



Hudson

Critical Thinking
High Potentials
FACTS AND FICTION

From great people to great performanceSM



“The business environment is considered as a kind of test, with only the ‘lucky few’ finding their way to the top.”

Why the survival of the fittest assumption doesn't work.

Current leaders often wrongly assume their in-house potential will emerge without any regard for HR-policies. This 'survival-of-the-fittest' assumption pictures the high potential as a lonely warrior, who fights his way through the jungle with a machete. The business environment is considered as a kind of test, with only the 'lucky few' finding their way to the top. This may, however, cause leaders to overlook in-house potential, while boosting derailments in the evolution of identified high potentials.

Current leaders are keen to regard the 'survival-of-the-fittest' assumption as true, because they frequently regard themselves as 'survivors' too. According to this assumption, it would appear to be perfectly feasible to select high potentials based on values, norms and personality traits similar to the current leaders. Only modest investments in HR-policies then appear to

be necessary as the current leaders believe they can best identify the future leaders.

There is a significant danger that utilising informal selection systems promote employees on the basis of similarities they display and the network they build: i.e. those who attended the same educational and training institutions, apply the same leadership style, belong to the same social background and come from the same 'old boys club'. Applying the 'natural-selection-technique' implies a number of risks, however, which can have an impact on the continued, long-term existence of the company. Informal and often self-designed 'ad hoc' systems do not constitute an effective strategy to identify and develop the company's future leaders. It is a luxury which companies can no longer afford, since the arrival of the second 'war for talent'.

Second war for talent has arrived

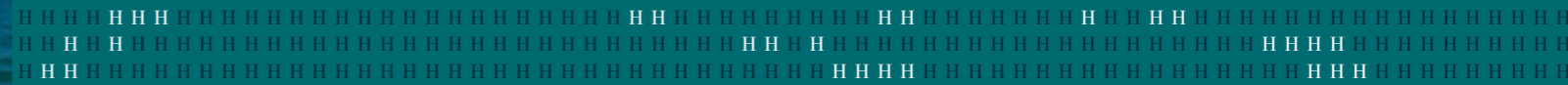
It is often claimed that the demographic shortage of labour will make the first war for talent (announced in the late 1990s) look like a 'minor and temporary irritation'. The future shortage of labour is presently a fact well documented by statistics. By way of illustration, here are some figures: even if the US economy were to grow over the next fifteen years by only 2% for instance, the demand for senior managers would still rise by about one third. Meanwhile, the total potential labour force in the US is declining: in 2005, the total of 35-year to 44-year olds decreased by some 15%. A similar phenomenon is happening in Europe: the number of employees aged 55 or older is set rise to 47% of the total European working

population by 2010. By 2050, the situation will look even more dramatic: by then as much as 60% of the total European working population will be older than 60 years. This demographic trend serves to underpin the rationale that investment made in attracting, selecting, developing and retaining in-house talent is a pressing need.

Some companies will consequently push aside this imminent problem of a structural shortage of labour. It is true that until the year 2010, companies will hardly notice any change, as a consequence of increasing female participation, large restructuring operations and continuous economical fluctuations. However, demographical statistics suggest the long-term trend is clearly a continuous and



10 guiding principles for installing a high potential programme



ever-quicker tightening of the labour market. There is, a growing awareness that companies must develop a long-term strategic HR policy in order to win the war for talent: They must devote

more attention to attracting and retaining their human capital and develop potential internally, rather than 'buying' it externally. Increasingly, companies are translating this awareness into an in-house 'high potential management programme'.

High potential management programme as an answer to the new war for talent

In contrast with the phenomenon of 'cloning the current leaders', Hudson advises companies to develop a formal high potential management programme: an in-house 'pool of high potentials', which are closely monitored and developed in line with company strategy and company needs. Consequently, companies need to free up the necessarily resources that will enable high potentials to perform at their best and grow step by step towards a next job level.

Up till today, companies are tempted to play it safe: they confine resources only to the 'established talents' at the top and invest little in the

development of latent in-house potential at entry level. A formal high potential management program implies that organisations must look ahead and tackle their leadership development proactively. Companies should opt for a wider approach towards talent management, by identifying future leaders early on in their career. It is indeed, 'the early bird that catches the worm'. Companies mustn't be afraid to evaluate their employees and designate their high potentials in a formal manner. The strength of successful companies is their courage to differentiate and to be consistent in the application of a high potential policy.

HUDSON DEVELOPED 10 GUIDING PRINCIPLES FOR INSTALLING A HIGH POTENTIAL MANAGEMENT PROGRAMME, BASED ON HUNDREDS OF ASSESSMENT AND DEVELOPMENT CENTRES, CONTACTS WITH BUSINESS LEADERS, HR EXPERTS AND ACADEMICS IN ALL PARTS OF THE WORLD, AN ELABORATED LITERATURE STUDY AND QUANTITATIVE RESEARCH ON HIGH POTENTIALS:

1 Align the programme with the company strategy

"The problem of our times is that the future no longer is what it once was" — Valery

The unified commitment of the company to invest in in-house potential is decisive for the success of the high potential programme. The programme should therefore be placed on the management agenda and clearly aligned with the company strategy, ensuring all personnel decisions made with the long-term future of the company in mind.

High potential management presupposes sufficient awareness of the company strategy and the strengths and weaknesses of the company leaders, both today and in the future. In that sense, the profile of the future leaders of the company comes forth — in an almost natural way — from the dialogue on the strategic imperatives and associated challenges the company will be facing. Hudson recommends organising a 'high potential workshop', where the CEO and the senior management sit around the table and reflect on leadership and challenges future leaders will face. The acknowledged current and future challenges

can then be used as the guiding principles during the workshop. It is important also to benchmark with other companies, in order to see what initiatives the competition is taking to develop its in-house potential. The CEO and the management should be challenged to define a clear definition, programme principles, objectives and role distributions. In principle, the owner and sponsor of the high potential programme should be the CEO. The role HRM has to assume is not a minor one, however. The role of HRM is to help put in place the systems and processes and to monitor these process and safeguard their continuity and quality.

2 Hold the management responsible

"I used to select jerseys, now I select people" — Wexner, CEO of The Limited.

Engaging the management in the identification and development of the high potential pool is only possible when they are held formally responsible. They are the ones who can provide high potentials with the appropriate in-house and external training, let them go through rotational assignments and

act as mentors. Responsibility can be assigned to management by linking development goals to an annual bonus system. The basic principle underlying this bonus system is that behaviour pointing to active participation in the development should be remunerated. The objectives relating to the in-house development of potential can account for 20% or more of the manager's bonus. The time and energy invested by management in the development of high potentials thus becomes an integral part of the managers' objectives. In this respect, management is seen and deployed as a 'discoverer of burgeoning talent'. Only the management can free up the talent of the organisation by treating them as an organisation-wide resource, which has to be fully developed over time.

3 Organise a high potential executive committee

"The challenge a company is facing consists in having talented employees who change along with the organisation as and when technology, competition or the entire industry changes"
— Allaire, CEO Xerox Co.

Putting in place a 'high potential executive committee' which takes over the ownership of the high potential pool, constitutes an essential element of the development programme. There is still too much evidence that nepotism, and actions taken out of self-interest, affect the correctness of high potential pre-selection and selection. The appointment of a group of selected 'equals' in a high potential executive committee will in any event enhance the objectivity of any 'propaganda' or 'killing' tactics. Each business unit or division can have a 'subcommittee' where the information about each high potential is collected and discussed. Ideally, one day per quarter should be spent on discussing the individual cases and on preparing and monitoring the individual tracks.

Regular follow-up and reporting by the subcommittee to the executive committee ensures management is, each quarter or half year,

required to map the actions they have taken and the actions they will be taking to further develop high potentials. This is also an opportune time to provide information on the high potentials' reaction to certain experiences, to assess retention risks and implement or suggest possible changes in the development track based on the executive committee members' discussions.

4 Identification criteria linked to transition phases

"Failure to learn new things results almost inevitably in failure to perform in a management role in the long-term" — Kovach

It seems as if there is a widespread need to believe that there is a magical 'set' of generic qualities for identifying high potentials. The list of qualities high potentials are endowed with seems endless, and — in some cases — even contradictory. But what if there is no such magical success formula? Furthermore, there is a common belief that this set of competencies remains constant over time. What if high potentials, like white knights, have to learn how to ride their horse and handle their sword? Even intuitively, it seems absurd to assume that a 25-year old has the same knowledge, skills, and attitudes as a 45-year old. To benchmark a young high potential against successful acknowledged talent, is a bad way to identify potential. In line with this reasoning, identification criteria should shift according to different career stages.

If the idea that a basic set of unequivocal competencies is decisive for the identification of high potentials were to be abandoned, it would open the way for seeing high potentials for what they are: high performing employees with the potential — in time — to grow. Hudson advises companies to start spotting the high potentials based on three basic criteria: learning ability (LQ), emotional (EQ) and intellectual intelligence (IQ) and attitude (A). In-depth interviews with high potentials in various age categories show that on their way to the top, they go through a number

HIPO IDENTIFICATION

Faze	Young Potential		Hungry Wolf		Investors
Level	Individual Contributor ▶ Managing Others ▶ Managing Managers ▶ Functional Manager ▶ Business Manager ▶ Group Manager				
Criteria	Basic skills	First indication	Basic skills	First indication	Basic skills
IQ	Critical analysis	Understanding of processes	Conceptual thinking	Strategic thinking	Visionary thinking
EQ	Working in a team (together strive towards common goals)	Convincing others	Reconcile different departments (with different interests/accents)	Insight in the pyramid of power & political network	Hand down power to others
		Inspire enthusiasm about your ideas		Experiment	Guarantee future leaders
		Negotiate			
LQ	Eager to learn (accumulate technical expertise)	Maturity	Reflect on your own capabilities	Compensate developing aspects with strengths	Reinvent yourself and the organization
		Achieve professional identity	Develop a thorough self-knowledge		
	Request feedback on your own results	Give feedback to others	Give and receive feedback	Create a team	Give meaning to and appreciate others' successes
		Pass on knowledge	Coach others	"Teddy bear" factor	
Attitude	Achieve determined goals (frequency/speed is high)	Set goals for yourself and others	Achieve results indirectly (steer others towards the goals)	Determine short term goals in view of long term goals	Organizational changes (frequency and recurrence is low)

of 'phases of transition'. Each step on the career ladder requires the high potential to acquire a new set of competencies. Each phase of transition assumes a leap in responsibility and autonomy. Once high potentials have mastered a certain job or competency level, they will go in search of ways to raise the bar once more and look for a new challenge. If there is one element that is decisive in making a distinction between high potentials and other employees, it has to be the exceptional speed at which they are able to develop the knowledge, skills and attitudes needed to assume a new position. One should not benchmark a 25-year old to 45 year old, but to a 'norm' of what is expected of someone given his age or work experience.

5 Keep high potentials and high performers separate

"What's in a name?" — Shakespeare

Companies might be tempted to look at performance in the current job, rather than potential when identifying high potential. Excellent performance is often an identification criterion of high performers quite simply because it is the most easily observable criterion. In addition, politically it is simpler and less sensitive to put employees on a list of high potentials based on their exceptional performances rather than their latent potential. When only having eyes for the

performance of employees, companies could be in for some unpleasant surprises when the high performer is promoted at a higher level with different duties and responsibilities. A study shows that nearly all high potentials (93% to be exact) are also high performers: performances seem to be a must for high potentials to be perceived and identified as such. The same study shows that only 29% of the high performers effectively were high potentials as well. This suggests there is a real danger of terminology confusion regarding high potentials, causing strong performers without growth potential to contaminate the pool of high potentials. The inconsistent use of the term 'high potential' has resulted in contamination of the term both in the literature and in business.

6 Communicate openly on the status of the high potential

"The question is not whether or not we will tell high performers that they are high potentials, but how we are going to tell them" — Young

As a rule, high potentials are not formally told nowadays about their special 'status'. More often than not, the individuals whose names are on the secret list receive a few hints about their status: they know that they have been defined as high potential by the people they have lunch with, the mentor who supports them and the exposure they receive.

Formally allocating a high potential label is considered to be tricky: in regard to communication on the label, as many advantages as disadvantages have been defined. In a tightening labour market, however, communicating on the label can form part of the strategy aimed at retaining this target group. It could potentially encourage high potentials to remain with the company for longer, even if a head-hunter contacts them and they are offered a job in which they can earn more immediately. A Hudson study (2006) revealed that allocating a high potential label — whether

formally or informally — has a positive implication on the work satisfaction of the employees. The label is regarded as a proof of the faith and engagement of the company in their development.

When organisations are in doubt about whether to award a hipo label or not, the question is not: Shall we inform employees about their potential? But rather: How shall we inform them about their potential? The risks related to allocating labels are often linked with perceived promotion pledge: the label is often considered as a guarantee of future success and it is this assumption that brings employers into problems. No responsible manager or HR professional -responsible can gaze into a crystal ball to predict the future, therefore allocating a label makes it more difficult to manage the expectations of high potentials.

For this reason Hudson advises companies to set a time constrain on the label. High potentials need to become aware that their label is not a 'wild card', but an acknowledgement of their potential at a certain moment in time. By adding a time constrain to the label, the status is 'up for discussion', creating the possibility of stimulating a frank debate between HR, the management and the high potential: 'What do you want and where do you want to go?' As against: 'What do we want, and where do we want you to go?' Testing one another's needs can be regarded as a first step in the development and retention of high potentials.

7 Use development centre techniques to identify high potentials

"You can only keep track of what has been measured" — Old Dutch proverb

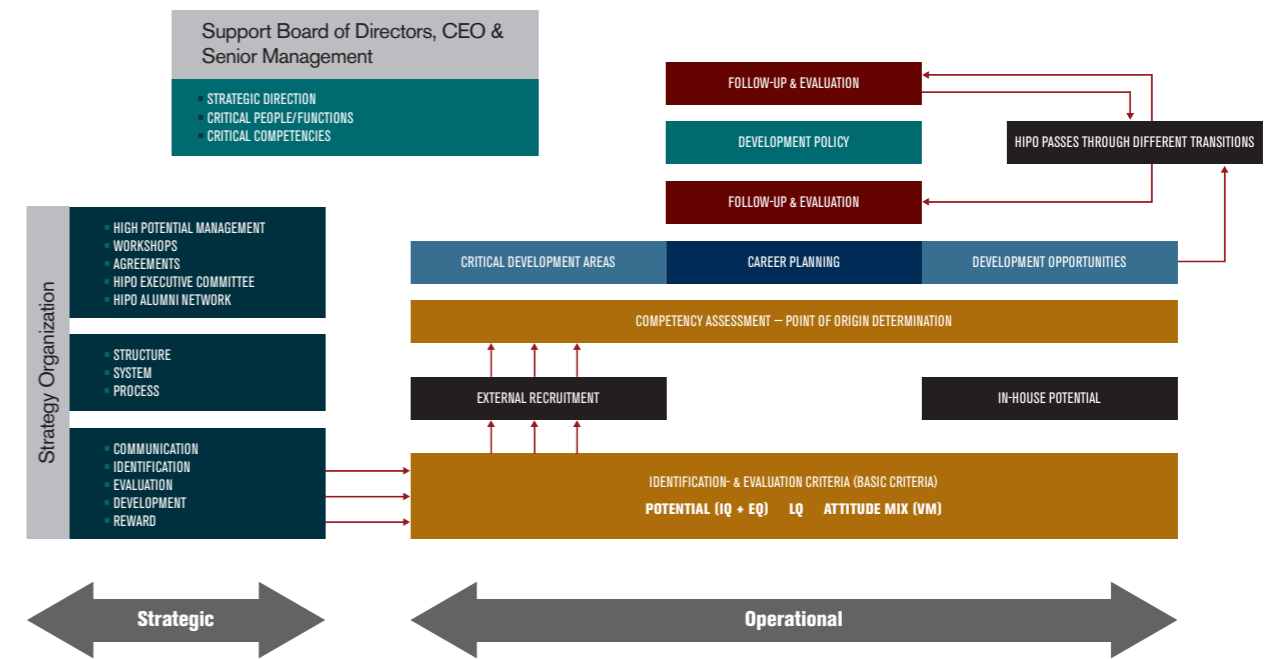
An evaluation of high potentials early on in their career enables a follow-up trail, covering the development of the high potentials over the years. Ideally, as from the start of the high potentials career, organisations use the data available from the selection phase (such as personal data or

interview data) as a 'zero measurement'. In the very first career phase, organisations can opt first to invest in the build-up of expertise of the young potential or to let him rotate through a number of business activities. A more in-depth follow-up measurement can best be made after a period of approximately three years, from which a proposed career and development plan is drawn up resulting in active development of the high potential.

A second and crucial measurement is the development centre that takes place between the ages of thirty-five and forty years. It is this measurement that has a truly fundamental impact on the final and detailed arrangement of the hipo track from a long-term perspective, in order to avoid the syndrome of the 'inch-

deep-mile-wide' manager. Also, information that can prevent the 'Peter Principle' from manifesting itself often comes to the fore.

Hudson recommends one more formal measurement ('end assessment centre'), to evaluate and validate whether the high potential will ultimately be admitted to the highest decision-making body of the company or not, and in what capacity. At the end of the day, spread over the total career of a high potential, there should be at least four important measurements, which will impact decisively on the high potentials track. Companies can — at regular intervals — adjust the high potential track, based on the development centre results.



OVERVIEW CHART

8 Manage the tailor made high potential track

“Don't judge each day by the harvest you reap, but by the seeds you plant” — Wilbur

The high potential track is a flexible path, its direction being continuously adjusted, either based on changing external circumstances or on the high potentials' personal development needs. It must be ensured that management are responsible for developing high potentials in the right direction, aligned with the strategic objectives of the business.

For years, stretch assignments have been an important technique to develop potential. Stretch assignments are issued based on the inherent belief that offering high potentials a new experience allows them to acquire new skills, knowledge and attitudes. An essential condition is, however, that the hipo receives sufficient support

and is adequately monitored while learning. In addition, Hudson advises open communication channels between management and the high potential about the type of development practices that both parties regard as efficient.

9 Embrace derailment of high potentials

“It is not a question of whether the high potentials will derail, but rather of when they will derail and how they will react to this failure”- Kovach

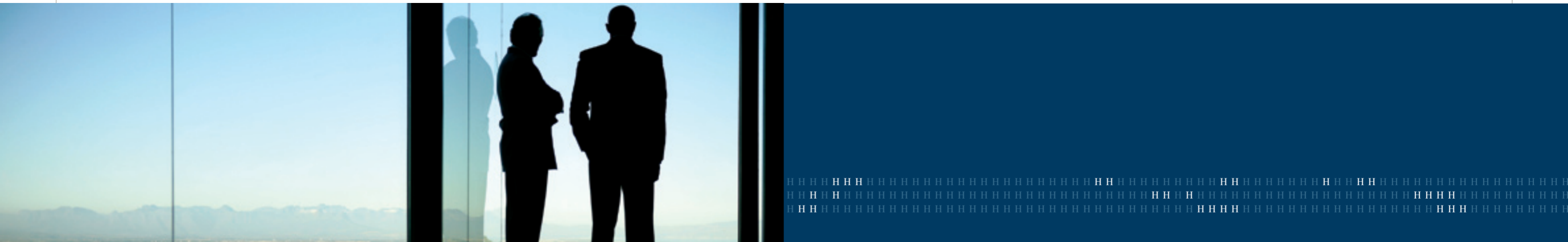
Monitoring high potentials over time, brings up a painful contradiction: the competencies high potentials often rely upon to be identified in an early stage, are often the same as those that hamper their growth to a subsequent phase in their career. The behaviour that is endorsed and rewarded by the management in a certain career phase is admonished in a subsequent one. This

makes the ongoing monitoring of high potentials and continuous feedback loops throughout the different transition periods key elements to keep high potentials on track. Many young potentials clearly feel confused and frustrated when they find out that competencies, such as 'assertiveness' and 'self-confidence' are suddenly described as 'aggressiveness' and 'self-glorification'.

The success of a high potential often brings about a kind of blinding arrogance as a result of which colleagues no longer want to work with them. Based on the belief that they are special and stand apart from the mass, the high potential's ego inflates to bursting point. This self-image exposes them to the risk of not wanting to listen to others anymore. They no longer ask for input of others, and no longer check their ideas with others because they rely too much on their own. They start extrapolating their capacities to different activities and topics about which they have less

expertise, and are perceived as pedantic as a result. They merely continue to build on their 'strengths' and lose sight of their 'weaknesses'. This causes them to make mistakes, which they then painstakingly try to cover up in the hope that nobody will ever find out that they are not quite as 'special' as they thought they were.

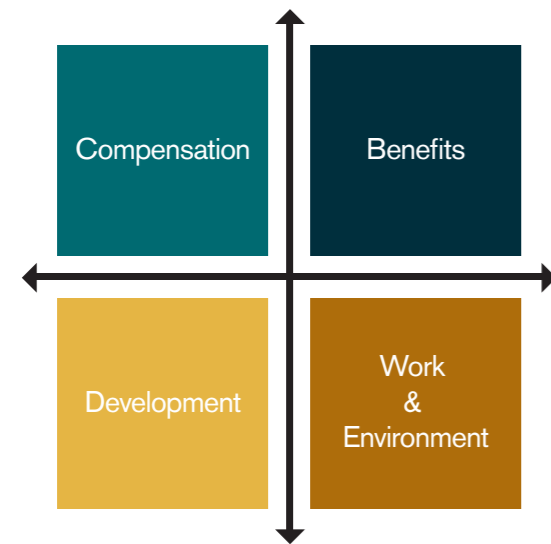
Generally, with each transition of a high potential to a new role or job level, the chance of derailment is real. Derailment doesn't have to be a bad thing, however. On the contrary, the loss of the high potential status forces them to practice introspection, learn from their mistakes and so to reinvent themselves. Failing is a worthwhile lesson and can be instructive for high potentials, because handling it gives them the chance to discover their own limitations. This event can therefore bring the high potential back to the high potential track. Just like the hipo status, derailment is not a permanent but a temporary state.



10 Remunerate high potentials by investing in their development

“If you want one year of prosperity, grow grain; if you want ten years of prosperity, grow trees; if you want a hundred years of prosperity, grow people.”
 — Old Chinese proverb

In an ever tightening labour market, retention of talent is becoming increasingly important. Many companies and their leaders offer astronomical salaries to secure themselves to maintain high potentials in the company. Hudson advises companies to consider the remuneration package as the combination of compensation, benefits, environment and development.



Reward Quadrants

Compensation by way of salary should be based on an employee's performance: in line with this assumption, a high performer will receive similar pay to a high potential. Both turn in performances that are exceptional compared with the average employee and for these performances they should be remunerated. The remuneration policy of most organisations provide for the possibility of paying high performers and high potentials a slightly higher than average salary, within a certain 'job

level' broadband. Neither benefits, nor general job environment conditions should be used to differentiate in investments in development. Remunerating high potentials by investing more in their proper development has a dual effect: on the one hand companies offer high potentials challenges and opportunities to learn new skills and on the other high potentials grow to a subsequent job level more rapidly, and — as a consequence — their fixed salary will rise without having to depart from formal company salary policies.

Some high potentials are blinded by the trappings of success rather than by the process that leads to it. The high potential executive team has to support high potentials in this. While rapid promotion and high salaries can be dazzling, opting for this route means that high potentials are not always able to do enough 'swotting up' for a subsequent challenge. It does not allow for sufficient time to assimilate the competencies they need in a subsequent job or role. A more successful approach is to go for a well thought-out and sufficiently detailed development plan which gives the high potential time to acquire new competencies, allows them to grow and prepare for a subsequent, more complex roles with more autonomy and a wider scope.



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