The high cost of misidentifying high-potential leaders
Introduction

Something’s amiss in the world of corporate talent management. Consider the following:

• 56% of executives report a shortage of leaders for key positions in their organizations (Alder and Mills 2008).
• 90% of executives believe they are among the top 10% of talent in their organization (Coy 2007).

So there is high demand for leadership talent, and an obviously inflated performance appraisal system being used to identify future leaders. What are the implications of talent gone amiss?

In the Harvard Business Review article “How to Keep Your Top Talent,” two researchers from the Corporate Leadership Council made the following observation: “Our research on leadership transitions demonstrates that nearly 40% of internal job moves made by people identified by their companies as ‘high potentials’ end in failure” (Martin and Schmidt 2010). This means people’s potential is being misjudged with alarming frequency.

The cost of the misidentification of high-potential leaders is staggering. It damages careers, it impedes organizational performance, and it sullies the reputation of HR companywide. Do companies really misidentify their high-potential talent as much as 40% of the time?

We believe the rate is even higher.
Who has the potential to lead?

High potential is not the same as “promotable.” It is not about being ready for the next job now, but for the very biggest jobs down the road.

True high-potential leaders exhibit *both the capacity and the interest* to develop the qualities required for a significantly more challenging role—typically a senior executive one. They will be able to take on one of the most senior multifunctional roles in an organization such as CEO or other high level general management position.

In addition to being high performers, individuals with leadership potential have seven other measurable indicators: a track record of formative experiences, the ability to learn from these experiences, self-awareness, the personal traits of a leader, the drive to be a leader, an aptitude for logic and reasoning, and minimal or nonexistent derailment behaviors (Sevy et al. 2013).

Learning agility—an attribute that can be assessed to gauge leadership potential—comprises two of these seven indicators: self-awareness and learning from experience. Research has documented many ways that learning agility is related to potential. Specifically, individuals high in learning agility are more likely to be promoted quickly, filling leadership roles sooner (Dai, Tang, and Feil 2014). And people with high learning agility are more likely to perform successfully after a promotion (Swisher et al. 2013).
The frequent false positive.

Unfortunately, individuals are misidentified as high potentials with alarming frequency. Korn Ferry has consulted on succession practices with more than 250 organizations—large and small companies, multinational and local, public and private. We have found that executives overrate the potential of their talent as much as 80% of the time.

Why? Organizations over-rely on performance as a sign of potential. While most high potentials are in fact high performers, the inverse is much less likely to be true: 93% of high potentials are high performers, but 71% of high performers are not high potentials (Corporate Leadership Council 2005). Although a track record of success in key career experiences is important, it is only one of the seven signposts that should be examined when determining potential.

Precise identification of high potentials requires applying a consistent language of talent, and properly calibrating the system to measure it.

Korn Ferry’s approach involves two steps. First, during an initial evaluation process, executives rate individuals on two variables: sustained performance over a multiyear period, and degree of potential compared with other individuals. Each person is assigned a rank for performance and potential: Towering Strength (the best I have seen); Skilled (about as skilled as most others); or Development Opportunity (not always up to our standard). Individuals are then plotted on the Performance-Potential Matrix along two axes in accordance with their rankings.

The subsequent calibration process includes a formal talent assessment of all the candidates followed by a Talking Talent® session with the senior team. When executives are provided with research-based definitions of potential, complete assessment results, and access to one another’s perspectives on the talent pool, they form a more accurate picture of who is truly high potential. The names on the matrix are then shifted to reflect this more precise depiction of their talent. The result is an internally calibrated and validated matrix that minimizes the risk of misidentifying high potentials.

Profound shifts often happen during the Talking Talent sessions. Executive teams begin with a matrix that suggests a deep bench of high-potential leaders who are ready for fast track and high risk assignments. In reality, most executive teams usually have a deep bench of high performers, but people may be top performers based their depth of expertise, not their ability for broad-scope leadership. Compounding the problem, many development plans simply emphasize the accumulation of more functional/technical skills and capabilities. In our experience, 40% to 80% of candidates get re-ranked during these facilitated calibration discussions.
Recently a talent-oriented CEO of a global consumer goods company asked his talent management team to identify the internal candidates capable of becoming CEO by 2025. This pool would be provided accelerated development opportunities, greater visibility with the most senior executive team, and action would be taken to ensure their individual engagement with the organization—all noble steps to take with an organization’s high-potential talent.

The talent management team asked the executive team to nominate participants, expecting to garner a list of 60 candidates. They received only 34—perhaps a warning sign that there were fewer “high potentials” in the company than assumed.

These 34 were then put through a bank of assessments designed to measure the multiple indicators of potential, taken through a comprehensive performance based interview, and were given customized comprehensive development plans. Upon completion, the assessment scores were plotted on the performance potential matrix.

The expectation was that all 34 hand-selected candidates would have the ability to lead at the highest level of the enterprise—in other words, that they would all be in the upper right corner of the matrix. At a minimum, one would expect this group to all be high performers—all in the top row of the matrix. Instead, the matrix looked like this:

![Performance Potential Matrix]

The high cost of misidentifying high-potential leaders is a case of misidentification.
From 60 to 34 to 10. Only 10 of the 34 individuals who were initially identified as high potential remained on the high potential list. Two-thirds were not high potentials at all, but rather high performers. Seven were deemed to be moderate performers. Leaders in this particular organization had misidentified high potentials more than 70% of the time.

If the organization hadn’t taken steps to calibrate its rankings, all 34 could have been placed in a fast track, high risk job assignment—generating real risk to the organization as well as to the individuals. Instead, the organization more carefully considered its developmental approach to each person in order to minimize such risk. Failure to do so could have easily tarnished or ruined the careers of really good people.
The cost of misidentification.

Misidentification can damage careers. It pushes leaders into roles they are not ready for and may not even want. It creates expectations that the leader will not be able to meet. It can result in squandered resources when the wrong people are placed in high-potential development programs. Promoting a wrongly identified leader can create a performance issue that will take time to diagnose and correct and may ultimately result in the individual’s departure from the organization. Even if the leader ultimately survives the promotion, it will take him or her longer to get up to speed and his or her performance may never quite meet standards.

Misidentification impedes organizational performance too. Promoting a false high potential leads to mediocre performance, extra work for the boss, a decrease in morale and engagement of the leader’s direct reports, and a risk of increased turnover. And the impact lingers. It takes time to recognize that performance is lagging, to attempt to remedy it, to finally decide something must be done, and then to replace the leader. The impact of misidentification on the organizational bottom line is immense—as damaging or worse than bad hiring decisions.

Misidentification also erodes trust in HR, perceived as the owner of organizational talent. When high-potential development programs fail to deliver high quality talent, who gets the blame? HR. When turnover goes up or leadership performance declines, on whose doorstep does the criticism land? HR. Rightly or wrongly, when senior leaders are dismayed about the quality of organizational talent, their disappointment falls squarely on the shoulders of HR.
Finding potential with more precision.

For those responsible for talent management, the high rate of misidentification should serve as a wake-up call to alter or refine their approach to pinpointing high-potential leaders. There are two things organizations can do to increase their accuracy:

**Know the true indicators of high-potential leaders.** Organizations should get beyond guesswork by looking more granularly at the indicators of leadership potential. To get deeper insight into who is high potential, organizations should ask:

- Are these individuals interested in, motivated by, and engaged by leading?
- What is their track record of relevant experience and facing leadership challenges?
- Do they absorb the lessons of their experiences and leverage them when confronting new or novel challenges?
- Are they highly self-aware?
- Do they have the intellectual capacity to thrive in complex, fast-moving, or ambiguous situations?
- Do they have the personality traits that are most aligned with leadership success?
- Is their risk of derailment minimal?

**Adopt an accurate language of talent.** Today’s debates about potential echo the arguments over measuring performance that consumed businesses decades ago. At that time every organization had its own theory about leadership performance, what it is and isn’t; who has it and who doesn’t, and how to spot it, measure it, and develop it. But with the widespread adoption of competencies as a way to consistently describe performance, the conversations converged and the debates diminished. Today most organizations have competency models that define and measure leadership performance in primarily the same way.

Compare that to the conversation still raging about leadership potential: what it is and what it’s not, who has it and who doesn’t, how to measure it and develop it. The arguments are dominated by personal opinion and the theories vary widely. The parallels can’t be ignored.

When there is no common language of talent, is it any wonder that we see over 70% rates of misidentification, or that 40% of high-potential promotions fail?
The science of leadership potential has advanced dramatically. Organizations no longer need to invent their own theory of potential, definitions, or formula for measuring it. Adopting a common language will help solve questions about potential just as it did for performance.

The CEO of a computer services company lamented the failure of a recent promotion he had made. The company had acquired a business in Asia that represented a beachhead in that rapidly growing market. To integrate the company into the enterprise, the CEO selected a young financial executive who had been with the company for a long time and a consistent high performer to assume its overall profit and loss responsibility. The CEO thought he was high potential.

This executive had worked solely in the finance function and never outside the US. He'd built his career through his functional/technical knowledge and viewed everything from the perspective of finance and cost. Customer service, marketing, and relationship building skills were ignored. Cultural dexterity was crucial too, yet the financial executive had little of that either as he set out for Asia. Still, he eagerly took on this high visibility opportunity.

In the computer services industry, people are the core assets. The demand for their skills is high, particularly in Asia. Within months, the core assets of the company literally walked out the door and set up shop elsewhere.

Unable to staff effectively for its client engagements, service suffered. In short order, customers were lost forever to competitors. Two years after acquiring the Asian business, the company shut it down to stem the losses. The finance executive was terminated.

What did that cost? The CEO was quick to respond, “$47 million.” It was also a major embarrassment that significantly tarnished the company's overall reputation. Plus, it ruined the career of a once very promising and high performing financial executive.

Price tag on misjudging potential: $47 million + one man's career
References


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About Korn Ferry

At Korn Ferry, we design, build, attract and ignite talent. Since our inception, clients have trusted us to help recruit world-class leadership. Today, we are a single source for leadership and talent consulting services to empower businesses and leaders to reach their goals. Our solutions range from executive recruitment and leadership development programmes, to enterprise learning, succession planning and recruitment process outsourcing (RPO).

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The Korn Ferry Institute, our research and analytics arm, was established to share intelligence and expert points of view on talent and leadership. Through studies, books and a quarterly magazine, Briefings, we aim to increase understanding of how strategic talent decisions contribute to competitive advantage, growth and success.

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