



FINDING FUTURE PERFECT SENIOR LEADERS: SPOTTING EXECUTIVE POTENTIAL



A Leadership Pipeline is the critical business process designed to provide a sustainable supply of quality leaders at all levels to meet the challenges of today and tomorrow. But how do you spot the next generation of senior leaders in your organization . . . and accurately predict who will be able to fill executive roles in the future? The article addresses how to identify leaders who have what it takes to occupy those critical spots at the top.

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GAMBLING ON PAST PERFORMANCE

For companies today, finding senior leaders on the outside is a high-stakes gamble. Executives, including CEOs, are failing at the highest rate ever—above 50 percent. And if the odds on this parlay weren't already long enough, a shallow pool of qualified executives will shrink further in the next few years, spurred by a wave of early retirements among baby boomers. With widespread cuts in business that thinned the ranks of middle management during the '80s and '90s, fewer experienced leaders are left to move up.

Managers now in their mid-40s are the next wave of senior leaders. If shareholders and employees resent huge compensation packages garnered by top executives now, experts say just wait 5 to 10 years—intense competition for CEOs and executives from this crop of up-and-comers will drive compensation packages into the fiscal stratosphere.

The traditional method of choosing future executive talent has zeroed in on the would-

be successors' past performance. And there is the rub. While it might confirm that the drive to achieve burns brightly, past performance doesn't tell you if someone will continue to grow or has the right stuff to make it as a senior leader. A strong operational leader doesn't necessarily have the skills to be exceptional at strategic level, such as the ability to think conceptually. Indeed, performance that wins kudos at the operational level—for example, scrupulous attention to detail or hitting the numbers year in and year out by any means necessary—can often spell disaster on the strategic level. Business school case studies abound with unfortunate-but-true stories of homegrown CEOs, operational superstars all the way up the ladder, who became mediocre leaders at best and absolute failures at worst when placed in a strategic role. John Akers and Ron Allen each were 30-year employees who rose through the ranks to CEO at IBM and Delta Airlines, respectively, only to retire unceremoniously after failing to turn their companies around.

HOW DO YOU SPOT POTENTIAL LEADERS?

Would you describe your organization's process for spotting leadership promise as:

- > A formal, rigorous process?
- > Informal, but completed regularly?
- > Left up to senior executive insights?
- > Something you don't even talk about?

Most HR professionals we've asked say their organizations fall into the second group, though more than you think answer that their executives "just have that insight."

Until now, organizations in search of viable senior leadership had two options. One, recruit from the street and bear the ever-rising sticker price—and high risk of failure. Or two, grow your own using past performance to predict top-echelon success. As noted, this path holds its own endemic hazards.

THE KEY: IDENTIFY EXECUTIVE POTENTIAL

Now there is a third option—one based on solid, leading-edge research. It's an option that breaks new ground and greatly reduces the risk in identifying homegrown future senior leadership talent. The key is learning to systematically identify executive potential in the people you already have on board.

What we are posing is a substantively different challenge than diagnosing the developmental needs of individuals in a high-potential pool or assessing their readiness for a particular senior role. In these cases, the focus is on achievement and growth while people are in the pool. Instead, identifying executive potential is about *predicting growth* and *promise*. Yes, a solid, sustained track record of above-average performance is a prerequisite, but there are other factors that must be considered to improve the odds of this prediction. It's also about casting a wide net across the organization to find someone who has the attributes to fulfill this promise. Like a talent scout making an informed decision on a budding athlete, it's about maximizing the likelihood that your sizeable investment in a candidate's accelerated development will someday yield a considerable ROI when that person becomes a senior leader in your organization.

Can leadership potential be *reliably* spotted—even in remote or hidden pockets of the organization—and can it be spotted early? A few companies like Colgate-Palmolive, where the assessment of senior leadership potential begins at the frontline supervisor level, have been pushing the boundaries of this frontier for years. The difficulty lies in determining what criteria to use and then applying them as part of a rigorous, disciplined process.

According to our research, three of four companies admit that they lack clear criteria for what actually determines potential. Also, many haven't crystallized a consistent vision of what their culture should be in the future (and thus how future leaders would fit into this vision) or what their expectations should be for their future leaders. Recall that on his deathbed, Jordan's King Hussein chose his *second* son to succeed him, even though the first-born had long been heir apparent. The dying king saw in the chosen son (now King Abdullah II) his vision for what was best for the nation.

Along with our colleagues, we set out to find this all-important forecast of leadership potential. Overlaying our more than 30 years' experience assessing leadership talent onto groundbreaking research by others—including work by Jim Collins for his book *Good to Great*; Morgan W. McCall, Jr.'s *High Flyers*; and Ann Howard and Doug Bray's landmark 30-year study of professional and personal development at AT&T—we've identified a set of criteria as well as a practical strategy that enables us to more accurately predict executive success.

The process we describe on the following pages is powerful—and vital to any organization’s growth. We are more convinced than ever that a sharper focus on the right personal attributes—both enablers of success as well as executive derailers—early in the selection process can prevent executive disasters such as those that occurred at Enron and WorldCom.

A BLUEPRINT FOR SUCCESS

Our research shows that there are four cornerstones of leadership potential:

- > Leadership Promise
- > Personal Development Orientation
- > Mastery of Complexity
- > Balance of Values and Results

At the heart of each category lie at least two attributes (we have identified a total of 10) that we refer to as the *Leadership Potential Factors*—traits such as Propensity to Lead, Learning Agility, Culture Fit, and Adaptability. By applying these 10 factors consistently and carefully in screening your mid-level leaders, we believe you can dramatically reduce the inherent risk of relying on past performance and greatly improve your success rate in choosing your next generation of senior leaders.

LEADERSHIP PROMISE

Our first category, Leadership Promise, broadly defines a person who shows certain inherent abilities to lead others. One of the first factors we look for in this category is **Propensity to Lead**. We’ve all been around someone who recognized a vacuum in leadership and stepped up to take charge and lead by example. These people *want* to have an impact. They’re willing to move forward—even when outcomes are uncertain and personal risk is high—and take leadership responsibility.

Rudy Giuliani stepped up and into the chaos that racked New York City following the terrible events of September 11. His very presence—unwavering in his determination that the city would rebound, steely confident as he organized the city’s battered emergency services, resolute in urging residents to resume leading normal lives—provided a rallying point for New Yorkers stunned by the tragedy. Indeed, Giuliani’s actions made him a beacon of leadership for an entire nation.

We’ve found that the best leaders also have the innate ability to make everyone around them better. It’s no coincidence that the next factor we look for under Leadership Promise is **Brings Out the Best in People**. You might be familiar with Douglas McGregor’s seminal work, *The Human Side of Enterprise*, which describes two types of leaders: Theory X and Theory Y. Theory X leaders are known as micromanagers who command and control. In contrast, Theory Y leaders believe that people deserve to be treated with dignity and respect, are honest, and can be trusted. They’re the bosses everybody wants to work for—the ones who get the most promotions for their people. In sports circles, they’re known as “players’ coaches.” People tend to gravitate toward these individuals in times of crisis. These people are easy to talk to, are receptive to feedback, and care about the people in their charge.

Acclaimed filmmakers Steven Spielberg and the late Stanley Kubrick earned reputations as directors who consistently brought out the best performances from their actors. Spielberg has been especially adept at coaxing excellent work from child actors, such as Henry Thomas and Drew Barrymore (“E.T.”), Heather O’Rourke (“Poltergeist”), and Haley Joel Osment (“Artificial Intelligence: A.I.”).

In the aftermath of WorldCom and Enron, **Authenticity**, the third factor under Leadership Promise, is probably more relevant today than ever before. Authenticity encompasses integrity, which in turn fosters trust—the fundamental catalyst in the most-admired workplaces. Authenticity also reflects a basic genuineness and honesty. In the political arena, both Richard Nixon and Bill Clinton displayed major integrity flaws that ultimately destroyed their authenticity.

Interestingly, the importance of this factor has received some of the most resounding affirmation in our focus groups with senior executives across cultures, industries, and professional sectors.

Authentic leaders show the courage and humility to admit mistakes. Indeed, the very admission of a mistake earns credibility with employees. A person who exudes authenticity is unafraid to disclose his or her feelings and is seen as confident without being arrogant.

Authentic leaders don't let their egos get in the way. For example, FedEx's CEO Fred Smith and Southwest's chairman (and former CEO) Herb Kelleher are very driven—but not for personal glory or reward. We like to refer to this as the difference between having a strong ego and a big ego. The message inscribed on a plastic cube displayed prominently on the desk of Andrew Fastow, Enron's disgraced former CFO, symbolized the big-ego perspective. A similar cube on another executive's desk might have benignly displayed the company's vision and values; Fastow's cube hit visitors with this blunt-force assertion: "When Enron says it will rip your face off, it will rip your face off."

Another common characteristic of strong-ego executives is their relative anonymity to the general public—you won't read

about them on the front page. In *Good to Great*, Collins profiles 11 highly successful CEOs with strong egos who are not household names. Nonetheless, their companies averaged returns 6.9 times greater than the market's—more than twice the performance rate of General Electric under the legendary Welch.

In a classic case that illustrates one major difference between big ego and strong ego, General George C. Marshall turned down a request from his boss, Franklin Delano Roosevelt, to lead the U.S. war effort in the European field during World War II. Marshall opined that he could better serve the country—and FDR—behind the scenes in Washington as U.S. Army Chief of Staff. Marshall, who was widely admired for his honesty, selfless character, and integrity, was content with the low-profile, but vital, role. In contrast, one of Marshall's contemporaries, General George S. Patton, typified the big-ego leader. The quest for fame, glory, and headlines fueled Patton through his successes—most notably in North Africa, France, and the Battle of the Bulge—yet was a factor in many of his career setbacks. In fact, while Marshall went on after the war to serve as Secretary of State and, later, Secretary of Defense in the Truman administration, Patton's outspoken criticisms of denazification policies after the war led to his ouster from command of the Third Army in September 1945. He died in an auto accident shortly thereafter.

PERSONAL DEVELOPMENT ORIENTATION

In our experience, the best leaders never stop trying to become even better leaders. As Collins puts it, when things go wrong they look in the mirror to see what they could have done differently instead of looking for someone to blame. Or as

Darwin Smith, former CEO of Kimberly-Clark, has said, “I never stopped trying to become qualified for the job.” This is where our second category of leadership potential, Personal Development Orientation, comes into play and where **Receptivity to Feedback** emerges as a key factor to support it. Receptivity to Feedback is a personal attribute that’s learned early and is difficult to develop as an adult. Executive development research consistently demonstrates that remaining open to feedback—learning lessons of experience—is one of the strongest predictors of executive growth.

Leaders who are open to feedback welcome constructive criticism because they want to learn from it. They also display humility and the willingness to admit when they’re wrong. While they have high expectations for themselves, they are not above being coached.

On the flip side, executives who are never wrong typically suffer the ripple effects of low morale and high turnover—and they keep making the same mistakes again and again. And sometimes those mistakes ultimately lead to catastrophe for the organization, as when General George Custer ignored all warnings against leading his Seventh Cavalry into the Little Big Horn valley.

Learning Agility, the second Leadership Potential Factor in this category, fits naturally with Receptivity to Feedback. People who rate high in Learning Agility are more at ease with the idea of reinventing themselves. They see themselves as continuously evolving and are constantly looking to improve—prime qualities in those who would be future executives. Not only do they display intellectual curiosity, but they quickly process new information and learn

from their experiences and mistakes. They also display a wide range of interests. Benjamin Franklin’s bespectacled face could have appeared on a poster for Learning Agility. Starting as an apprentice in a Philadelphia print shop, Franklin evolved from printer to librarian, from master inventor to master statesman—going on to become one of America’s founding fathers and one of its most renowned diplomats.

How can you probe to get a glimpse of an executive candidate’s Learning Agility? One way is to ask questions like these during an interview: “What are the two best business books you’ve read recently, and what did you learn from them?” “What lessons have you learned from your best boss? From your worst boss?” “Can you tell me about a stretch assignment you’ve taken on, and then describe what it taught you?”

MASTERY OF COMPLEXITY

The next piece of the puzzle touches on an individual’s ability to excel in a work environment rife with constant, rapid change, swirling ambiguity, and competing demands from many quarters. In this milieu, Mastery of Complexity, our third category of leadership potential, is an imperative. We have pinpointed three factors that are requisite for success at the highest levels of an organization: **Adaptability**, **Conceptual Thinking**, and **Navigates Ambiguity**.

As the label implies, **Adaptability** reflects a person’s skill at juggling competing demands and adjusting to new situations and people. A key here is maintaining an unswerving, “can do” attitude in the face of change. The need for Adaptability is especially acute in global organizations, which is why many companies now insist

that their high potentials take overseas assignments. We have seen firsthand how Adaptability can spell the difference between success and failure.

When General Motors contracted us to help design the selection system to hire employees for a new plant in a small Polish town, we sent one of our best industrial/organizational psychologists. Within three months the client complaints began to roll in. When we investigated, we found that both our Ph.D. specialist and his wife were uncomfortable with the town, the culture, and many of the locals they met. Given that information, it was no surprise that we didn't get the performance we expected—and had seen on other projects—from this individual. We diagnosed a poor fit due to low Adaptability. Before sending a replacement we made sure to check for Adaptability. The person we chose was an ex-Air Force officer who was comfortable with change—he had moved 12 times in his 22-year military career. Once in Poland both he and his wife adapted beautifully. They learned the language and joined in on local community and social life. GM later credited our second representative with the success of this start-up.

Like great chess players and baseball managers, the best executives always have the big picture in mind. Their ability to think two, three, or more moves ahead is what separates them from competitors. This talent defines **Conceptual Thinking**. Those who aspire to the uppermost reaches of an organization must be able to visualize the possibilities and see new perspectives without getting bogged down in details. In fact, the inability to think in broad, conceptual terms has derailed many erstwhile operational superstars who rode attention to detail and purposefulness into the executive ranks.

Navigates Ambiguity, the third factor we look for under Mastery of Complexity, describes a leader who moves easily and with confidence through the vagaries and shades of gray that are life in senior management. This trait enables people to simplify complex issues and make decisions without having all the facts. According to former U.S. Secretary of State Colin Powell, if you have 70 percent of the information you need, you have enough to make your decision. History has shown this country's founding fathers to have been masters of ambiguity. They crafted a constitution, established the structure for a government, and laid out basic principles that have stood for more than 225 years.

Low tolerance for ambiguity leads to micromanaging—for which no effective strategic manager can spare time—not to mention the fallout from demotivated, disgruntled staff. Micromanagers as executives either cause heart attacks or have them. They also can't see above the day-to-day to think out of the box.

BALANCE OF VALUES AND RESULTS

While the other three categories anchoring the Leadership Blueprint are universal, the fourth, Balance of Values and Results, is unique to each organization, depending on its prevailing culture. This category reflects a senior leader's ability to work within a company's culture and still get the desired results. It's also a category that, in our view, underscores the need to develop senior talent from within, because when executives hired from outside the organization fail, chances are it was because they were never able to mesh their style with the existing corporate environment.

Balance is the key, and we look for symmetry between two factors when casting our nets for leadership potential. The first factor, **Culture Fit**, describes how well an executive's behavior and personal style complement the existing work culture. A company's culture is driven from the top. Are this person's decisions compatible with the organization's vision and values? Does he or she "walk the talk"? If not, then it's a sure bet that something will have to give—and soon.

Al Dunlap epitomized the hard-charging turnaround specialist when he was brought in as CEO at Sunbeam in June 1996. Dunlap came on strong, but didn't stay long. In less than two years, "Chainsaw Al"—so nicknamed for slashing more than 12,000 jobs at Sunbeam—wore out his welcome. In announcing his firing in 1998, the Sunbeam board of directors cited deep-rooted differences over Dunlap's managerial style coupled with his inability to bolster sagging stock value. Sunbeam employees reportedly cheered the announcement of Dunlap's dismissal.

The second factor, **Passion for Results**, reflects an executive's desire to overcome obstacles and get things done. How committed is he or she to excellence? Does this person demonstrate tenacity and perseverance in facing down challenges?

The late Mary Kay Ash, founder of Mary Kay Inc., was an excellent example of a leader who balanced cultural values with a drive for results. While building one of the most successful beauty aid retailing operations in history, she also preached to her legions of sales reps that a career is not an end in itself, but a means "to personal fulfillment, family comfort, and harmony; to a balanced life; to self-expression." Joe Paterno, long-time head football coach at Penn State University, is another high-pro-

file leader who succeeds in striking a similar balance. His teams perennially achieve a Top Ten ranking; yet unlike many rival college coaches, Paterno places such a premium on classroom achievement that more than 90 percent of his players graduate.

A company that strives to meld Culture Fit with Passion for Results is PPG Industries, Inc., a Pittsburgh-based, global manufacturer of glass, fiberglass, coatings, and chemicals. According to Allan Foss, PPG's manager of leadership development, "PPG's culture maintains an intense focus on bottom-line results, yet one of the company's most critical values is a commitment to integrity and the message to pursue results only within the highest ethical standards. Communication of this expectation is woven throughout our identification, executive assessment, development planning, performance coaching, and mentoring practices."

SCREENING POTENTIAL IS ONLY THE FIRST STEP

For most organizations we've encountered, developing homegrown future executive talent boils down to making a decision on where best to invest limited time, money, and resources and then nurturing that investment. The long-term and ripple effects of backing the wrong choice can be devastating.

In isolating the 10 factors described on these pages, we recognize the enormity of the task facing those who would attempt to develop them. Given that these factors are essentially personality traits, the likelihood of dramatically enhancing them through training or other developmental means is quite slim. It becomes imperative, then, that screening for the 10 Leadership Potential Factors be a part of any organized effort to select candidates

for accelerated development in a high-potential pool. The first step in screening potential is identifying a clear set of criteria for each factor.

The second step is a rigorous, disciplined process that accurately evaluates each candidate's potential. Such a process can eliminate many, if not all, of the common mistakes many organizations make when stocking their high-potential pools, such as:

- > Relying on current performance.
- > Having vague or inconsistent criteria for defining potential.
- > Selecting someone for accelerated development based on one person's unchallenged perspective.
- > Attempting to achieve a balanced, organizationwide representation in the pool.
- > Focusing on developing only the strengths of those slotted for accelerated development.
- > Mistaking someone's admission into the pool with a formal diagnosis of their competencies.

Any effective process to evaluate a candidate's executive potential starts with training multiple nominators to assess the Leadership Potential Factors. Based on their observation of each candidate in a variety of work situations, the nominators complete an inventory for each person that lists each factor and the key behaviors that exemplify it.

Upon completing their inventories, the multiple raters convene in a data integration session to reach a consensus rating for each

nominee for each factor. Next, a panel of senior executives, comprising the CEO, COO, and other business unit heads, meets to review this consensus data as well as other pertinent HR data for each candidate. The panel's ultimate objective is—through a thorough, disciplined review of the data—to reach consensus on which nominees will be invited into the high-potential pool.

EVALUATING POTENTIAL DOES NOT EQUAL DIAGNOSIS

It's important to note that evaluation of executive potential does *not* equal diagnosis of a person's development needs (see Figure 1). An in-depth diagnosis of strengths and development needs around competencies, enablers, derailers, organizational knowledge, and job experience occurs after the nominee has accepted an invitation to join the high-potential pool. Of course, diagnosis at this point is critical because in order to get the maximum return on an investment in a person's potential, development must focus on the competencies, derailers, and other executive descriptors that can be improved. As we've already noted, the Leadership Potential Factors are extremely difficult to develop.

THE SMART BET: MEASURE POTENTIAL

Yes, finding exceptional senior leaders remains a high-stakes gamble for most companies. Yet, by knowing how to spot executive potential early on in a leader's career and then concentrating development efforts on those who show the greatest promise, you dramatically improve the odds.

FIGURE 1: IDENTIFYING POTENTIAL VS. DIAGNOSING DEVELOPMENT

	IDENTIFYING POTENTIAL	DIAGNOSING DEVELOPMENT/READINESS
GOAL:	Predicted growth, promise	Achievement relative to Success Profile; readiness for placement
WHO:	Cast a wide net	Focus on those in high-potential pool
WHAT:	Streamlined screen re: difficult-to-acquire, "enabling" traits, skills, abilities	Holistic evaluation, "stretch": > Competencies > Personal attributes (enablers, derailers, motives) > Job experience > Organizational knowledge
OUTCOMES:	Invitation to high-potential pool	Individualized development plans, placement decisions
EVALUATORS:	Organizational observers (behavior focused)	Professional assessors (behavior and underlying traits, motives, values, and knowledge)

LOOK OUT! AVOIDING THE PITFALLS OF IDENTIFYING POTENTIAL

Even organizations that have processes in place to spot future leaders can fall into these common pitfalls:

- > **Focus on current performance.**
Reliance on multirater (360°) feedback, which doesn't predict potential, but only current competencies.
- > **Dependence on too few, unchallenged perspectives.**
We fell into this trap. With only 16 managers in our Acceleration Pool, each slot becomes highly important. So when it became clear we'd made a mistake in one instance after allowing someone into the pool when only one executive knew him well, we learned an important lesson.
- > **Emergence of "strength"-based models.**
Fine for targeting specific roles, perhaps, but too narrow as a forecast of general management potential. Focusing only on strengths leads to missed potential and wasted talent; it also fails to identify derailers that might be camouflaged under a seemingly solid profile.
- > **Inconsistent criteria, vision, or expectations.**
Three out of four companies admit that they lack clear criteria for what actually determines potential. Or they haven't arrived at a consistent vision of what their future culture should be (and thus how future leaders would fit into this vision), or what expectations for their future leaders are.
- > **Equal representation, current affiliation bias.**
Giving in to political pressure for equal representation by department rather than truly identifying the best people.
- > **Poor differentiation between potential and diagnostic assessments.**
Confusing diagnostic assessments of a manager's competencies with an "investment choice" based on past performance plus future potential.

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