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Can You Measure Leadership?

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Can You Measure Leadership?

At top companies, where the inspired use of metrics helps to identify potential leaders and develop their skills, the answer is yes.

Robert Gandossy and Robin Guarnieri

Companies today live under the relentless glare of metrics. Quarterly earnings releases, sales projections, quality and compliance audits, even employee surveys are used to gauge the enterprise's health. Nevertheless, few such measures directly answer a key question that is frequently on the minds of the senior team: Do we have enough leaders, and the right leaders, to run our business both today and in the future?

Many CEOs cite the lack of qualified leadership talent as the most significant constraint on growth. This is happening as the pool of potential leaders shrinks before our eyes; the number of 35- to 44-year-olds in the work force, the so-called "key leader age," will drop by 15% over the next decade, according to the U.S. Bureau of Labor Statistics. Thus the pressure on company decision makers to rethink their leadership development strategies is greater than ever.

Human resources executives and corporate leaders across the globe find that it's simply not enough to put a leadership-training program in place or hold an annual talent review. Instead, companies must be rigorous and focused in their assessment of leadership talent, aided by tools tailored to help achieve that end. They must hold leaders accountable for cultivating others, diagnosing gaps in execution and capability, and redirecting resources as business needs change. HR and business leaders also need insights into where they have succeeded in building leadership and critical talent pipelines and where there are potential risks. In short, companies need to bring a "measurement mind-set" to the often inexact process of developing the next generation of leaders.

Because such a process, though vital, is not easy, companies often overrate their ability to measure the right things for the right reasons. For example, many generate piles of reports on senior management attrition instead of considering the actual flight risks of their critical talent; or they measure easy-to-track metrics, such as time to fill jobs or number of training hours, without regard to the quality of those placed into jobs or whether a development workshop produced any meaningful change. Others, at the opposite extreme, get bogged down in a search for the holy grail of leadership metrics — fruitlessly searching for some "perfect answer" and consequently making little progress. Finally, it's possible to lose sight of the ways in which the company's different stakeholders — HR professionals, business leaders, people managers and key talent — need to access, interpret and act on leadership data.

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Even at companies that already have comprehensive leadership strategies, expanding the use of data and fine-tuning metrics should be a high priority. Considering that the very essence of a measurement mind-set is to constantly question, challenge and use data to guide processes and drive decision making, one should expect nothing less of a company committed to identifying and growing effective leaders. Around the world, we have found that when metrics are "baked into" the leadership strategy, the resulting benefits include a more rigorous talent search and development process, a higher quality of thought brought to the table by participants, and, ultimately, the strengthening of the company's leadership team.

Top Companies for Leaders — Focusing on Today and the Future

In 2007, Hewitt Associates partnered with The RBL Group and *Fortune* to conduct a global study called *Top Companies for Leaders*, which identified companies with an exceptional commitment to and passion for developing leadership talent.[1] In these top companies, we observed:

■ **Leaders leading the way.** Leadership development is at the top of the CEO's and senior team's agenda; it is an area in which they invest substantial amounts of time and energy.

■ **A focus on talent.** The top companies do more to identify, develop and reward top talent; differentiation of top talent is a given.

■ **Practical and aligned programs and practices.** Leadership development, performance management, succession planning and recruiting all work together to help people in the business achieve their goals.

■ **Leadership as a discipline that reaches a critical "tipping point."** When a company has a true commitment to leadership, it becomes integrated with business planning and woven into the culture of the organization.

In short, the top companies make leadership a way of life. They make deliberate efforts to reinforce leadership expectations through top-down communications, promotion decisions and variable pay. In big and small ways, top companies let it be known what they expect of their leaders and are relentless in creating an environment that fosters the development of leadership talent.

Hewitt first began its top-companies studies in 2001. Since then, we've observed more companies investing in leadership programs and a growing awareness of the need to ground leadership development in the fundamental processes of the business. But for many, the right metrics still remain elusive. All too many companies are flying blind, with little or no insight about what really matters — and what doesn't — in identifying and developing leaders. Although companies frequently have access to volumes of data on top talent, employment trends, company climate, business results and individual performance, most don't use it. Top companies do.

The Importance of a Holistic Framework

Remember shopping for your first house and walking through it with the building inspector? You received a detailed analysis of the quality of the roof, the age of the pipes and the potential for water damage in the basement. All of this information was important, but not enough to tell you if you should buy the house.

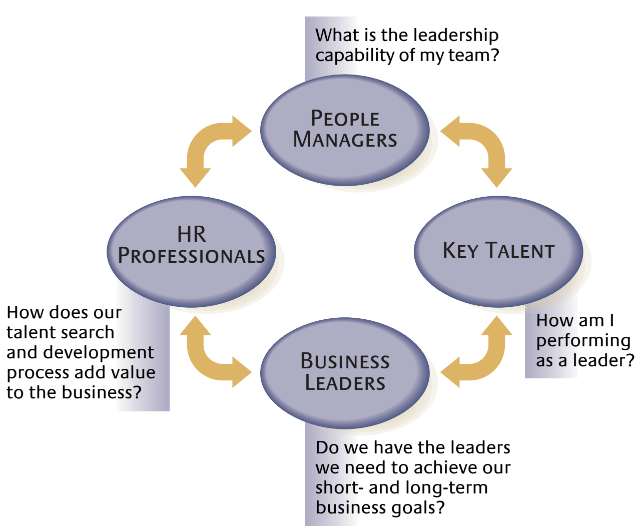
When the HR department is in charge of leadership metrics, it sometimes approaches the task as a building inspector would; its "house report," though usually accurate, reflects a limited view. Thus, while we often see companies doing a decent job of measuring training-session attendance, participating in performance cycles, distributing variable pay and tracking promotion rates, most stop short of creating a holistic set of metrics that speak to all four groups of stakeholders in the company's leadership development process — people managers, key talent, business leaders and HR professionals. (See "The Holistic View.")

Below, we describe how some of the top companies are creating a measurement mind-set for each of these four key stakeholder groups.

People Managers A measurement mind-set is essential to making people management decisions that are fair and meaningful. Because metrics create a level playing field, they help managers answer questions such as "Who are my top performers?" and "Are we making smart decisions about developing them to meet current and future business needs?" To avoid the Lake Wobegon effect (whereby everyone is said to be above average),[2] many organizations use a nine-block

The Holistic View

At top companies, a measurement mind-set guides the leadership actions of four key groups — people managers, key talent, business leaders and HR professionals.



assessment framework (see "Sample Nine-Block Framework"), in which a manager rates his or her team on both performance and potential.[3] Each person is categorized as low, medium or high; a general guideline is that no more than 10% to 20% of the people on the team can be rated as high on both dimensions.

Cummins Inc., the Indiana manufacturer of engines and power generation systems, brings additional rigor to its nine-block people assessment framework by breaking it down into component parts and focusing on leader behavior. For example, a people manager might assess the performance and potential of his or her team on a number of specific attributes, such as development/coaching, six sigma capability, success in managing global teams and intensity of self-development. When sitting down with a direct report, the people manager will link the assessment back to the business's goals. Jill E. Cook, vice president of HR at Cummins, says, "This isn't a check-the-box exercise. It serves as a discussion guide to help us understand who the high potentials are."

Besides differentiating their high potentials, people managers should also be able to discern these individuals' unique needs. Some top companies use focused surveys to take the pulse of key staff in order to proactively address their specific development requirements. Although such feedback should always be included in planning efforts, most companies are unaware of and disconnected from the actual viewpoints, experiences and expectations of their leaders and high potentials.

One HR vice president told us his greatest concern is that people managers will fall back on their "stories and histories with people" instead of pushing the organization to make bold decisions about developing talent. Bringing a strong measurement mind-set to the leader development process is a powerful antidote to the bias of prior experience.

Key Talent Top companies tend to make key leadership talent accountable both for their own development and for strengthening the company's leadership culture. Toward that end, Caterpillar Inc., the Illinois manufacturer of heavy equipment and engines, measures senior leaders on their performance in the following areas:

- **Culture of execution.** How well they deliver results through others and establish a "can-do" attitude that inspires their teams to meet goals despite challenges.
- **Core values.** How they go about achieving results, and whether they exemplify integrity, excellence, teamwork and commitment.
- **Employee engagement.** Feedback from the leaders' teams on their competency, style and commitment to the company and the team. If work climate issues surface, leaders are expected to address them with action plans, log their progress throughout the year and utilize best practices for building commitment.

Sonoco Products Co., a South Carolina packaging manufacturer, also uses a scorecard to reinforce leadership expectations. General managers are rated on a scale from 1 to 5 on such factors as their personal leadership attributes, the size and quality of their successor pools, and their ability to build an organization to support the company's business strategy. The ratings are made public, which sends a strong message to the entire staff about the importance of leadership and the accountability of the general managers. As HR Senior Vice President Cynthia Hartley points out, "Few GMs who get poor ratings year after year are here for very long."

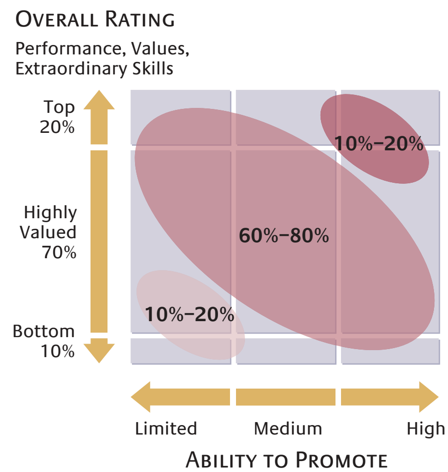
Because talent management is not a discrete event but rather something that happens every day, some organizations are finding ways to give managers regular feedback on their effectiveness as leaders. McKinsey & Co. performs a "team barometer" survey every two weeks to gather input from project teams. While this survey addresses a range of issues, one important aspect is its ongoing assessment of project directors' leadership capability.

Clearly, another way to hold key talent accountable for developing others and demonstrating leadership behavior is to link effectiveness in these areas to pay. In fact, half of the top companies do so, compared with about one-third of other companies. For example, at American Express Co., 25% of the incentive pool is based on the Employee Scorecard. "Our goal is to keep the scorecard simple enough so that leaders can see how they impact the overall employee measure," says Tom Leitko, vice president for organizational capabilities and performance. "It is quite motivational," he adds. "Our people, including senior management, pay a lot of attention to the scorecard."

Business Leaders Business leaders must be able to look across their organizations, evaluate the strength of the leadership cadre as a whole, and quickly home in on any gaps. At Capital One Financial

Sample Nine-Block Framework

Managers in many of the top companies use this assessment tool to help distinguish between top, highly valued and bottom performances/potentials of their team members.



Corp., the talent assessment process is thorough and data-driven. As part of the process, senior leaders work with HR to conduct a rigorous assessment of the top talent at the company twice a year; the assessment includes a review of quantitative measures such as time in role and performance ratings, as well as qualitative measures such as potential and promotability ratings. Talent data is rolled up to the C-suite level for discussion and comparison — part of what Capital One refers to as the "cross calibration" process. The result of these calibration sessions and talent discussions is a comprehensive review of talent and development potential — focused on future movement for senior talent. The company also maintains a bench-strength and promotion-potential scorecard for each business unit that captures the number of people who are "ready now" and "ready one year from now" for a new role or assignment.

General Mills Inc. tracks the number of ready-now candidates for each position at or above the vice president level. With an ultimate goal of 10 candidates for each executive job, the company's target is more ambitious than most, but it serves to keep leadership on the CEO's radar screen by pushing business leaders to think broadly about succession candidates. General Mills also measures movement in the talent pool, reporting the percentage who have been promoted, the percentage who have participated in significant development activities and their retention rates. Within this measurement framework, the company has the flexibility to focus on skills that are of particular interest — for example, it can identify leaders with a global mind-set by tracking global assignments.

Over the past several years, the ability to bring complex modeling tools into work force planning has enhanced the ability to integrate business forecasting with leadership development. One area where we see this concept taking hold is in planning for rapid growth in emerging markets. For example, one high-tech manufacturer estimates that its demand for leaders in Asia is 10 times greater than its current talent pool there. As a result, the company's HR department is working with its business leaders to find ways to accelerate development of the local work force and expand the number of global managers in Asia.

Another area where predictive modeling is affecting leader development strategies is the analysis of work force demographics. In a recent study, 43% of companies reported that they expected changing work force demographics to have significant impacts on their businesses over the next three to five years.[4] The first step that business leaders are taking to help plan for demographic shifts is to become aware of the trends facing their own organization at present. Once that baseline is in place, it can be used to forecast company needs over multiple time frames (say, 5-, 10- and 15-year intervals) in accordance with a variety of plausible scenarios.

HR Professionals While HR professionals have hundreds of metrics at their disposal for evaluating leadership development programs, the simple measures — such as the frequency of talent review meetings, implementation of planned moves or performance evaluations of leaders who are promoted — are the best indicators that managers are having performance discussions and then using them to drive actions. The challenge, however, is choosing the small subset of measures that provide the best window into what works and what doesn't; this depends in large part on company priorities. (See "Building a Measurement Framework: Myths and Realities.")

For example, McDonald's Corp., the food industry leader with more than 1.6 million employees worldwide, is particularly concerned with retention of leadership talent — above all, its homegrown managers, who tend to be the company's most effective leaders. As a result, the HR team has developed a set of measures to track stock options, long-term incentives and other retention vehicles.

At many businesses, such as American Express, a core component of leadership metrics is training program evaluation. "We're interested in the things that leaders do differently as a result of participating in the program," says Julie Staudenmier, vice president for talent acquisition and development. In that spirit, three months after training she and her team reach out to the training participants — as well as to their direct reports — to ask them about any subsequent changes in behaviors and to assess the impacts on the business, such as customer satisfaction, employee productivity and cost savings. Another important impact is employee satisfaction: The company has found that when a leader makes a "significant change" in his or her behavior after the learning experience, 98% of direct reports say they are "more engaged," and 91% say that they plan to remain at American Express.

From Staudenmier's perspective, there are two reasons why HR should rigorously evaluate leadership programs: to steadily improve the training effort and to drive home the message that leadership matters a great deal to the company. HR has calculated that when a sales specialist attends leadership training, there is on average a 7% increase in revenue and a 400% return on investment. These types of metrics and analyses, combined with American Express's Employee Scorecard, help keep leadership at the top of the agenda for the senior team. "When they see that direct leadership matters," says Staudenmier, "they make it a priority."

The Time to Start Is Now

Putting the right leadership metrics in place doesn't have to be a Herculean task. The first step is defining the questions, from the perspectives of different stakeholders, which the business needs to answer in building its leadership strategy and programs. For example:

People Managers

- Where are the biggest leadership gaps on my team? What are the actions needed to fill them?
- Who are my high potentials and what are their development needs?

■When will key talents on my team be ready to move on to new roles?
■To what extent have we fulfilled our leadership development agenda?

Key Talent

■ Do leaders take responsibility for their own development and that of their people?
■ Do leaders contribute to the development of talent as a corporate resource?
■ Do leaders help maintain an environment that is engaging and inclusive?
■Do leaders "walk the walk" on effective leadership behaviors?

Business Leaders

■ What business trends most influence our leadership strategies?
■ What are our current and future leadership gaps? What are their potential risks to our business?
■Do our leadership programs deliver a steady supply of qualified candidates?
■Are we hiring the right people for our future?
■ Are we retaining our critical leaders?
■ Are we developing talent fast enough and in the right areas?

HR Professionals

■Are our leadership programs aligned with the business's needs?
■ Do they help us strengthen our connections with employees?
■Do employees participate in our leadership processes? Do these processes contribute to the quality of our decision making about talent?
■ Are we developing people at the right rate? What can we do to accelerate career growth?

Once a company team has identified the questions most suited to the organization's needs, it can proceed to determine different ways — including those most amenable to direct measurement — of reporting the results.

Some business leaders feel overwhelmed by the prospect of instituting metrics in the leadership arena. Or they may be uneasy about putting a number to something as personal as "leadership capability" or assigning a metric to seemingly vague qualities like "readiness." And while some HR departments do a fair amount of leadership-development program evaluation, the metrics used often fall short of answering the big questions about the organization's ability to meet its future leadership challenges. But as one can see from the table, there are better reasons for getting started today than there are to delay. (See "Building a Measurement Framework: Myths and Realities.")

Building a Measurement Framework: Myths and Realities

Myth	Reality
We need to measure each aspect of our leadership program, and that will be a huge effort.	It's better to focus on several leadership priorities that are critical to the business than to try to be comprehensive.
People won't be honest about a leader's strengths and weaknesses if they know we're measuring them.	An absolutely critical factor is that leadership can set the tone for how measures will be used.
We already gather feedback on our leadership-training programs. Isn't that enough?	The lion's share of leadership development happens outside the classroom. Analysts are not getting the full picture if their measurements stop at the classroom door.
This isn't a good time to start. We're making changes to our performance-management process or going through an acquisition or restructuring.	Metrics can help the leadership team think more strategically about leadership needs both short and long term. The data it has today may not be perfect, but this may be all that's needed to begin discussing leadership needs.

Most companies wouldn't go forward with a multimillion-dollar business venture without first identifying the investment goals. Nor would they jump into a deal without defining beforehand the critical action steps and expected results. Why should an investment in leadership talent be treated any differently? Engaging staff in the consideration of leadership metrics deepens the quality of company processes for specifying goals, building strengths and seizing opportunities. Senior HR and business leaders need to equip their people with measurement mind-sets that give them the discipline and insights for developing the *next* generation of leaders.

REFERENCES

1. Hewitt initiated the Top Companies for Leaders research in 2001 to identify those factors that account for organizations' ability to consistently produce great leaders. Subsequent undertakings in 2003 and 2005 further expanded our examination of successful leaders and their impacts on the organization and provided the foundation for our 2007 global study.

2. In the fictional town of Lake Wobegon, Minnesota, created by Garrison Keillor, "all the women are strong, all the men are good looking, and all the children are above average."

3. This is the version of the nine-block framework used by many of the Top Companies for Leaders.

4. "Closing the Generational Divide," IBM Institute for Business Value in association with the American Society for Training & Development, September 2006.

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