



# From Potential to Performance

## Using Personality Assessment to Identify, Develop, and Retain Future Leaders

**C**ompetent leadership is crucial for a company's success. Recent studies indicate that businesses with strong leadership are 13 times more likely to outperform their competition, and three times more likely to retain their most talented employees.<sup>1</sup>

Yet, only 44% of HR professionals report having formal processes for identifying employees with leadership potential, and only 18% report having enough bench strength to meet the future requirements of the company.<sup>1</sup>

Although these numbers are unsettling, they aren't surprising. Because there are no established best practices for identifying high-potential employees, current processes are plagued by bias and politics, and produce mixed results at best. Even if a company does identify the right candidates, what then?

Companies can avoid common talent management mistakes and produce a more successful stable of leaders to guarantee their future success by building their high-potential programs on a foundation of empirical data provided by personality assessment.

### The Problem with Outside Hires

To remedy the self-inflicted talent shortages they currently face, many companies look outside to find C-level talent. Unfortunately, recent history is rotten with examples of failed external-hire CEOs: Robert Nardelli alienated Home Depot's customer base and decimated its stock value before leaving with a \$210 million severance package;<sup>2</sup> Jack Griffin oversaw the exodus of some of Time, Inc.'s most respected editors;<sup>3</sup> and HP has gone through no fewer than seven chief executives since 1999, while its stock value sinks accordingly.<sup>4</sup>

Unfortunately, only a few stories make the headlines; more than half of outside hires fail, many in their first 18 months on the job, and even the most amicable of executive departures will be costly. Studies indicate that the average cost of a failed executive hire ranges from \$1 million to \$2.7 million.<sup>5</sup>

"Outside hires face enormous obstacles," said Hogan VP of Global Alliances Ryan Ross. "They are unfamiliar with the business, its employees, its culture, and the unique internal and external

Companies with a well developed high-potential identification program:

**80%**

better in developing great leaders

**92%**

better at creating a pipeline of ready successors

**71%**

higher scores on employee engagement

**68%**

greater ability to plan for future talent needs

**62%**

higher scores on developing employees

Source: Bersin & Associates, 2010

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challenges facing the business and its employees.”

Given these issues, it is little wonder that outside hires tend to underperform; a study from the Florida State and Mississippi State Universities found that internally promoted CEOs bring more than 25% greater total

“That same bold, attention-grabbing behavior we find attractive in our junior employees turns into recklessness in the C-suite,” he said. “We have seen some very famous examples over the last few years.”

The key to successful high-potential identification, Ross said,

debilitating career derailleurs. Dark side personality is measured by the Hogan Development Survey.

Hogan also measures two additional dimensions:

**Values** – Measured by the Motives, Values, Preferences Inventory, values are the drivers, beliefs,

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financial performance than external hires.<sup>6</sup>

Although most companies recognize the importance of having a stable of talented, succession-ready people in their ranks, less than 20% of U.S. companies have consistent, effective means of high-potential identification, development, and retention.<sup>1</sup>

### Identifying Potential

According to Ross, most companies rely on supervisor nomination, performance reviews, and other traditional methods to identify candidates as high potentials.

“The idea is that the best predictor of future performance is past performance,” Ross said. “That information is important, but without proper context, none of it is useful.”

Ross said these measures are subjective, ignore the influence of politics, and, more importantly, tend to reward behavior that becomes counterproductive at an organization’s upper levels.

is to view traditional forms of data in the context of personality to gain a comprehensive view of each candidate.

### Why Personality?

Personality is best defined in two parts: identity and reputation. Identity is personality from the inside – how you see yourself.

Because you create your identity, and it often changes, it is not useful for predicting performance. As Freud said, the you that you know is hardly worth knowing. Reputation, on the other hand, is personality from the outside – how others see you. Reputation is useful for predicting future job performance.

Hogan measures reputation along two dimensions:

**Bright-side personality** – everyday personality that determines leadership style, judgment, and candidates’ ability to get along and get ahead. Bright-side personality is measured by the Hogan Personality Inventory.

**Dark-side personality** – also called derailment personality, consists of characteristics that, under stress or boredom, can become

and interests that determine what candidates’ are willing to work for and in what type of job, position, and organizational culture they are likely to feel most satisfied.

**Cognitive Ability** – Using the Hogan Business Reasoning Inventory, Hogan evaluates candidates’ ability to think tactically and strategically.

This multi-dimensional approach to assessment paints a detailed portrait of each applicant – his or her work habits, ideal job type, leadership potential, and probable derailleurs – far beyond the information available in a traditional hiring process.

“These are objectively measured, enduring, stable characteristics that aren’t impacted by politics, relationships, or context,” Ross said. “From there, the more performance data you add, the better your process is going to be.”

### Turning Potential into Performance

In addition to providing an empirical means of identifying

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high-potential employees, personality assessment also provides a strong foundation for developing an effective high-potential workforce.

“The most powerful tool companies can give their high-potential employees is the strategic self-awareness gained through personality assessment and feedback,” said Hogan Managing Partner Dr. Rodney Warrenfeltz.

“For most people, there is a disparity between identity and reputation,” Warrenfeltz said.

This disparity can cause people to ignore feedback, deny their shortcomings, and, ultimately, stall or derail their careers.

who leaves the company before your investment pays off,” Ross said. “Letting these people know you value them by investing in their future, assigning them stretch roles and mentors, and engaging a coach helps keep high-potential employees engaged and interested in their work.”

### Extending the Investment

Warrenfeltz said because personality tends to be stable over time, assessment results remain a powerful tool throughout the employee life cycle.

“The people who get the most out of the assessment, feedback, and coaching process and perform the best are those who are always striving to improve themselves,”

narrow, businesses recognize the importance of quality leadership, and spend millions grooming promising candidates.

However, the influence of politics, bias, and situational context prevents conventional high-potential programs from consistently producing and retaining strong leaders.

“Without some sort of empirical basis for selecting and developing leaders, companies are basically relying on luck,” Warrenfeltz said.

“Putting personality assessment and feedback at the center of their high-potential program is a relatively low-cost way for companies to improve their return on investment.”

## The most powerful tool companies can give their high-potential employees is strategic self-awareness gained through personality assessment and feedback.

“Strategic self-awareness is about eliminating that disparity,” Warrenfeltz said. “Personality assessment and feedback provide a clear understanding of your strengths and weaknesses, and how those strengths and weaknesses compare to those of others.”

### Retaining Top Talent

Built on a foundation of strategic self-awareness, Ross said coaching, mentoring, and continued learning opportunities help keep high-potential employees engaged.

“There is nothing more frustrating than investing in an employee

he said. “They draw on their strategic self-awareness and constantly reflect on the insights they gained.”

At the highest level of engagement, leaders use their understanding of personality and their own results to help their employees develop.

“They use their tendencies as a filter to try to recognize those behaviors in others and understand the reasons behind why their employees and peers do the things they do,” Warrenfeltz said.

### Focus on the Bottom Line

At a time when the difference between a growing company and a struggling company is so

<sup>1</sup> DDI Global Leadership Forecast, 2011

<sup>2</sup> Barbaro, Michael. Home depot gets a fresh coat of less-glossy paint. *The New York Times*. February 8, 2007.

<sup>3</sup> Wartzman, Rick. Why Jack Griffin’s time expired. *Bloomberg Businessweek*. March 4, 2011.

<sup>4</sup> <http://www8.hp.com/us/en/company-information/executive-team/formerceos.html>

<sup>5</sup> Hogan, R., & Hogan, J. (2001). Assessing leadership: A view from the dark side. *International Journal of Selection and Assessment*, 9, 40-51.

<sup>6</sup> Ang, James S. and Nagel, Gregory Leo, *Outside and Inside Hired CEOs: A Performance Surprise* November 6, 2009.