roles, performance results and more. Yet when the time comes to make leader decisions, they leave it to people to pull all this information together to come to a decision. But human judgment is fallible. This approach increases the odds of leader failure and threatens diversity by perpetuating implicit biases.

Although some organizations intuitively—or rationally—consider the context of a leader’s role when making hiring, placement and development decisions, it is rare for contextual challenges to be objectively assessed or systematically incorporated into those decisions.

It is time to move beyond instinct and intuition. It is time to analyze and synthesize the available data into consumable business intelligence. A strong core diagnostic element can automate and integrate these assessment actions:

- **Measure important context factors** related to role, team, organization and external environment.
- **Assess leader attributes/personality**, such as with our SHL Occupational Personality Questionnaire (SHL OPQ).
- **Gauge a leader's experience** using a validated experience inventory tool.
- **Prioritize and customize leadership development plans** based on important context factors.
- **Provide targeted interview questions** to highlight potential risk to the organization.

A data-driven diagnostic tool can deliver more accurate predictions about which leaders will succeed in specific roles, coupled with evidence-based development plans to prepare for and enhance their performance.

The research shows that a data-driven approach consistently outperforms less formal approaches. When people—including subject matter experts—use their own intuition to match leaders with context, they tend to make predictions only one-third as accurate as predictions based on data from thousands of leaders.



Why Now Is the Time for Change

Our comprehensive Leadership Study uncovered the factors that predict and contribute to leader impact on the organization—and yielded important insights around four key concepts:

- Different leadership roles, even those with the same title, have unique challenges and success criteria.
- These different leadership challenges call for different leader attributes.
- When handling leadership challenges, both leader attributes and experience count.
- Leader performance is best and risk lowest when a leader's attributes and experience fit well with the challenges of a given leader role.

The impact of a context-specific leadership approach is dramatic. Compared to using a general competency model to predict leader success, the organizations that pinpoint specific leader capabilities see dramatic improvements—up to 300 percent more accurate decisions.

By examining the fit between leaders and contextual challenges and relying on data-driven insights, organizations can:

- **Make better leader placement decisions.** Aligning an assessment to the specific challenges in a role can help to more accurately forecast the likelihood of a leader's success.
- **Design better development strategies.** Rather than providing generic leader training, organizations can tailor development plans to the specific challenges leaders are likely to face.
- **Strengthen the leadership bench.** A taxonomy of contextual challenges provides a useful framework to help organizations diagnose their future leadership needs.
- **Create more effective and relevant succession and workforce plans.** By aligning these plans to contextual challenges, the organization ensures that its leadership bench will be fit for the situations ahead.

Finally, activating these insights with a data-driven framework brings these advantages of context-specific intelligence with the scalability and efficiency of a one-size-fits all approach.

Evolving the approach is worth it even before you consider the penalty of inaction. The cost of placing the wrong leader in a role can be significant—up to several times that individual's salary, when you factor in lost revenue, the negative impact on peers and teams, and the higher risk of turnover.



Just 10 bad placement decisions can cost an organization well over **\$1 million a year**.

Just 10 bad placement decisions can cost an organization well over \$1 million a year. That's an unnecessary cost when statistically validated, field-proven, context-centric diagnostics and assessments are available today.

How You Can Benefit from This Statistically Validated Leadership Framework

Because of the diversity of functions, leadership levels, organizations, industries and geographical locations represented in our Leadership Study—combined with a comprehensive assessment of the work environment—we have been able to fully test this leadership framework across

a variety of work situations. This research will enable progressive companies to be much more deliberate and precise in supporting leader performance, given the challenges specific to particular roles, teams and functions.

SHL Leader Edge is for senior HR executives and business unit leaders who need objective and validated business intelligence to make decisions about identifying, developing and placing leaders into roles. By incorporating contextual leadership challenges at the role, team and organizational levels, SHL Leader Edge helps increase the predictive power of leader assessments by up to 3x over traditional approaches being used today.

Find out more at shl.com/lead

References

¹ CEB 2012 High-Impact Leadership Transitions Research Report.

² CEB 2016 Q4 Executive Guidance: Driving Performance in Volatile Markets.

³ $n = 203$ business units.
CEB 2013 Succession Management Survey.

⁴ $n = 203$ business units, 3,409 successors.
CEB 2013 Succession Management Survey.

⁵ $n = 142$ HR Leaders.
CEB and SHL 2016 Leadership Validation Study.

