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## What's Happening with Potential Ratings?

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## What's Happening with Potential Ratings?

### Abstract

Several years ago, we would hear everywhere that the performance ratings are dead. Companies then revamped their performance management systems and many went back to ratings they eliminated. Is the same happening with potential ratings? Is the 9-box Performance Potential Grid dead? What are the benefits of doing that? Findings show that across a wide range of tasks, industries and organizations, a small proportion of the workforce tends to drive a large proportion of organizational results. In other words, the top 1% accounts for 10% of organizational output; the top 5% accounts for 25% of organizational output; and the top 20% accounts for 80% of organizational output and organizational outperformance. Synthesis of 'star' research, findings, and amongst other outperformance evidence indicates that simply adding a star performer to a team can boost the effectiveness of the team members by 5-15%. Therefore, it is necessary to understand how to identify and assess HIPO in order to help develop them and help your organization achieve performance maximization in this dynamic globalized economy.

### Keywords

ratings, no ratings, potential ratings, assessments, employee assessments, metrics, performance, performance management, nine-box, performance potential grid

### Comments

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## Executive Summary

### Research Question

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Several years ago, we would hear everywhere that the performance ratings are dead. Companies then revamped their performance management systems and many went back to ratings they eliminated. Is the same happening with potential ratings? Is the 9-box Performance Potential Grid dead? What are the benefits of doing that?

### Introduction

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With the tightest labor market in half a century<sup>11</sup>, firm competition for high-potential human capital (HIPO) is at an unprecedented level in the United States. The war for talent can be traced back to the early 2000s when industry awareness of the dynamism and increasing globalization of the economy led companies to scrutinize their leadership pipeline<sup>7</sup>, recently a renewed emphasis has been placed on the topic<sup>14</sup>. And the fierce competition is for good reason: over a decade of scientific study<sup>10</sup> demonstrates a clear link between organizational investment in the 'right' people in the 'right' roles<sup>1</sup>.

Findings show that across a wide range of tasks, industries and organizations, a small proportion of the workforce tends to drive a large proportion of organizational results. In other words, the top 1% accounts for 10% of organizational output; the top 5% accounts for 25% of organizational output; and the top 20% accounts for 80% of organizational output and organizational outperformance<sup>13</sup>. Synthesis of 'star' research, findings, and amongst other outperformance evidence indicates that simply adding a star performer to a team can boost the effectiveness of the team members by 5-15%. Therefore, it is necessary to understand how to identify and assess HIPO in order to help develop them and help your organization achieve performance maximization in this dynamic globalized economy.

### The Use of 9-Box Performance Potential Grid

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Companies such as eBay have been using the 9-box performance potential grid as an individual assessment tool to evaluate an employees' current and potential level of contribution to the organization<sup>15</sup>. The vertical columns of the grid focus growth potential, whereas the horizontal rows help identify whether an employee is "currently below, meeting or exceeding performance expectations"<sup>15</sup> of his or her team, department and/or company. The intersection of the two helps determine an employees' current performance and his or her future needs for development (Exhibit 1)<sup>15</sup>. When used correctly, the grid can help an organization in its succession planning helping, assess its current talent and identify any potential leaders. It also can help an individual realize its potential, have a better understanding of his or her future goals, and further inform his or her strengths and weaknesses.

This suggests that the 9-box performance potential grid is not without flaws. One of the common criticisms is that the tool is being used to assess potential subjectively as "leaders will have differing views as to how much potential an individual has"<sup>4</sup>. Because of this nature, the tool can be sometimes used not to assess one's potential but rather used to fast track promotions, choose candidates for senior roles and get rid of low-performing employees. Another problem with the tool is that similar to performance, one's potential is "rarely consistent when situations and environments change"<sup>4</sup>, which can have an impact on identifying and assessing one's potential.

### A Potential Framework to Assess Employee Potential

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#### 1) **Identification of HIPOs:**

The goal is to predict the individuals most likely to become the key drivers of organizational performance. It is not to predict who is most likely to quickly climb the corporate ladder. This presumes that the organization has identified the key value-creation roles, and is willing to invest in identified individuals to connect the key drivers with the key value-creation roles. Here is the scientific research indicating three key indicators of HIPOs:

##### a. Ability to Execute:

- The best predictor of job performance is a simple work sample test. To measure an individual's potential to excel in future high-value roles, science has long-since established that the single-

best predictor is cognitive ability<sup>9</sup>. There is a meta-analysis of several hundred studies regarding the titular areas as correlated with job outperformance. Also, meta-analysis of literature concludes that cognitive ability influences virtually all aspects of work performance and potential. Of course, any role requires abilities beyond raw cognitive ability, and therefore other characteristics to consider include: entrepreneurial mindset<sup>2</sup>, strategic thinking, critical thinking and adaptability.

b. Social Skills

- As firms continue to shift toward a prioritization of teamwork and collaboration, the potential incumbents' social skills are a necessity to maximize the key value-creation roles. An early indicator of the HIPO social skills is high emotional intelligence, which can be measured via psychometric testing and further refined through mindful training and development. Personality Tests like the Hogan High Potential Talent Assessment generate reports to help leaders and organizations identify a person's natural leadership style with the goal of "identify[ing] performance areas where focus and attention can be profitably directed in order to maximize leadership potential."<sup>8</sup>

c. Drive

- This indicator is the catalyst that force-multiplies the potential influence of ability and social skills on future success in critical value-creation roles. In other words, the "ability and social skill may be considered talent; but potential is talent multiplied by drive, as this will determine how much ability and social skills get put to use."<sup>3</sup> Drive can be measured via standardized testing that measures conscientiousness, achievement motivation, and ambition. Also, it can be identified through the old-fashioned way: by observing an individual's behaviour. For example, one's willingness to take on extra duties and assignments, one's eagerness for greater responsibility, visibility and sacrifice, one's willingness to embrace a degree of psychological and even physical discomfort, one's willingness to relocate to gain experience and develop skills. These qualities of an individual can help separate talented individuals from true HIPOs.

## 2) **Formal HIPO Assessment Practices Benchmark Survey**

In 2013, PepsiCo leaders conducted a benchmark survey of top companies, which was designed to provide insights and visibility regarding HIPO assessment efforts<sup>5</sup>. Here are the findings on different ways to assess HIPO across the industry:

- a. 75% of the respondents used assessment tools for HIPO
- b. 82% of the respondents used assessments for development of HIPO, vs. 50% of the respondents used assessments for identification
- c. 66% of the respondents used multi-source or 360-degree feedback for development of HIPO
- d. 66% of the respondents used personality assessments
- e. 59% of the respondents used interviews
- f. 39% of the respondents used cognitive ability tests
- g. 82% of the respondents used multiple assessment methods

Based on results indicated above, there is no unanimous way of assessing HIPO in a company, and how different assessment tools are used for either identification or development of HIPO. It is important to take into different factors into consideration when trying to identify, assess and develop HIPO. For example, company's culture and values, organizational structure and hierarchy, industrial practices, and global economic and business environment.

## 3) **Key Takeaways**

A multiple-method approach should be used to assess HIPO as supported by decades of scientific study, in particular, the good measurement theory holds that to measure any construct reliably, one should take a multiple-method approach<sup>12</sup>. In addition, there is no single test or assessment that is perfect, but measurement precision is enhanced when multiple tests or methods point to the same conclusion. Therefore, the most effective means to execute a multi-method assessment approach is through utilization of assessment centers<sup>6</sup>. However, this approach can be costly and time-consuming as it is required to capture long term traits and tracking an employee's performance over a certain period of time.

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## Appendix

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### Exhibit 1

A sample 9-box grid might look something like this:

	Under Performance	Effective Performance	Outstanding Performance
High Potential	<b>Box 5:</b> Seasoned professional capable of expanded role, but may be experiencing problems that require coaching and mentoring.	<b>Box 2:</b> Does extremely well at current job with potential to do more; give stretch assignments to help prepare for next level.	<b>Box 1:</b> Consistently performs well in a variety of assignments; superstar employee. Big picture thinker; problem solver; self motivated.
Medium Potential	<b>Box 8:</b> With coaching, could progress within level; focus on stretch goals for this employee.	<b>Box 6:</b> May be considered for job enlargement at the same level, but may need coaching in several areas, including people management.	<b>Box 3:</b> Current role may still provide opportunity for growth/development; focused on tactical; focus should be on helping improve strategic thinking.
Low Potential	<b>Box 9:</b> May be a candidate for reassignment, reclassification to a lower level or to exit the organization.	<b>Box 7:</b> Effective performer, but may have reached career potential; try to coach employee on becoming more innovative, focus on lateral thinking.	<b>Box 4:</b> Experienced high performer but has reached limit of career potential. Still a valuable employee and can be encouraged to develop communications and delegation skills.

Society of Human Resource Management. (2018). Succession Planning: What is a 9-box grid?