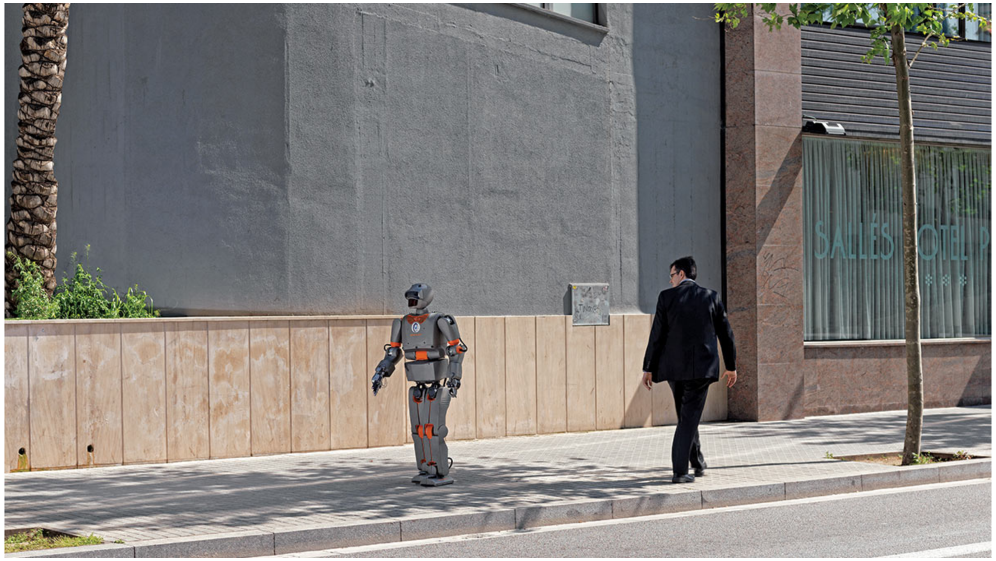
Harvard Business Review

LEADERSHIP DEVELOPMENT

How to Hang On to Your High Potentials

by Claudio Fernández-Aráoz, Boris Groysberg, and Nitin Nohria

FROM THE OCTOBER 2011 ISSUE



ARTWORK: VINCENT FOURNIER, THE MAN MACHINE: REEMB #1, PAL, 2010, BARCELONA

The war for talent shows no signs of letting up, even in sectors experiencing modest growth. According to a global study we conducted, only 15% of companies in North America and Asia believe that they have enough qualified successors for key positions. The picture is slightly better in Europe, but even so, fewer than 30% of European companies feel confident about the quality and amount of talent in their pipelines. Moreover, in the regions where many companies are focusing their growth strategies—emerging markets—the supply of experienced managers is the most limited, and the shortage is expected to continue for another two decades.

One popular battle strategy is to institute programs aimed at “high potentials”—the people that companies believe may become their future leaders. The appeal is clear for both sides: Promising managers are attracted to companies known for strong development opportunities, and a well-managed talent pipeline dramatically increases the odds that a company will appoint great leaders at the top.

But these programs aren't simple to execute. The selection criteria are often confusing. Employees are frequently mystified by who's included and who's excluded. Company leaders have to weigh the upside of putting top performers into developmental opportunities against the downside of temporarily distracting them from an enterprise's immediate needs. Firms risk demoralizing solid contributors who are *not* anointed as high potentials—the vast majority of managers, the people who keep the trains running on time. Sometimes the chosen few don't stick around or don't live up to expectations. And too often, the programs fail to maintain momentum, leaving companies unsure they have paid off and fueling worker cynicism.

There are exceptions, of course. Companies such as GE, Unilever, PepsiCo, and Shell have long been known for their careful attention to talent management. But those companies are not the norm.

As far as we know, no one has yet studied the process of managing high potentials from end to end. In order to fill this void, in 2007 we launched a joint research project with the executive search firm Egon Zehnder International, conducting a large-scale cross-sectional and longitudinal analysis of how companies assess and manage their rising stars. We also interviewed executives from 70 companies that have programs for high potentials—firms of all sizes, located around the world.

From this research, we identified a set of cutting-edge practices. Some are from unexpected places—such as an Argentine manufacturer of steel tubes that's become an international leader despite regional and industry turbulence, and a Turkish bank that has gone global. Some are broad—such as the direct involvement of a pharmaceutical-device maker's senior management team in the development of that company's 600 most promising leaders. Though high-potential programs abound, the field is so new and so dynamic that these practices haven't yet been time-tested. Still, they can provide valuable ideas and inspiration to companies looking to strengthen their talent pipelines.

One important finding of our research was that the effective management of the next generation of leaders always encompasses three sets of activities. The first involves the establishment of clear strategic priorities, which shape the way companies groom high-potential leaders. The second involves the careful selection of high-potential candidates—and communicating who they are to others in the organization. This can be touchy. And the third comprises the management of talent itself—how high potentials are developed, rewarded, and retained.

There is no cookie-cutter method for creating a successful program. Just as you can't lift any other people management process directly from another company, you can't assume that a high-potential program that works somewhere else will work for you. Your strategy and your culture influence the nature of the program that will be most effective. If your strategy is to aggressively expand through acquisitions in emerging markets, for instance, you'll need a different type of program than you would if you were pursuing low-cost leadership through operational and productivity improvements.

We'll outline the strategic, selection, and managerial aspects of effective high-potential programs below. But first, let's start with a definition.

What Is Potential?

We were a little surprised to discover how many companies launch high-potential programs without first clearly establishing what they mean by "potential." We use the following simple definition: Potential indicates whether someone will be able to succeed in a bigger role in the future. It is a person's *ability to grow and to handle responsibilities of greater scale and scope.* By "greater scale" we mean a job in the same area but with, say, a larger budget or staff; by "greater scope" we mean a job involving activities of substantially more breadth and complexity.

Consider a sales vice president who consistently meets her budget forecasts. Could you reasonably expect her to take responsibility for marketing as well? Might she be able to lead a multidivisional initiative—repositioning the business from a product-centric to a customer-centric organization? She doesn't have to be ready to take it on tomorrow to be high potential. However, if you're going to invest significantly in her development, you want to be reasonably confident that the investment will pay off.

Before classifying her as an up-and-coming leader, then, you'd look for signs of her capacity to learn quickly on the job, genuine interest in broadening her scope (is she inclined to show up at meetings where she might learn something that doesn't directly relate to her job?), and willingness to take on extra work on short notice. She might be very bright and a highly valued contributor but still not qualify as a high potential.

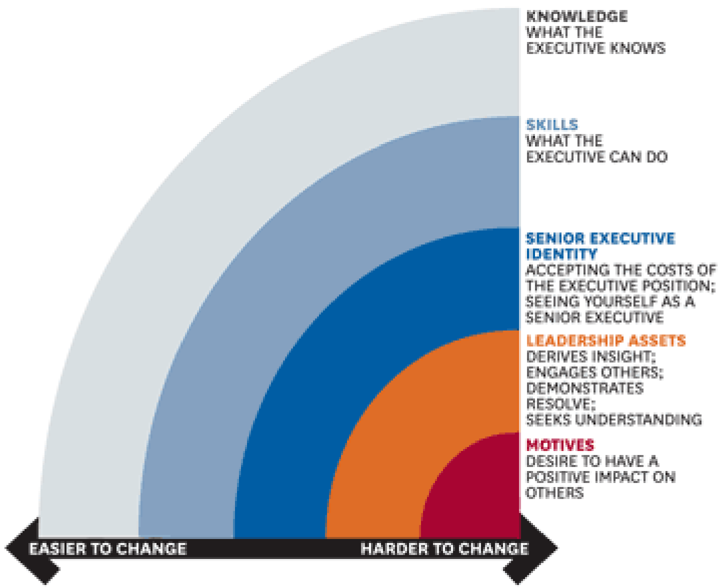
A basic model for assessing executive potential, developed by Egon Zehnder International, is depicted in the exhibit “The Essentials of Executive Potential.” It contains five elements, shown in the exhibit as a section of five concentric rings. These range from very difficult to change (motives) to highly teachable (skills).

The Essentials of Executive Potential

This model shows the elements of potential, with the hardest to change—motives and leadership assets like the ability to engage others—at the core. Wrapped around those traits is a leader’s sense of identity. It has a major impact on whether a manager will use a particular capability. He might, for instance, be able to create change in an organization, but if he doesn’t define himself as a change agent, he won’t. High levels of competence alone, therefore, can propel people to some success and some promotions but won’t be enough to sustain them in large leadership roles.

At the inner core are the individual’s motives. These predict consistent patterns of behavior over time. They tend to be stable, are usually not conscious, and are highly related to what people enjoy and get energized or engaged by. Does the person get satisfaction from seeing others succeed? Does she demonstrate a passion for the organization’s mission over personal reward? Foundational research at Harvard long ago showed the relevance of the “Three Social Motives”—achievement, affiliation, and influence. One form of the last motive, the desire for *socialized influence* (having a positive impact on others for the good of the larger organization), is a predictor of senior executive potential. To a certain extent, it may be something you’re born with—or at least a product of early social interactions. However, positive work experiences and wise mentorship can help people develop better motives.

One level out you’ll find a series of abilities we call “leadership assets,” which predict how far and how fast an executive will grow. There are four important assets: A high potential *derives insight;* she can make sense of a vast range of information and discover and apply new ideas



Find this and other HBR graphics in our **VISUAL LIBRARY** >

that transform past practices or set new directions. She also effectively *engages others* through emotions and logic, communicating a persuasive vision and connecting individuals. She *demonstrates resolve* and keeps on driving toward goals despite challenges. Finally, and perhaps most important, a high potential *seeks understanding;* she constantly looks for new experiences, ideas, and knowledge; asks for feedback; and adjusts her behavior accordingly.

> The desire to have a positive impact on others for the good of the organization is a key predictor of executive potential.

At the next level is a sense of self, or identity. Identity is how you see yourself on the stage. For high potentials, this means envisioning yourself as a senior executive—not just for the prestige but because you want to fulfill a passion for developing a team or make things happen. Individual contributors may be motivated by others' success, for instance, but may have no wish to play an enterprise-wide role.

The characteristics found in the three innermost rings—which are so hard to change or learn—are essential to high potential. The things in the outer two rings of the model—skills and knowledge—can be acquired. Skills—what an executive is actually able to do and apply—can effectively be taught or learned on the job. And in order to perform an individual job well, every manager needs some specialized knowledge (say, about a market, a business, or certain practices), which should be tested and eventually supplied before any critical promotion.

Align Development to Strategy

Many companies' programs for high potentials simply replicate those in place at other firms, as if talent could be developed with an off-the-shelf model, without taking into account an organization's goals. Potential is situational, and programs that manage it should be aligned with a company's strategy. (If your value proposition to employees is that you'll develop them for successful careers wherever they go, that's a legitimate aim, but it's not something that will necessarily strengthen your talent pipeline.) There is no universal great manager, as we found when conducting an analysis of a large group of GE "graduates" who went on to become CEOs at other companies. Some added tremendous value to their new organizations, but others proved disastrous. Doubtless all of them went through a rigorous development process at GE, but they could excel in a new company only if it was a strong strategic, organizational, and industry fit.

If, for instance, a company's strategy is to grow in emerging markets, it might focus on a more global talent pool as well as people who have demonstrated flexibility operating in unfamiliar settings. In contrast, a company that is committed to being the low-cost leader might target people who are highly disciplined and results-oriented.

Best-practice organizations start with this strategic focus but periodically reexamine their strategic priorities and refresh their pool of candidates. Such flexibility is key; from what we've seen, companies that set rigid goals about the type or number of high potentials, instead of taking a dynamic approach, become complacent and don't get much out of these programs.

One more note on tying talent management to strategy—it's not a matter to be left to HR. If the senior management team is not involved, the process may be doomed. It can be tough to get the senior-most executives viscerally engaged in talent development, but if they aren't personally invested from the start, the whole program could easily head down the wrong path.

Select with Care

Though it can be tricky, choosing candidates for these programs is an extremely important part of the process: The consequences of a faulty assessment can be costly. Not only is it wasteful—in terms of training and developing people unlikely to become leaders—but it undermines employee morale and the credibility of the whole program. Furthermore, poor assessments also mean that people who have strong potential are excluded. Disheartening a prospective star for the wrong reasons can be extremely expensive.

Identifying promising candidates.

Selection usually begins either with nomination by the employee's immediate supervisor or through the annual appraisal process. At several companies we studied, including a Caribbean financial services firm, an Italian utility, and a Cypriot bank, managers are expected to pinpoint high-potential employees. At some companies, managers are expected to put forward candidates from their own departments but can nominate individuals from other departments as well.

Other companies, like one Danish bank we studied as well as a European airline and a Scandinavian online service provider, allow employees to nominate themselves. However, we found that the practice is not prevalent, because it carries risks. Across the board, people overestimate their potential. Their self-assessments might be useful but need to be taken in context.

Using annual appraisals to make the first cut brings more objectivity to the process. At a gas pipeline company we studied, two years' worth of outstanding reports qualify an individual as high potential. At an insurance company, the annual appraisal process specifically calls for categorizing individuals as lateral, potential, or high potential: *lateral* signifies that someone is ready to move into positions only at the same level; *potential,* readiness for promotion in two years; and *high potential,* the ability to make two major moves upward in the next five years. But annual appraisals alone are not enough—research has shown that most high performers are not, in fact, high potentials. That's why we recommend supplementing appraisals with a subjective view of candidates—like supervisors' recommendations and other inputs.

After you've identified your first cut of candidates, the next step is to develop valid and reliable assessments of their potential. Many companies routinely use personality tests to do this. The practice is somewhat more commonplace in North America and somewhat less popular in Asia and Africa. We don't recommend it; though some research in the early 1990s provided evidence that personality can predict job performance, it has become clear that personality tests have low validity. Furthermore, if they're self-reported, you can't prevent people from gaming them. The best tools for assessing potential are references and behavioral interviews. At some companies, psychometric tests are used only to customize development plans for candidates who have already been selected by other means.

Increasingly, major organizations also complement their own internal appraisals with periodic input from qualified external partners. External assessments decrease the element of bias and offer a broad set of benchmarks—allowing companies to compare their talent against strong outside candidates.

Just as important as the choice of methods is the person conducting the assessment. Most people aren't nearly as good as they think at sizing others up. Indeed, most managers are dismal at predicting employees' future accomplishments. The good news is that it's not about intuition: Accurate assessment can be learned. And the right person using the right model can learn to assess potential (predicting whether a person will not be promoted, will be promoted once, or will be promoted twice or more over the next four to five years) with 85% accuracy.

Communicating wisely.

Many organizations try to "hide" high-potential classifications, as if that were possible. A study conducted by Anthony J. Fresina and Associates in 1987, featuring 225 corporations in 10 industries, found that 78% of companies did not inform high potentials of their designation, but 90% of the time employees knew anyway. Yet even in that study, informing high potentials of their status was clearly associated with enhanced retention and improved productivity.

Nonetheless, this is a delicate topic. If you're completely open about who is on the list, you have to prepare for the disappointment of those not anointed and even the frustration of high potentials whose expectations are not met. We believe strongly in transparency—let people know if they're high potential; acknowledge it when they are not. To some extent, the instinct to keep the list private is understandable, because the process is new at many firms and because companies have so much trouble evaluating even past performance. Still, we've found that the main reason companies don't communicate openly is that their process is overly subjective or unfair and therefore indefensible.

To make sure they provided the right type of feedback, the companies we studied would typically inform managers in private discussions that they had or hadn't been designated as high potentials. Some companies also communicated status indirectly, by suggesting enrollment in special programs or appointing the managers to special developmental roles and assignments. However, transparency wins over secrecy.

Develop and Reward Thoughtfully

The development of high potentials needs to go beyond formal education programs and include self-directed learning and other types of training. On-the-job development is also key. Changing underlying motives and traits is hard, but a combination of targeted mentoring, coaching, education, and job experiences can achieve considerable impact. The best companies in our study look for experiences that will both challenge and motivate people, and strongly encourage senior leaders' involvement in key activities like mentoring.

Programs for high potentials typically employ a handful of time-tested methods. One Eastern European financial services company we looked at offers a classic example of a formal, well-thought-out program. At this firm, in addition to performing their regular jobs and stretch assignments, selected young middle managers attend a 15-month training program designed and taught by business-school faculty and featuring case studies and other business-school content. They receive coaching at the same time. When the program ends, they get a three- to six-month foreign assignment, chosen for its opportunities for personal development, to do a job closely related to their job at home.

> Make sure you don't overload people. There is a fine line between a challenging assignment and an overwhelming one.

It's useful to involve company leaders as teachers—in both formal programs and informal conversations—and as networking resources. High potentials need visibility with senior executives, as well as role models of leadership. At a major pharmaceutical company we studied, the CEO and other members of the senior team meet one-on-one with people on the leadership development track. "They'll ask them about their experience being a member of the talent pool," explains the company's executive vice president of HR and corporate affairs. "Do they feel they're getting appropriate development? Are they getting good coaching from their leader? How can we help them? Do they understand the benefits of being a member of the global talent pool? When the CEO spends time doing this, it shows you how important he thinks it is."

Job rotations.

It’s well established that on-the-job experiences are by far the biggest lever you can pull in developing the skills that will take high potentials to larger, more senior, and more complex positions. As long ago as 1988, a study on managing high potentials conducted by C. Brooklyn Derr, Candace Jones, and Edmund L. Toomey showed that 84% of firms used job rotations as the primary strategy to develop high potentials.

Rotations that develop managers include bigger scale, bigger scope, line-to-staff or staff-to-line switches, cross-moves (handling a very different set of activities across divisions, functions, or industries), start-ups, turnarounds, change management initiatives, and international assignments. Changes in level, organizational unit, location, industry, and circumstances all help managers grow. Ideally, job assignments will involve novelty and the need to adapt. The greater the change in scope and responsibility, the greater the learning. There is, however, a fine line between a challenging assignment and an overwhelming one.

Because job rotations are costly, they should be chosen with care. Here again, it helps to go back to the strategic goals of the organization. What is it that this high potential would need the most to further contribute to our strategic objectives? If it’s, say, broader international experience, consider a geographical shift with an eventual increase in job scale. But make sure you don’t overload people—if you’re expecting somebody to lead a significant overseas expansion, don’t add too many new challenges in other dimensions.

Rewards and incentives.

Some companies seem to believe that the high-potential classification is a significant reward in itself. But the best companies think beyond the benefits of participation in specific development programs and make considered choices about their high potentials’ compensation, as well as how it’s paid out.

Financial incentives should not be excessive—compensation is only one part of any reward strategy—and they must be properly aligned with the objective of building lasting strengths for the company. And external incentives like money work only in conjunction with internal motivators like the need for achievement and recognition. While companies need to pay people well to attract and retain high potentials in the first place, they should be careful not to overdo it, because that is the surest way to demotivate employees who are not classified as high potentials, who may feel unfairly paid.

If people are your most important asset, as companies like to say, then high potentials are vital to your future. We are hesitant to definitively label the processes we describe here "best practices," because they are evolving and we don't yet have long-term evidence of their merit. But we give credit to the companies experimenting with new approaches, because they are on the vanguard as we move into what may prove to be the most intense battle yet in the global war for talent.

A version of this article appeared in the October 2011 issue of *Harvard Business Review*.

Claudio Fernández-Aráoz is a senior adviser at the global executive search firm Egon Zehnder, an executive fellow at Harvard Business School, and the author of *It's Not the How or the What but the Who* (Harvard Business Review Press, 2014).

Boris Groysberg is the Richard P. Chapman Professor of Business Administration at Harvard Business School, Faculty Affiliate at the HBS Gender Initiative, and the coauthor, with Michael Slind, of Talk, Inc. (Harvard Business Review Press, 2012). Twitter: @bgroysberg.

Nitin Nohria is dean of Harvard Business School.

This article is about LEADERSHIP DEVELOPMENT

FOLLOW THIS TOPIC

Related Topics: EMPLOYEE RETENTION | TALENT MANAGEMENT | MANAGING PEOPLE

Comments

Leave a Comment

POST

1 COMMENTS

randeepa gamagedara 3 years ago

Very important and useful thoughts.

REPLY 0 0

JOIN THE CONVERSATION