Cultivating high-potential talent in five practical steps

Learnings from Aon Hewitt Top Companies for Leaders®

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Cultivating high-potential talent in five practical steps

Market leading organisations understand that their people provide them with a distinct competitive advantage. Research from the 2014 Aon Hewitt Top Companies for Leaders research examined the specific leadership practices deployed by organisations accredited as ‘top companies’. The analysis of this data has yielded significant insight into the process used by top companies to identify, develop and retain high-potential talent.

High-potential talent is defined as individuals who possess the leadership capability, business acumen and vision to become successful leaders within their organisation. In the Asia Pacific region, 97% of organisations reported that they have a formal high-potential strategy in place; yet just over half of these organisations (54%) reported that they have a sufficient talent pipeline for the future leaders of their business. The clear disconnection between intention and impact demonstrates that simply having a high-potential program is not enough to provide a source of competitive advantage.

Top companies have an unrelenting focus on the execution of their high-potential strategy and this is reflected on their ability to consistently outperform on key financial metrics compared with their peers. The 2014 Aon Hewitt Top Companies for Leaders research found that top companies demonstrated 18% greater return on assets (ROA) and 20% greater return on equity (ROE) over a five year period when compared to other organisations. These results highlight the critical nature of leadership practices in driving sustainable business outcomes and reinforce the importance of learning from those organisations that define best practice.

Learning from top companies

Data from the 2014 Aon Hewitt Top Companies for Leaders research yielded a number of distinct commonalities amongst market leading organisations. This white paper reports a practical five step approach for how top companies develop a robust and sustainable leadership pipeline and deliver differentiated financial results through their high-potential talent. These steps are outlined as follows:

Step 1: align high-potential identification to business strategy

Step 2: validate the identification process to ensure that it predicts high performance

Step 3: develop employees through experience to be “ready now”

Step 4: retain high-potential employees through differentiated total rewards

Step 5: evaluate the effectiveness of your approach.

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3 ‘Other organisations’ refers to those organisations that participated in the 2014 Aon Hewitt Top Companies for Leaders program but were not formally accredited as top companies during the judging process.
Step 1: align high-potential identification to business strategy

The foundation of any effective talent management process is alignment to business strategy. Top companies are outperforming other organisations in this area by demonstrating significantly greater alignment between their high-potential identification process and their organisation’s business strategy. The data indicates that top companies achieve greater levels of alignment in three distinct ways:

1. **Top companies demonstrate deep integration between their leadership competency model and their high-potential identification process (e.g. assessment, development):** 88% of all organisations reported that they have a leadership competency framework in place that serves as a formal description of the performance expectations of their leaders. The source of differentiation for top companies against other organisations is the level of integration their framework has with their high-potential talent identification process (90% versus 61%). Adhering to the old refrain “what gets measured gets done” this difference suggests the leadership competencies at top companies are aligned to the behaviours that are likely to drive future organisational success.

2. **Top Companies identify high-potential talent earlier in their career:** Top companies are more likely to formally identify entry level/early career employees (60%) when compared to other organisations (37%). Top companies see value in identification of high-potential earlier in an individual’s career because it ensures that high-potential talent receive opportunities to accelerate their career development. Moreover, identifying potential in early career allows top companies to assess their people risk and determine whether they need to ‘build or buy’ talent to ensure that they maintain a sustainable leadership pipeline at various levels in their organisations.

3. **Top Companies continuously calibrate their high-potential talent pool:** Identifying high-potential is not a ‘set and forget’ exercise for top companies, with 80% reporting that they remove employees once they have been selected (compared with 50% in other organisations). The most common reason that top companies remove individuals from the high-potential talent pool is that the individual’s potential has been re-evaluated. This practice indicates that top companies are continually revisiting their high-potential talent through the lens of their organisational strategy to ensure that their investment in these individuals remains relevant.

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*4 A comparison of mean responses between APAC top companies and other organisations yielded a significant difference (p < .01)*
Step 2: validate the identification process to ensure that it predicts high performance

The identification of high-potential talent using assessment is a critical step in the implementation of an effective high-potential strategy\(^5\). In the Asia Pacific region, 95% of organisations evaluate their employees using a talent review process. However, top companies are more likely to use psychometric assessments for high-potential talent identification (80%) when compared to other organisations (49%). The effective implementation of assessments enables top companies to gain accurate insight into the alignment of an individual’s character, capability and motivation (or ‘potential’) with the strategic requirements of their organisation.

There were limited differences between top companies and other organisations in the type of assessments used for high-potential talent identification. As suggested by Figure 1, the most notable difference is that top companies are significantly more likely to use competency-based assessment to identify high-potential (80% versus 45%). This finding indicates that top companies have a clear understanding of the specific competencies required to drive success, but the only way to be confident in an identification process is to validate the assessments used against measures of organisational or individual performance\(^6\).

The purpose of validating assessments is to remove the ‘gut-feel’ or subjective bias that may interfere with an organisation’s ability to develop a sufficient pipeline of appropriately skilled talent\(^7\). Best practice guidelines document the approach for validating high-potential talent assessments to ensure that they accurately predict individual high-performance\(^8\). A high-level summary of the process is documented in Figure 2 and can be used by organisations to validate their high-potential identification process.

Ongoing evaluation of your assessment processes is the final step for driving a successful high-potential talent identification process. 75% of top companies reported a commitment to evaluating the effectiveness of their assessment practices compared to 49% of other organisations.

There are meaningful differences in the focus of evaluation. Other organisations tend to evaluate inputs (e.g. annual spend on assessment practices), whereas top companies focus on outcomes of their assessment processes (e.g. ability to fill key leadership positions, engagement between employee and leader, retention of leaders and successors). The focus on the outcome is indicative of the unrelenting desire of top companies to use leadership practices as a lever for driving value for their business. Unfortunately, this mindset is uncommon and there remains a significant opportunity for more organisations to better leverage their assessment processes to ensure that the tools used are driving desired business outcomes.

Figure 2: best practice process for validating assessment tools to ensure they are predicting high-performance.

- **Detail the scope of the analysis**
  - The aim of the validation process is to determine whether the assessments used to identify high-potential demonstrate predictive validity (e.g. the assessment accurately predicts future work-related outcomes such as: in-role performance).

- **Choose criterion measure**
  - Determine a performance measure or work-related outcome that is relevant and not subject to extraneous variance (e.g. level of education).

- **Administer assessments**
  - Select a representative sample of low, moderate and high performing employees and move them through the assessments used to identify high-potential talent. Note the sampling process relies on the assumption that the organisation’s measures of performance are accurate, reliable and valid.

- **Conduct validation analysis**
  - Use statistical techniques to determine the strength of relationship between scores on the various assessments and the chosen criterion measure. Once a meaningful relationship is established then it is reasonable to introduce the assessment into your high-potential talent identification process.
Step 3: develop employees through experience to be “ready now”

Once an employee has been identified as high-potential talent the next step is to evaluate the employee’s readiness to move, employee’s willingness to take on expanded responsibilities or experience a change in role.

Readiness to move is typically categorised into three stages: ready now (less than 1 year), ready soon (1-3 years) and ready future (more than 3 years)\(^9\). There is limited value in predicting readiness to move further into the future than 3 years because organisational priorities are likely to change and there is a guiding expectation that individual employees are evaluated on a more regular basis. The value of identifying an employee’s stage in their readiness to move is to understand the development required for high-potential talent and to identify critical talent gaps and pipeline risks for succession planning purposes.

Outside of individual employee capability a number of additional factors should be considered, including: employee aspiration (e.g. ask them what they want to achieve in their career) and engagement with the organisation. By understanding an employee’s career trajectory and engagement, the organisation can be more responsive to the high-potential employee’s developmental needs.

Typically, top companies ask themselves “what skills, experience and knowledge does this employee require before taking on an expanded role?” And more importantly, “how do we provide exposure to develop those skills, experiences and knowledge?” Top companies distinguish themselves through offering individualised development planning more than other organisations (94% versus 74%). The focus of individual development is determined through a gap analysis whereby organisations assess an individual’s capability gaps and integrate these outputs into an accelerated development plan. The most common tools used by top companies are competency-based assessments and 360 degree feedback, which give the individual insight into their current skill level and the impact of their behaviours and style on others.

Once an individual’s skill gaps have been determined, organisations tend to adhere to the principles of the ‘70/20/10 rule’ which serves as a useful framework for operationalising high-potential talent development. The specific activities used by top companies to develop their high-potential vary by job level. Table 1 outlines the differences in development needs of high-potentials in the organisational hierarchy.

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\(^9\) Source: Stomski & Attkisson (2013)
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### Top 5 high-potential development activities used by top companies segmented by job level

<table>
<thead>
<tr>
<th>Job level</th>
<th>Top 5 high-potential development activities used by top companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior management</td>
<td>1. coaching with an external provider</td>
</tr>
<tr>
<td></td>
<td>2. signature development programs</td>
</tr>
<tr>
<td></td>
<td>3. developmental assignments</td>
</tr>
<tr>
<td></td>
<td>4. exposure and visibility to CEO</td>
</tr>
<tr>
<td></td>
<td>5. special assignments that require mobility to build broader management capabilities.</td>
</tr>
<tr>
<td>Middle management</td>
<td>1. signature development programs</td>
</tr>
<tr>
<td></td>
<td>2. special projects/teams</td>
</tr>
<tr>
<td></td>
<td>3. rotational assignments through different functions, departments or regions within the business</td>
</tr>
<tr>
<td></td>
<td>4. structured opportunities for peer networking</td>
</tr>
<tr>
<td></td>
<td>5. exposure to CEO/Senior Management</td>
</tr>
<tr>
<td>Frontline management</td>
<td>1. special projects/teams</td>
</tr>
<tr>
<td></td>
<td>2. rotational assignments through different functions, departments or regions within the business</td>
</tr>
<tr>
<td></td>
<td>3. signature development programs</td>
</tr>
<tr>
<td></td>
<td>4. developmental assignments</td>
</tr>
<tr>
<td></td>
<td>5. internal mentoring.</td>
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</tbody>
</table>

Table 1: The top 5 activities used by Asia Pacific top companies to develop their high potential talent segmented by job level

The common theme among the developmental activities across all job levels used by top companies is the strong focus on the 70% (on the job development) by utilising development activities such as: job rotations, special projects and mobility assignments.

Developing on-the-job experience should be a guiding principle to ensure that high-potential talent receive accelerated career development. The secondary value of investing in high-potential talent development is that it serves as an effective retention mechanism that will be explored in the next section of this article.
Step 4: retain high-potential employees through differentiated total rewards

In the Asia Pacific region, 94% of top companies use the retention rate of high-potential employees as a method of evaluating the effectiveness of their high-potential programs (compared to 65% of other organisations). Additionally, the retention of key talent remains one of the top-five most significant risks that organisations face in 201510. Total Rewards is defined as everything that an employee receives from their employer that they find rewarding (e.g., remuneration, formal employee benefits, work-life balance, career development and recognition).

So the question remains: how do top companies retain their most valuable employees?

1. **Optimise pay outcomes for high potentials**: Financial rewards are critically important to retaining employees and most organisations use differentiated pay as a mechanism for emphasising the value that high-potential talent bring to the organisation.

   Top companies are more likely to provide highly differentiated incentive outcomes than other organisations, with high potentials typically receiving 1.6 times greater merit pay increases than average at top companies compared to 1.4 times in other organisations. Top companies are also willing to offer a notable premium to market on base pay for high potentials as a safeguard against counter-offers from competitors.

2. **Understand the unique preferences of your high potentials**: In deciding how to structure the reward offering for high potentials, consideration should be given to individual preferences. Understanding what elements of the current reward offer are viewed favourably can better focus attention on the areas of best return and can be easily collected through a simple online survey.

   To differentiate from the competition, organisations should target a small number of reward design elements when determining the focus for high-potential reward programs to ensure that your retention mechanisms are effective.

3. **Communicate the Total Rewards offer**: To create a compelling employment experience for your high-potential talent requires all aspects of your total rewards offer need to be communicated effectively11. As demonstrated by Figure 3, top companies report that training and development has the greatest impact on rewarding high-potentials. Therefore, above and beyond pay providing training and development opportunities to high-potential talent serves as a critical retention strategy for top companies and aligns closely with an organisation’s employee value proposition (EVP).

![Figure 3: The comparison of top companies and other organisations on the percentage that selected any of these reward mechanisms as the top 3 practices that have the greatest impact on rewarding high potentials.](http://www.aon.com/2015GlobalRisk/)

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Step 5: evaluate the effectiveness of your approach

The final step for successfully implementing a high-potential talent strategy is evaluation. The 2014 Aon Hewitt Top Companies for Leaders program showed the variety of methods that organisations use to determine the return on investment (ROI) of their leadership development program. Top companies are also significantly more likely to evaluate the effectiveness of their high potential programs when compared to other organisations (85% versus 57%).

There are numerous ways of evaluating the effectiveness of a high-potential talent strategy as outlined by table 2. Below are some noteworthy examples of what top companies are doing to ensure that they achieve the desired ROI from their high-potential talent budget:

- **Performance ratings of high-potential talent**: 75% of top companies determine the effectiveness of the high-potential process is individual performance ratings compared with 42% of other organisations. This finding reinforces the importance of revisiting high-potential talent classification with reference to the individual’s in-role performance to ensure that there is a reasonable connection between their identified potential and their in-role performance.

- **Promotion and retention rates of high-potential talent**: Top companies when compared to other organisations are more likely to use promotion rates (70% versus 26%) and retention rates (80% versus 34%) as evaluation mechanisms for their high-potential process. As discussed earlier in the article, this difference reinforces the notion that top companies are more focused on measuring the outcomes that define the success of their high-potential talent strategy.

- **Formal leadership accountability**: At top companies individual leaders are more likely to be held accountable for the careers of the high-potential talent that they manage. Examples of this practice include: retention rate of high-potential talent (70%), performance ratings (60%), movement of high-potential talent across function, business or geography (50%), and manager feedback (50%).

The interesting outcome of this accountability is that effective leaders are likely to become “net-exporters” of talent as opposed to other leaders that may “hoard” those employees that demonstrate high-potential. This finding demonstrates a cultural shift where leaders within top companies are willing to risk losing their high-potential talent for the greater good of the organisation and are also more likely to focus on building future leaders instead of followers.
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<table>
<thead>
<tr>
<th>Formal evaluation metric</th>
<th>Top companies</th>
<th>Other organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance ratings</td>
<td>75%</td>
<td>42%</td>
</tr>
<tr>
<td>Promotion rate of high potentials</td>
<td>70%</td>
<td>26%</td>
</tr>
<tr>
<td>Feedback from high potentials</td>
<td>30%</td>
<td>29%</td>
</tr>
<tr>
<td>Manager feedback</td>
<td>50%</td>
<td>39%</td>
</tr>
<tr>
<td>Percentage of high potentials placed in senior management positions</td>
<td>50%</td>
<td>26%</td>
</tr>
<tr>
<td>Movement of talent across function, business, or geography</td>
<td>45%</td>
<td>32%</td>
</tr>
<tr>
<td>Retention rate of high potentials</td>
<td>80%</td>
<td>34%</td>
</tr>
<tr>
<td>First opportunity to move into key positions</td>
<td>40%</td>
<td>16%</td>
</tr>
<tr>
<td>Number of diverse candidates in high potential pool</td>
<td>25%</td>
<td>13%</td>
</tr>
<tr>
<td>Engagement levels of high potentials</td>
<td>50%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Table 2: comparison between top companies and other organisations on the formal metrics used to evaluate the effectiveness of high-potential programs.
Recommendations

Top companies are gaining significant value from their high-potential identification, development and retention practices. Aon Hewitt recommends the following steps for your organisation to follow to more effectively manage your high-potential talent pool:

1. **Align high-potential identification to business strategy**: ensure that your approach to identifying employee potential is aligned to the strategy of your business. Challenge individual participation in programs on an annual basis to ensure that the employees remain relevant and aligned to the strategic aspirations of your business.

2. **Validate the identification to ensure that it predicts high performance**: use a variety of assessments to determine individual capability and validate these against the future requirements of your business. Moreover, ensure that your assessments are predicting individual performance.

3. **Develop employees through experience to be ready at the right time**: focus on giving your employees the experiences they need to be the future leaders of your business. Think strategically about the experiences you can give them to accelerate their skill and knowledge acquisition and support their career progression.

4. **Retain your key talent through differentiated total rewards**: pay is an important mechanism for retaining high-potential talent, but do not forget the other critical levers of work environment, individualised development and formal employee benefits.

5. **Evaluate the effectiveness of your approach**: measure the true business impact of your high-potential initiatives by considering performance ratings, promotion rates, retention rates and engagement levels of your high potential employees. Hold leaders accountable for these metrics to ensure that they become “net-exporters” of talent.
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