

## DETAILED CASE STUDY

# A better way to assess high-potential talent

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## Project Summary

**A large UK utilities company came to us with a tough, strategic problem. To prepare for entering a new regulatory cycle, it needed to deliver a radical transformation in its approach to talent management to achieve a step change in customer, operational and financial performance.**

We delivered an award-winning company-wide approach to high potential assessment and succession planning. Using a stratified assessment framework, we delivered PsyCap Potential, supported by interviews and assessment centres, as a cost-effective and evidence-based solution for differentiating between performance and potential – from aspiring managers to aspiring c-suite leaders.

As a result, over 80% of aspiring leaders identified as high potential have been promoted to a higher grade, over 50% of mid-level leaders have been given a broader role or promotion, and the performance of those identified as high potential over 3 years was significantly higher than comparable peers.

The outcome of the unique PsyCap Potential assessment method has resulted in more valid, more reliable identification of potential, readiness and fit for future stretch roles. The results include enhanced retention, greater proportion of successful internal promotions and faster competence to role. The leadership pipeline is now well understood, with insights into where to target horizontal and vertical development for each leadership population, and a greater proportion of 'ready now' and 'ready next' successors identified for critical roles, likely to perform and succeed at the next level of leadership and cope with increasing levels of complexity.

## CASE STUDY

# The challenge

The backdrop was challenging: not only changing regulatory cycles but a new era for the utilities industry, shaped by technological advances, ageing workforces and shifting customer profiles. We saw clearly that our client needed to better attract, develop and retain talent that could keep pace with the industry, deliver innovations and address future needs.



**Our review of existing leadership pipelines identified a high rate of attrition and over-reliance on external recruitment for critical roles.**

Employee feedback also indicated perceived bias in identification and calibration of “high potentials” without clear, objective, consistent criteria.



**Our consultation revealed the existing talent management approach was primarily focused on “horizontal development” – developing the skills and knowledge to do a job.**

We recommended that, to help people grow and succeed in this challenging context, the focus should shift to “vertical development” – creating more dynamic leaders with the personal skills to cope with and adapt to new and rapidly changing environments.<sup>1</sup>

To gain the buy-in of the executive leadership team, we created a business case and proposal for identifying and developing high potential talent at all levels of the organisation. With the total cost of leadership turnover or mismatch estimated at 18 - 47 times the mismatched incumbent salary, getting it right first time is critical.<sup>1</sup>

We acknowledged a common challenge across different industries: companies wrongly assume that a person’s past performance is the best measure of their future potential. When this happens, the consequences are costly – failure due to overpromoting the wrong people and under-realising lost talent elsewhere.<sup>2</sup>

Research shows clearly that people identified as “high performers” often do not have the potential to take on new and different responsibilities.<sup>3</sup> The proven solution begins with measuring potential as an independent construct.



In consultation with the executive team, we agreed the challenge was to define “performance” and “potential” and design an objective high-potential assessment process. This would interrogate the potential of talent populations, and identify successors that not only have the right skills, but have the capability to adapt, learn, grow and perform at increasingly high levels of complexity and leadership.

<sup>1</sup> Corporate Leadership Council (2005)

<sup>2</sup> McCall, Lombardo and Morrison (1988) Lessons of Experience

<sup>3</sup> Corporate Leadership Council (2005)

# Our approach

## 01

Our first step was to identify a suitable theoretical framework to define and measure leadership potential. Aligned to the changing environment and strategic priorities, we proposed that leadership potential should be understood as the capacity to lead, develop and grow into the future in dynamic and uncertain environments.

## 02

Then we selected the Stratified Systems Theory (SST) as the underpinning framework to understand future stretch potential across levels of the organisational hierarchy. In line with the SST concept of organisational flow, our approach aimed to identify and align talent with levels of complexity (discretionary decision making and ability to cope with ambiguity), and to identify individuals not only able to perform well in their current role, but with potential to cope with increasing levels of complexity and span of leadership.

## 03

Next, we presented an external, best-practice definition of performance and potential based on the Peoplewise Perspectives™ model of performance and potential. Through workshops with the executive team and extensive job analysis at each level of leadership, we co-created the company's overall definition of potential and benchmarked "what great looks like" at different levels of the organisation.

## 04

After consultations with the leadership team, we developed the final iteration – a series of behavioural indicators at each organisational level mapped to the Perspectives™ matrix of performance and potential. This was formed of five critical psychological capabilities of potential – Mental Agility, Emotional Agility, Confidence, Resilience and Drive – and six bespoke behavioural capabilities critical for performance within the organisation.

## CASE STUDY

# Our approach

To assess talent across the organisation, we recommended a multi-stage approach with different assessment methodologies and sifting stages (including psychometrics, probing interviews, talent centres and 360s) to assess, measure, calibrate and benchmark potential and create talent success profiles at each level of leadership.

Regardless of leadership level, all participants were required to demonstrate technical competence, a consistent track record and senior sponsorship. Likewise, at the next stage, all participants completed **PsyCap Potential** – a globally validated psychometric to assess **Mental Agility, Emotional Agility, Confidence, Resilience and Drive** against a suitable normative population.

A co-calibration session was then run by independent psychologists with HR and business leaders to review the potential profile of each participant against the criteria for the next level of leadership and select individuals for the final stage. This calibration proved to be particularly valuable in challenging internal perspectives and bias, and facilitating holistic view of individuals and the talent pipeline.

The assessment approach for the behavioural capabilities then varied across different levels of leadership. We designed exercises to measure the behavioural indicators linked to requirements at the “next level of leadership”, providing objective insight into readiness to perform at stretch leadership levels, and ability cope with greater levels of complexity and ambiguity.



## '01

### Senior and mid-level leaders

We designed “day-in-the-life” assessment centres using bespoke, industry case studies consisting of in-trays, written exercises, presentations and group discussions to allow for multiple behavioural measurement. This approach was selected as assessment centres are known to have the greatest predictive validity (0.68) of all assessment tools and processes.<sup>1</sup> It also allowed for a clear ranking of candidates in a fair and objective manner.



## '02

### Emerging leaders

We designed a situational reasoning interview that was co-delivered with a business leader two levels above the level assessed ~



Outcomes of the assessments were validated against business insights and mapped against readiness criterion and development plans. All participants received feedback with development suggestions to improve performance and realise potential for future stretch roles.

<sup>1</sup> Anderson & Snell, 2000; in Furnham, 2008

# Outcome evaluation

**The reaction from the client and participants has been overwhelmingly positive, with participants reporting that the assessment process was “challenging and well organised”, with 85% reporting an “excellent” overall experience and 100% reporting that the feedback would assist their development going forwards.**

One of the key indicators of success was the ability to create a more robust definition, as well as process, to differentiate between high performers and talent with high potential with readiness for future stretch roles. As a result of the new assessment processes, combined with business calibration, there is now clearer differentiation between performance and potential, with greater movement of talent vertically and laterally across the business.

## Over 80% of emerging leaders

identified as high potential have been promoted to a higher grade

## Over 50% of mid-level leaders

have been given a broader role – expanding their scope of responsibilities or promoting them to the level above

## 3 fold increase in successful completion of Hipo talent programmes and qualifications

by better identifying potential, readiness and fit

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In selecting Peoplewise there were very few talent providers in the market that were not only able to offer a robust approach to identify potential, who would also “fit” with our company values and have the gravitas to work with the executive team.

From the first meeting and throughout our work together we have without exception received exceptional service grounded in professional excellence. The team including the CEO take time to get to know the business and are extremely capable and confident to work at all levels in the organisation from CEO to Frontline employees.

Throughout the project we have identified, assessed and developed succession pools at all levels, using PsyCap Potential as a foundation to assess for future potential. The insight we now have of the leadership capability is now being used to inform strategy and shape the future organisation.

**Head of Organisational Development**

We were also pleased to report that further evaluation of the assessment processes indicates good predictive validity. In particular, **Mental Agility** – the primary indicator of ability to cope with increasing levels of complexity and ambiguity – was the most significant predictor of overall assessment centre performance and performance on competencies related to problem solving, innovation and strategic thinking. This finding is in line with peer-reviewed research<sup>1</sup> and provides support for the continued use of “select out” cut-off at early stages of the assessment process within this specific organisation.

We also identified a significant relationship between relatively low scores on **Emotional Agility** and **Resilience** with **Change Leadership** performance at the next level of leadership – providing useful insight into individual and organisation-wide development priorities. Since the initial project, we have continued to identify assessment and development themes to identify where to target horizontal and vertical development for each leadership pipeline, and to identify leaders ready to perform at the next level of leadership and cope with increasing levels of complexity.

<sup>1</sup> Schmidt and Hunter, 1998

