

Best Practices in Developing High Potentials

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As aging baby boomers retire from the senior ranks of corporate America, there are fewer potential leaders ready to take their places, creating a demand for tomorrow's leaders that is rapidly outpacing their supply. Between the smaller numbers of Generation X (born 1965-1977) and expectations of higher demands for recognition and promotion from Generation Y/Millennials (born 1978-1994), the retention of high-potential employees is a major concern to many organizations.

According to The Conference Board CEO Challenge, a global survey of more than 500 CEOs conducted annually over the last six years, talent-related issues have been one of the greatest concerns of top business leaders. Still, few organizations are effectively identifying and cultivating high-potentials.

High-potential employees tend to know their potential and will move on to another organization if they are not recognized, motivated, and challenged, while long-term employees often remain with their organizations without being encouraged to make new contributions. How can organizations identify and cultivate employees with the potential to be star performers? What attracts them to an organization and motivates them to commit to that organization for the long-term, and how can that commitment produce maximized results over the course of their careers?

Identifying and Developing High-Potential Employees

A recent research study shows that experience has taught chief learning officers that they're better off developing a strong base of talent internally as much as possible. It's generally less expensive, allows them to motivate and retain key staff, and, as long as they balance the value of organizational experience with sustained independent thinking, it reduces the risk of the unknown. But with minimal resources and self-constrained budgets, how do we identify and then cultivate star performers-those high-potential employees right in front of us, but who are just a bit lower on the corporate ladder?

High-potential employees embody passion and are characterized by a quick movement through various roles in a company, a carefully monitored career path and an elite, but usually secretive, status. As the future leaders of their organizations, high-potentials slide into new positions, receive special coaching and mentoring, and are expected to deliver superior performances.

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Ideally, these top performers are identified as early as possible and benefit from specialized career development plans that ensure those that are the best and brightest quickly rise to the top. Just as competitive advantage can be generated by a speed-to-market product strategy, it also can be created with a firm's ability to accelerate the development of leadership talent. By efficiently developing leadership skills and competencies, high-performing organizations can distinguish themselves from opponents and extend their competitive advantage in the market.

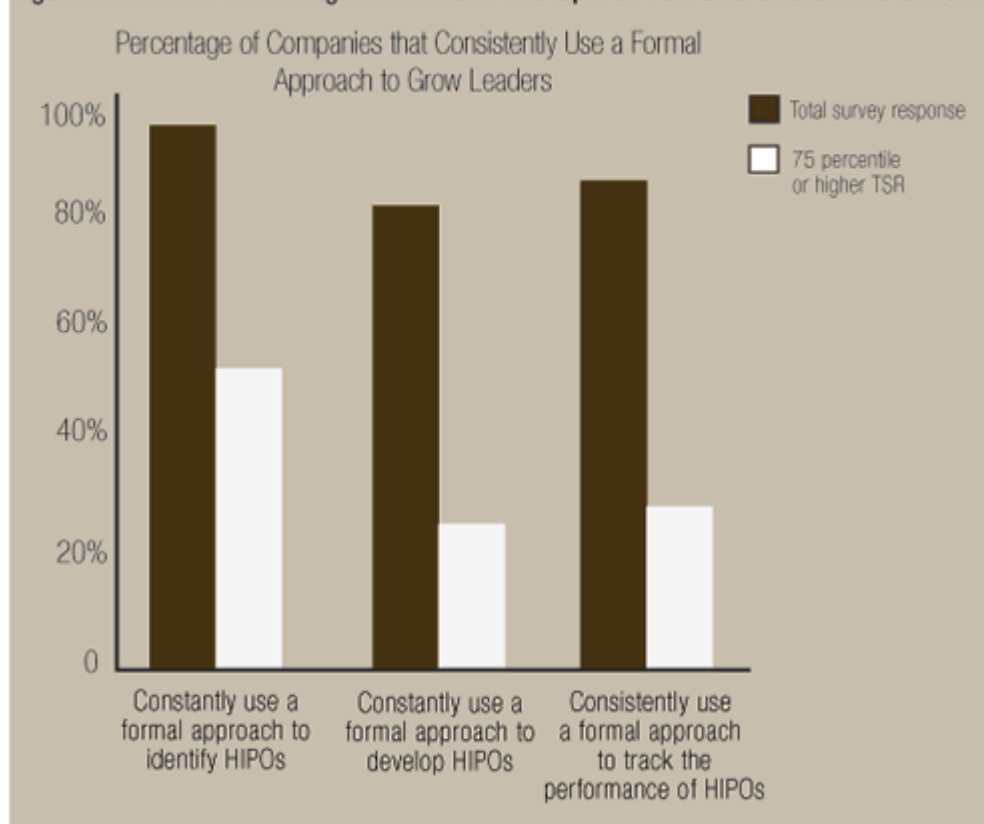
Supply, Demand and Results

The demand for these leaders of tomorrow is rapidly outgrowing the supply. As a result, most organizations are actively focused on identifying and cultivating those employees with the greatest potential to grow into business-critical leadership roles. Unfortunately, surprisingly few organizations are doing this effectively.

A recent Corporate Leadership Council survey found that approximately three-quarters of companies worldwide are not confident in their ability to effectively staff leadership positions over the next five years. Moreover, the Conference Board report shows that only 34 percent of companies are effective at identifying capable leaders early in their career.

In contrast, companies that identify and develop high-potential employees show dramatic shareholder returns. According to a recent Hewitt Associates study surveying large U.S. companies, only a bit more than half consistently use a formal approach to identifying high-potentials, yet those that do perform in the 75th percentile or higher for total shareholder return (TSR). The heightened results and shareholder returns increase even further when these organizations go on to formally develop and track the performance of their high-potentials. (See Figure 1.) Thus, to achieve consistent measurable success, an organization must enforce an effective and sustained identification and development process that focuses on the desired traits and abilities of high-potential employees.

Figure 1: The Effect of High-Potential Development on Shareholder Returns



Identifying High-Potentials

High-potentials tend to rise up out of the crowd and achieve stellar results relative to their peers. But to identify them formally, managers must communicate, utilize multiple methods of assessment and compare the results with known criteria that are associated with a specific leadership level. The results of these assessments provide guidelines for training and mentoring a high-potential to take on greater leadership responsibilities and build strengths.

Employees who are part of high-potential development programs often find themselves under continuous scrutiny. These aspiring leaders face one of the most challenging stages of their professional life as they try to understand their environment, set goals and prove their worth.

There are conflicting opinions over whether it's beneficial to inform employees of their high-potential status. Informing employees is a powerful indication that the company values their contributions to the business and believes in them enough to invest in their future. This opinion is furthered by the suggestion of a greater risk that if not told, the employee will resign and move on to an organization that will recognize and develop their talent.

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The motivation for not disclosing high-potential status also is compelling. Organizations risk creating a three-class system of the "haves," the "almosts" and the "have-nots," and create divisive resentment throughout the organization. Either way, high-potential employees tend to know their potential, whether they are officially told or not. Most organizations today are of the opinion that if the high-potential isn't told by them, someone else eventually will.

In defining the criteria for selecting high-potential employees, many organizations link the identification of their talent to current job performance rather than using an inventory of ideal attributes. This method is effective but should be coupled with clear criteria that evaluate and measure future potential. This hybrid approach should not only increase the quality of the candidate, but also provide a road map for success as they progress through the program. Moreover, by basing assessment on a combination of current and future skills, organizations will have more confidence in their high-potential employees and measure success with greater accuracy.

Specific skills and characteristics should be flexible enough to capitalize on the strengths of each individual and are greatly dependent on each organization's unique culture and operating needs. That being said, most organizations seeking to develop high-potential employees are looking for common attributes:

- Has the respect and trust of supervisors, peers and subordinates.
- Maintains a high level of competence in technical or functional discipline.
- Consistently produces tangible, measurable results above expectations.
- Ensures that team goals are achieved within cultural and ethical guidelines.
- Has a bias for action and is a proactive catalyst for change.
- Is open to feedback and constructive criticism.
- Self-manages in a manner that fosters learning and high-performance.
- Thinks and solves problems creatively and from a position of inquiry (versus advocacy).
- Contributes critical judgment at some level of setting organizational strategy.
- Has a broad acumen of the organization's business and his or her role in its goals.
- Actively leads and manages teams that create a sense of loyalty and community.
- Is intimate with and strives to anticipate and deliver on customer's needs.
- Navigates and leverages resources within an increasingly distributed organization.

Selecting High Potentials

Many managers struggle to identify their high potentials. Do they base their assessments on current performance? Intelligence? Drive and determination? The most common misidentification of high potentials results from confusing high performance with high potential. Not all top performers have the potential to succeed at higher levels.

Clearly, current performance is an important consideration; it's rare that marginal performers will be classified as high potentials. But managers must also sort through external factors that impact success, such as market conditions and competitive challenges. Better yet, it's important to find people with track records of success in a variety of situations and business climates. In fact, the greater the number of challenging situations a person has encountered successfully, the greater the chance that he or she has learned valuable lessons that can fuel future performance.

High potentials also need the right motivations and drive, such as wanting to work with and through others, having an interest in financial data, and being comfortable with power. Being smart is important: The higher a person goes in an organization, the more likely he or she will encounter complexity and overwhelming amounts of data that must be assimilated quickly.

Ironically, some of the qualities most indicative of high potentials also can signal potential performance problems. In a recent study conducted by Personnel Decisions International, 27 percent of individuals identified by their bosses as high potentials were also identified by the same bosses as having a high risk of career derailment--a likelihood that the person would fail in a specific role because he or she reached a plateau of performance, quit or was fired. This means managers believe that one of every four high potentials may never reach his or her potential.

Proper identification of high potentials requires a full assessment of an individual's capabilities, behaviors and fit with organizational expectations. These robust measures also make the identification of high potentials a more objective process.

General Criteria for Identifying Leadership High Potentials

Performance

- Outcomes/Measures of Performance (present and past positions)
- Leadership Competence
- Values

Potential

- Experience
- Job Fit
- Education
- Leadership Bench Strength
- Breadth and Depth of Know How, Problem Solving, and Accountability
- Organizational Change Agent
- Business Acumen
- Professionalism
- Interpersonal/Intrapersonal Skills
- Team Player
- Readiness to move to the next Level (based general or specific criteria)

Description of Performance Ratings

Superior – Exceeds goals. Regularly delivers exceptional results. A unique and exceptional top performer

Above Average – Standards are usually exceeded; carries out almost all responsibilities well.

Average – Performs most responsibilities in a satisfactory manner; results are acceptable

Below Average – Carries out several responsibilities unsatisfactorily; achieves poor results. Job tenure is doubtful.

Description of Potential Ratings

Superior - Has great leadership potential; is ready for advancement. Matches the experience and job qualifications required to be promoted.

Above Average - Has the skill and talent to be promoted at least one or two levels above or cross functionally within the organization

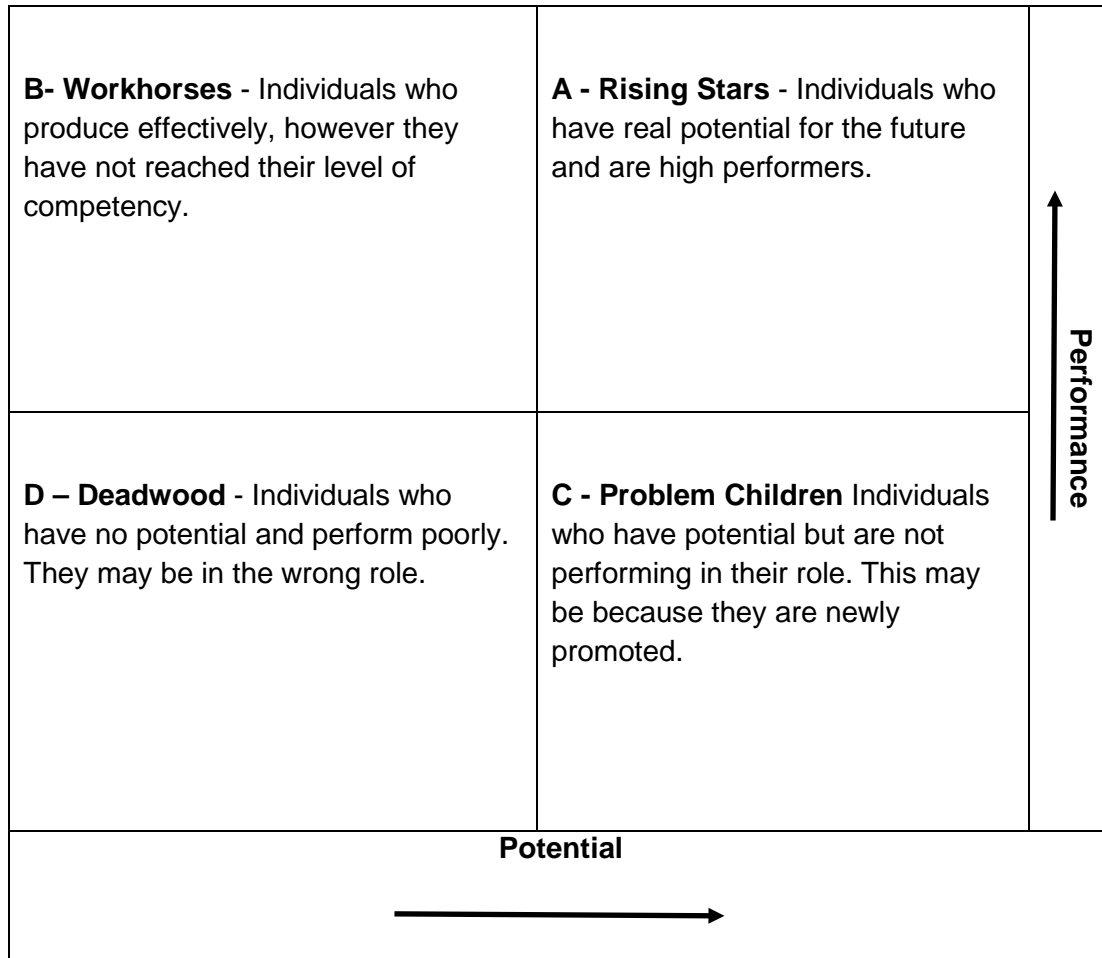
Average – Has the skills and talent to be promotable within his/her job family and/or to a higher level

Below Average – Has achieved a plateau; considered non-promotable without further skill development, interpersonal growth and experience.

Once performance and potential ratings are determined, individuals can be plotted on a grid based on their readiness (performance and potential) and categorized based on their promotability. This type of grid will graphically depict quantities of readiness in a group, function, or an entire organization. The grid below shows only a four box grid; other models make use of additional cells to depict levels of readiness (e.g. 9 box grid)..

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This simple method can help dictate where scarce development resources should be spent:

- * A - **Rising Stars** - Most investment. This is where the business is going to get the best return on there investment. Invest sufficient to keep engaged and grow for the future.
- * B - **Workhorses** - Minimal investment. Invest only to keep motivated or to upgrade skills.
- * C - **Problem Children** - Targeted investment; action plan which includes giving them skills to perform at the required level. Any investment will only occur after full analyses of an individual's motivation to move from where they are currently. If they do not respond move to another role or exit business.
- * D - **Deadwood** - No investment; action plan to either find a more appropriate role or exit business.

Derailers

The most common profile for high-potential leaders likely to derail is someone smart, driven and accustomed to pushing through obstacles to meet ambitious goals. This same hard-driving, risk-embracing style that gets leaders noticed for high performance also can cause them to experience problems with their colleagues. They are more likely to derail at some point if they don't learn to show respect for other people's perspectives and to incorporate other people's opinions to gain their commitment.

Other derailment patterns include leaders who have brilliant ideas and solutions but aren't consistent in being able to implement their ideas through others, and those who get the results their bosses want to see but alienate peers and others.

Developing High Performers

Managers should be mindful of how they treat high potentials in two particular areas. First, managers need to recognize that most top performers are rewarded for their results, not necessarily for the manner in which the results were achieved. If two top performers achieve the same result, they are often given the same reward, even if one achieves it through building and aligning a team and one achieves it by pushing with brute force.

Second, top performers generally consider their work style to be effective. Even if their role changes, they are often averse to changing or modifying their behavior. They have received high praise and recognition for performance and understandably believe that they will be most effective if they continue to follow that approach.

For instances, an individual who prefers isolation from others, even keeping different hours, to stay focused on specific tasks without distractions from co-workers. This method could be effective for some tasks, but when a role changes requiring the individual to work with a team and he/she still prefers to work alone, this behavior now becomes a derailer. The individual fails to build the strong relationships that increases the chance for long-term success.

There are several steps managers can take to decrease risks for derailment:

- Accurately identify high potentials in your department.
- Provide clear expectations in terms of valued behaviors.
- Provide individuals with specific feedback on how well their performances and their behaviors (what they do and how they do it) meet expectations.
- Make sure rewards such as promotions and bonuses don't send mixed messages. Reward high potentials for both the results and the methods used to achieve the results.
- Ensure that high potentials develop skills for potential future leadership roles
- Coach employees to decrease the risk of derailment and create plans that foster development of needed skills and behaviors.
- Shape high potential development through clear communication and appropriate reinforcements,
- Reinforce the company values, and teach employees to demonstrate the values of the organization's culture.

Talent Fit Coaching

High Potentials need the right fit--the skills and mind-set consistent with the organization's strategic direction and cultural values. Most managers fail to help fast rising high potentials realize their potential. In most instances, they rarely have time to clearly explain performance expectations for each role, define goals, and development needs or provide periodic feedback on how the individual's performance and behavior align with those expectations.

High-potential leaders often advance quickly and may not learn some of the basic lessons that others learn simply from having more time in each position. That's why it's important to be explicit about expectations and styles with fast-rising leaders.

Executive coaching is one way to guide high potentials to develop skills necessary to deliver long-term results. When current leaders take the time to measure and identify high potentials and work with each individual to create a custom development plan, these individuals can transform potential into realized leadership performance.

Best Practices for High-Potential Development

There are two distinct categories of high-potential employees. Late-stage high-potentials include experienced managers ready to make their way into the executive ranks. This group is typically identified as middle or senior managers and participates in a wide variety of formal training: specialized mentoring, executive retreats, personal coaching, real-world action learning, global rotation and more. These senior managers are among the top 10 percent of an organization, and significant costs are incurred to prepare them for senior executive roles within the organization.

Early-stage high-potentials are different. These new managers and individual contributors are at the beginning of their careers and are identified more by their talent and drive than their track record. Early-stage high-potentials are found in the lower ranks of an organizational structure, and their employers are generally not yet ready to invest the same amount in their formal training and development. While historically organizations have focused primarily (if not entirely) on their late-stage leaders, more organizations today are adopting an aggressive program for developing bench strength at all levels. Top-performing organizations in particular now recognize that the earlier potential talent is identified and put into the pipeline, the sooner the entire organization reaps the rewards of more productive and effective leadership.

At the minimum, early-stage high-potentials should be identified within the first two to four years of employment. Both human resources and business line managers should be involved in the identification process so assessments are driven from both empirical performance of the high-potential and the organization's ideological criteria and vision.

Implementing a High Potential Program

When planning and implementing an integrated program for early-stage high-potential development, there are many factors to consider. The first step is critical but often overlooked. Holistically, the organization must agree on and then support the goals of the proposed development program. Specifically, the organization must justify the program by answering the following questions:

- Why do we need a high-potential program?
- How will it support our business strategy and improve our competitive advantage?
- How will it benefit the organization, the high-potentials and the rest of our employees?
- How will we measure the success of the program, and what dollar value will we place on high-potentials at different stages of development?

Once the organization's goals for the program are clear, the next challenge is how to develop a relatively larger group of early-stage high-potentials at a fraction of the budget of late-stage candidates for senior management. Here are some cost- and resource-efficient best practices that top-performing organizations use when implementing a successful early-stage high-potential program:

- **Specialized leadership development tracks:** In a recent research study on Fortune 500 organizations, most companies reported having a well-defined leadership curriculum in place. Yet a majority of respondents indicated that the curriculum was more voluntary than mandatory in character. Only a few organizations referenced having specialized, highly customized, mandatory leadership development tracks for their high-potential employees. For those that did, there was a tendency to identify the program as being distinctive and highly effective in elevating the leader potential of their organizations.
- **Multi-disciplinary rotation program:** Another experience-based leadership development tool is the rotation of managers across disciplines, divisions and geographies. The fixed-choice component of the same study found less than half (45 percent) of organizations using rotational or developmental assignments as a regular component of their leadership development package. In contrast, significantly more top-performing development practitioners utilize this technique to provide a more diverse base of experience and perspectives for their future leaders.
- **Unlimited learning opportunities:** Most organizations restrict the number of courses available to all employees. This helps both to control costs and to reserve coveted development opportunities for peak performers later in their careers. While it's important to focus high-potential employees' attention on priority topics and not waste time on the mastery of less relevant knowledge, they tend to seek and absorb behavioral skill building at a much greater pace, and top-performing organizations provide them unlimited access to self-paced learning programs that accelerate their growth.
- **Leverage technology:** Recent studies indicate that technology-enhanced learning is now independently sufficient to improve leadership behavior on the job. The combination of synchronous and asynchronous tools and content, especially when paired with reinforced group application, can not only improve the high-potential employee's performance, but can do so at a fraction of the time and cost of classroom training. (Up to 90 percent reductions were reported CNA in 2005).

- **Action learning:** By taking development initiatives outside of the classroom and putting employees to work solving real-world business issues, action learning is taking over as the classroom trainer's interactive simulation. Groups of high-potentials and mentors are put into a situation and must solve the challenge. Many organizations are migrating to this approach as a way to expand high-potentials' perspectives on how the business operates.
- **Mentoring:** According to a recent study by the American Society for Training & Development (ASTD), approximately 71 percent of the Fortune 500 use internal mentoring programs to develop high-potential employees. Through pairing with internal senior mentors, high-potentials are introduced to years of knowledge and experience.

The Payoff

According to a recent Accenture study, companies with forward-thinking learning organizations have a far greater impact on overall business performance when compared to their peers. Does this mean that identifying high-potentials and deploying a comprehensive program is a guarantee of success? Not necessarily. Nowhere is it written that a promising 26-year-old high-potential matures into a successful 55-year-old executive leader. Yet only by combining potential talent with access to and time for learning new skills will an organization consistently and cost-efficiently develop its high-potential leaders.

It also is important to note that high-potential programs can be controversial to implement. Lack of transparency in the process of selecting high-potential employees has been known to cause serious morale issues. Employees who are passed over or deprived of the progress may even leave. There also are concerns regarding the pressure organizations put on high-potentials. If the process is not monitored carefully, high-potentials can burn out. Organizations should provide necessary support mechanisms, such as counseling and mentoring.

Reflecting on what we know today about programs to systematically and consistently develop high-performers, a few conclusions have become clear:

- While continuing to invest heavily in late-stage high-potentials, the earlier we start focusing on early-stage high-potentials the greater their impact on the organization will be.
- There are now cost-efficient techniques that make it possible to effectively develop large numbers of early-stage high-potentials with limited internal budgets and resources.
- If we want to maintain our growth rate and unique competitive advantage, we can't afford not to implement a formal program for internal high-potential development. Now it's time to get the rest of the organization on board.

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