

What lies beneath?

Understanding potential

White paper

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Increasingly organisations are taking a keen interest in their talent, and in particular identifying those individuals who show the highest *potential* to develop and become the leaders of tomorrow. A number of drivers have influenced the growth of this area:

- The 'war for talent' prior to the global financial crisis where organisations were fighting to select and develop the best talent
- A re-focus by organisations on 'growing their own talent' both during and after the recession
- Budgetary pressure increasing the desire to focus investment on those who show greatest promise
- A philosophical change in how learning and development is carried out in organisations, from a relatively scattergun or 'sheep dip' approach to more focused ongoing development for key individuals.

As a result, there has been a significant increase over recent years in high potential or 'top talent' programmes within organisations. However, whilst the use of methodologies such as 9-box grids for talent mapping and talent panels of line managers has grown, the objectivity of these processes has lagged behind. In a similar way to selection for recruitment, these activities are subject to poor reliability, validity and bias due to over-reliance on a subjective assessment of an individual's 'potential' by line managers.

In this paper we discuss the nature of leadership potential within organisations and suggest how organisations can take a more evidence-based approach to identifying and developing their high potential individuals. Addressing the underlying issues of what constitutes potential and how it can be measured accurately and objectively, we seek to offer a way forward for organisations seriously engaged in addressing questions such as:

- Who are our high potential employees?
- What are their strengths and development needs?
- How do they benchmark externally?
- Where should we focus their development to support a viable succession plan?

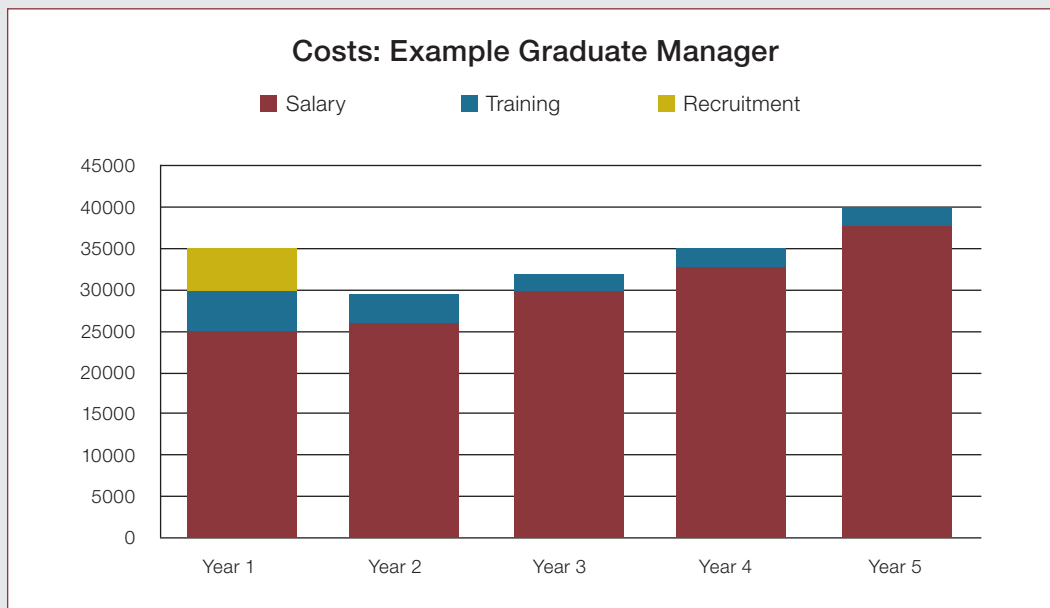
The economics of identifying high potential candidates

In order to understand why organisations are so keen to identify their high potential people, and focus special investment on these individuals, it is important to understand the underlying business case.

Schmidt and Hunter's (1998) meta-analytic review looked at studies linking assessment techniques with performance from over 425 organisations and encompassing some 32,000 employees. As well as identifying which assessments tended to be most effective (psychometric testing and assessment centres), they also estimated the economic value in output for different levels of role. This is expressed as the difference in **output** between a high and average performer (between the mean and one standard deviation above the mean) expressed as a percentage of salary: high performers at the managerial

and professional level generated 48% more output, 32% greater output for skilled workers, and 18% for unskilled workers. If we take the example of a manager who joins as a graduate entrant and is with a company for at least 5 years, the costs associated with this individual in terms of salary, recruitment and training costs might look something like the chart below.

Over time they are paid more as they progress, with most of the investment being made up front to recruit and train them.

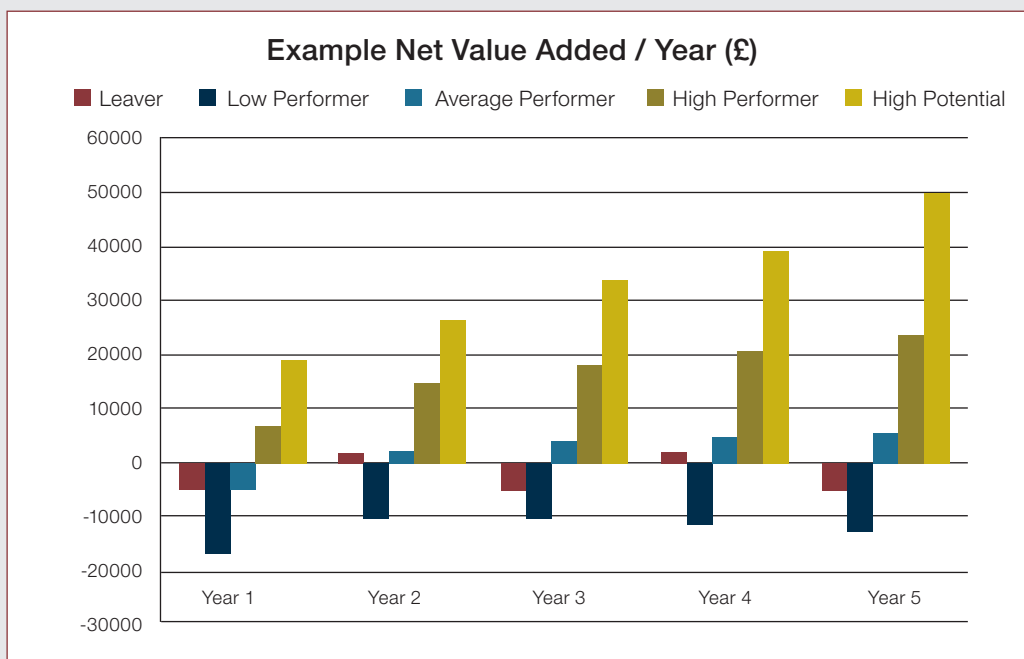


Whilst the approximate costs for most managers in the lower to middle ranks of an organisation might be broadly similar, the value they add may vary considerably. The chart below takes the costs suggested above, and then maps out the added value (contribution minus costs) for five different examples. The average performer increasingly adds some value after an initial negative contribution in year one. A low performer may be a net negative contributor to the organisations across all 5 years; similarly someone who leaves after two years and is replaced, means value is lost and costs are incurred.

However, the high performers (offering added value of around 48% of salary higher than the average), add *significantly more value*. These might constitute the top 15-20% of managers. But if you then look at the best of the high potential group (e.g. the top 5-10% of managers), as well as typically being high performers they also show the potential to progress and get promoted faster, so add significantly more value over time than other managers.

A key point to highlight is that performance today is not the same as potential to succeed in the future. Often demonstrating a strong level of performance now is treated as a pre-requisite for being identified as high potential, though this doesn't necessarily hold true in practice. This is because the capabilities needed to succeed in junior to middle management are often different to those qualities needed at higher levels.

The examples outlined below illustrate the economic benefits of successfully identifying those individuals who show the greatest potential and investing in them accordingly. It is also worth noting that the above approach has largely meritocratic rather than egalitarian underpinnings, and it is perhaps no surprise that the financial services sector in particular has been at the vanguard of activity to identify high potential talent over the last decade.



What the research has to say about 'potential'



Research focused on understanding high potential amongst an organisation's employees has grown in recent years, building on the existing base of research relating to leadership more widely. The following review summarises key learning from the wider leadership research, followed by the research and practice focused specifically on leadership potential.

Leadership research

Research into leadership has spanned many decades. Earlier research focused on the differentiating characteristics of successful leaders under the 'great man' paradigm, as well as exploring situational influences on leadership (e.g. Hersey & Blanchard, 1969). Alimo-Metcalfe & Alban-Metcalfe (2005) have commented that the 'New Paradigm' models of leadership; which include concepts such as '*charismatic leadership*' (Conger, 1989; House, 1971), '*visionary leadership*' (Sashkin, 1988), and '*transformational leadership*' (Bass, 1985) are not universally applicable, as they have been created using predominantly white, male samples in the USA. Traditional models of leadership have also frequently been based on predominantly white, male samples and particularly relate to the 'distant' leader, e.g. the CEO, not who they are in contact with on an average working day.

Previous literature has also found some key differences in the concept of leadership from differing populations. Women are more likely to interpret leadership in transformational terms, men in transactional terms (e.g. Alban-Metcalfe, 1995; Sparrow & Rigg, 1993). Alimo-Metcalfe (2003) also found situational differences in the public sector, where leadership frequently involves managing many more stakeholders than in private sector contexts and hence emphasizing an enabling, consensus-building style. A study by Booyesen (1999), in which attributes of leadership were elicited from black and white South African bank managers, has pointed to significant differences in what is seen as appropriate leadership behaviour, and key studies by Hofstede (1984) have pointed to some key differences in power distance between national cultures.

Alimo-Metcalfe and Alban-Metcalfe's (2005) research identified six emergent factors key to successful leadership: *valuing individuals; networking and achieving; enabling others; acting with integrity; being accessible; and being decisive.*

There has also been an expression of concern in the literature about the potentially harmful 'dark side' of charismatic leadership. Conger (1998), Mintzberg (1999), and Hogan and colleagues (Hogan et al., 1990), point to the damage that can be inflicted by narcissistic leaders.

The wider leadership research has a number of lessons for the study of leadership potential, which is focused not on the characteristics of leaders once they are in leadership positions, but rather the individual differences that underlie an individual's propensity to successfully develop into a senior leadership role. Simply focusing on the characteristics of existing leaders may not reveal the underlying factors driving potential, and there may be significant gender, ethnicity and culturally-related factors at play influencing what is seen as effective leadership. Finally, Hogan and others have highlighted the importance of derailment in understanding the factors which may derail a leader's progress as they advance their career or encounter new and challenging situations.

Leadership potential

The research addressing leadership potential is relatively disparate with a wide range of competing models espoused by different researchers as well as consultancies. A number of the key research and practice contributions are covered here.

Charan's (2008) concept of the leadership pipeline has been highly influential in recent years, emphasising how demands on leaders change as they progress through leadership levels, from leading projects, leading others, leading managers and becoming a business leader. Key individual difference variables highlighted included a wide cognitive "bandwidth" - the capacity and inclination to see things in a broader context - as an earmark of a business leader who anticipates how changes in the external environment will affect the business. High-potential leaders are described as possessing the following characteristics: seeking information and seeing the broader view; exhibiting drive and aggression; putting their business on the offensive (e.g. make a decision and act decisively on it, despite ambiguity); synthesizing data effectively for decisions, balancing inherent tensions (between the short term versus the long term, between shareholders and customers and employees and external constituencies, and between opportunities and aspirations versus real-world realities and constraints). Other factors include passionately pursuing learning and growth, intellectual honesty and dissatisfaction with the status quo; actively searching for new ideas; and having integrity and telling the truth (Charan, 2008).

Adrian Furnham's review (2007) of leadership potential identified three basic threshold factors as a key starting point for potential, namely threshold levels of cognitive ability, conscientiousness and emotional stability. Further differentiating factors identified were integrity, insight, knowledge, courage and creativity. His review also stressed the importance of understanding derailment risks within this context, as emphasised by other researchers (e.g. Hogan, 1990), where 'too much' of a particular characteristic at the expense of other areas of capability may lead to over-reliance on a strength and subsequent derailment or lack of progression.

There are findings to suggest that there is a significant empirical relationship between aspects of emotional intelligence and leadership potential (Higgs & Aitken, 2003). Williams (2008) investigated characteristics that distinguish outstanding high school Principals in the US and found that emotional and social intelligence is a critical factor in effective performance; outstanding Principals demonstrated a broad and deep repertoire of competencies related to emotional and social intelligence, and utilised a wider spectrum of boundary-spanning strategies.

Cognitive tests, such as intelligence and general reasoning skills, and meta-cognitive assessments (choosing or planning what to do) have been successfully linked to leadership potential in the military (Marshall-Mies, Fleishman, Martin, Zaccaro, Baughman and McGee, 2000). Indeed, Schmidt and Hunter's (1998) review of selection techniques provides robust meta-analytic evidence of the relevance of cognitive ability as one of the predictors of executive success.

Research specific to the banking sector by John Mahoney-Phillips (2007) has identified six key factors linked to leadership potential. The first five were derived from broad literature review and are: capacity for continuous learning; complex thinking; emotional intelligence; energy and drive; resilience. Collaborative working was identified as a further key factor within complex banking organisations.

In addition to the published peer-reviewed academic research, consulting organisations have espoused a range of models and characteristics associated with potential. For instance, over 30 years of competency research by Hay Group has identified three generic threshold competencies for successful leaders, namely expertise and experience, knowledge, and cognitive ability. In addition they identify five key differentiators of system thinking; emotional self-awareness; adaptability and initiative; social awareness and empathy; relationship management and developing others.

Research Summary

The emergent literature in the field of leadership potential reveals a number of issues. Firstly, there is a lack of comprehensive, empirically validated research which genuinely links individual characteristics to future success as leaders. In its place, limited range models abound, drawing on both the wider leadership literature and studies in specific situational circumstances.

However, a number of recurring themes do occur. Firstly, an orientation towards learning and initiating change is frequently cited as one of the key differentiators. In relation to the emotional characteristics related to leadership potential, resilience under pressure, courage and determination, and a focus on action and ambition have all been linked to potential. A further key area relates to the strategic aspects of leadership roles, with a threshold level of cognitive ability or 'smarts' seen as a key input, alongside an orientation and capacity to develop innovative strategies then execute them.

Finally, the people element has been seen as increasingly important by many writers due to increasing specialisation of roles and interdependency between individuals and teams. Along with the wider challenge of globalisation affecting many organisations, this has demanded new ways of working and leading which are significantly different to a traditional 'command and control' approach. In this regard, the capacity to collaborate effectively with others, network effectively and build deep rather than transactional relationships has been seen as a key element of leadership potential, alongside the ability to persuade, influence and engage others successfully. Other factors such as adequate market and technical knowledge and experience have also been cited as key threshold capabilities. Finally, there is some evidence that underlying motivation and value-related factors are also relevant to leadership potential, such as achievement-motivation and integrity.

Overall, a significant number of individual difference variables have been linked to leadership potential. There is some evidence that many of these factors are relatively generic across contexts, whilst bearing in mind that cultural and structural constraints in organisations do influence which aspects of potential may be most important (e.g. collaboration and relationship building within public sector contexts).

A philosophy for understanding talent and potential



Based on our review of the literature relating to talent management and high potential, there are a number of significant themes which emerge and underpin an evidence-based approach to the area.

1. Talent is an investment, and accurate decision-making is vital: Organisations pay and invest considerable amounts in the development of their people. Making this investment deliver the greatest business return is key, with HRM research indicating significant links between effective assessment and development, and subsequent business performance across a wide variety of sectors (Combs et al. 2006). Conversely, failing to invest effectively leads to either (a) sub-optimal decisions by 'backing the wrong horses' and/or (b) failing to realise business benefit by not creating the conditions for people to succeed and grow.

2. 'High potential' individual characteristics: Psychological theory relating to the capabilities needed to perform in high level roles shows that individual differences matter (related particularly to ability and personality factors). Essentially, some individuals appear to have more 'raw potential' than others to work well at this level; identifying this and then developing it is therefore critical.

3. Derailment: Drawing on the work of researchers such as Hogan, this perspective involves an appreciation that the capabilities related to success in middle management roles are not the same as those needed to be an effective business leader. When under pressure in higher level roles, leaders may derail if they over-rely on a strength which may have been important in helping them progress and these become extreme behaviours. Given this, understanding derailment risks and managing these is key for individuals to fulfil their potential and deliver for the organisation.

4. Person/situation fit: All people have significant potential they can develop, but their individual characteristics mean that some types of work suit the styles and abilities of some people much more than others. For instance, some individuals may have greater potential for general management at senior level, while others might be best suited to lead specialist areas of the business, depending on their skills and styles. Based on the research evidence, we take the view that individual differences are important (Schmidt & Hunter 1998), and equally situational factors matter significantly as both explain significant variance in actual outcomes. The key in realising potential of talented individuals is managing the fit between these.

5. Openness and transparency: In recent years, some organisations have run talent programmes which could be accused of being secretive or not open to everyone to access (assuming they have the potential). Research in this area by Crawshaw (2006) has shown that talent programmes and graduate programmes perceived as elitist or restricted to certain employees (by default, rather than transparently on merit) can have significant negative impact on the engagement and performance of other employees. Our view is that talent assessment should be meritocratic, and the principles of decision-making should be openly communicated so they are perceived as fair and reasonable by employees.

6. Objective assessment is vital: Finally, and perhaps most importantly, identification of talent should use tried and tested, objective methods which have been shown to actually work (Schmidt & Hunter, 1998; Smith & Robertson, 1985). Whilst many organisations use subjective 'talent panels' to identify potential, objective assessment of talent is key in ensuring the right decisions are made about who the organisation should invest in, in order to deliver maximum return.

Based on our research, Talent Q's philosophy on the identification and development of potential can be summarised below:

The evidence does not support the idea that...	The evidence suggests the following hold true...
People are a cost to be managed	Organisations need to invest in people wisely to get the best business benefit
Everyone can do whatever they want if they work hard enough and have the opportunity	A variety of different individual characteristics influence someone's leadership potential, with some more able to be successful leaders than others
Some people just aren't suited to lead	People can develop and manage the risks in order to be successful, though the raw material will vary between individuals
Some people are born leaders	The fit between person and the relevant organisation and opportunities has a major impact on which people are successful
Talent management is all about helping the organisation protect its assets	Talent management is a two-way process between the organisation and individuals, which needs to be open and transparent
Managers are the best judge of someone's potential	Objectivity is far better than subjectivity – more accurate and much fairer

A robust model of potential

As outlined earlier in this paper, the research literature involves a wide range of theories, many of which are at a relatively early stage in terms of empirical foundations. Based on Talent Q's review of this research and our own work in this area, it is evident that from a psychological perspective there are broadly three domains underpinning potential. The first of these, which is highly related to personality and perhaps hardest to develop, relates to the *emotional components*. The second relates to *strategic components* including analytical capacity and learning

orientation, in relation to which there are likely to be threshold levels of capability needed (particularly in terms of cognitive ability) to be successful, but otherwise are open to development interventions. The final domain relates to *working with other people*. These elements may often be the subject of leadership development but are subject to significant individual differences as a starting point.

Talent Q Potential Model

Emotional Domain	
Resilience	Bouncing back from setbacks and coping with pressure
Ambition	Long term ambition to push themselves to succeed
Courage	Courage to face moral, personal and operational issues whatever the implications
Seeking and embracing change	Seeks ways to challenge the status quo; willingness to embrace changes positively and openly
Strategic Domain	
Analytical capacity	Ability to analyse large volumes of complex information
Learning and improving	Focus on learning new ways of working and improving approaches to meeting their goals
Developing strategies	Capacity and orientation to find creative, winning strategies
People Domain	
Collaborating with others	Orientation towards collaborating effectively with others to achieve goals
Networking	Focus on developing strong trust-based networks which can be called upon when needed
Positive impact	Persuasiveness and ability to positively engage and influence others
Demonstrating integrity	Demonstrates integrity to others by keeping promises and maintaining focus on delivering what has been agreed

The Talent Q Model of Potential captures the key dimensions of potential consistently identified in the research literature into a psychologically coherent framework. As a result, Talent Q has been able to develop assessments designed to measure these areas and answer key questions such as 'What is potential?' and 'How can we measure it accurately and objectively?' In development, this may be combined with the assessment of leadership derailment risks to give a rounded picture of an individual's potential and related risk factors that may impact on future success.

In seeking to identify who their most high potential employees are and then develop them accordingly, based on our research we would recommend that organisations:

- Draw on the Talent Q Model of Potential as a robust starting point to understanding what constitutes 'potential'
- Consider the contextual factors within their organisation that may influence what is most important and then focus on tailoring their approach accordingly

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- Ensure that validated assessments are used within the talent identification process to make robust, accurate decisions
- Combine the above with line manager recommendations rather than relying solely on subjective assessments by line managers which are likely to have poor validity and the potential for bias
- Use assessment findings appropriately to support targeted development for those identified as high potential
- Evaluate and assess the return on investment from their talent management interventions to continually improve and fine tune their approach.

Through the implementation of these actions, it is possible for organisations to move their management of talent from being a subjective process with significant limitations on its validity, to a more rigorous and scientifically-grounded approach which will deliver greater, measurable returns.



Talent Q provides innovative online psychometric assessments, training and assessment consulting, addressing talent management challenges throughout the employee lifecycle.