Realizing Employee Potential

Igniting the Potential of All Talent to Succeed in the Future of Work

Contents

Introduction

The concept of employee potential – the possibility that employees can become something more or different than what they currently are, implying further growth to reach a desired state – is at the center of almost all people practices. Making decisions about development, work allocation, hiring and internal mobility, succession planning, and more require organizations to consider not only what an employee can do today, but also what they could be capable of in the future.

In fact, many of the issues organizations face today could be solved by better understanding the potential of each employee, making the topic of employee potential more important to organizations than ever before:

- Organizations that understand their employees' potential can more effectively address persistent skills gaps, assemble dynamic teams, and redeploy workforce segments, improving their agility in the face of changing market dynamics.
- A better understanding of all employees' potential can also help organizations realize their diversity, equity, inclusion, and belonging goals by enabling unbiased decision-making.
- As employees expect more support and autonomy from their organizations, understanding each employee's potential and how it aligns with business goals can help organizations create personalized career and development plans that account for both the employees' interests and the organization's needs.

However, the employee potential practices of the past won't solve the business problems of the future. Traditional definitions of potential have been vague, which introduces subjectivity and bias into how employee potential is evaluated. Or, traditional definitions are too narrow, which means the definitions are not applicable or relevant to all employees and consequently remove employee agency over their careers. Both of these challenges create exclusionary practices in which only certain segments of the workforce can realize their potential within the organization.

To understand the future of employee potential, the Growth & Insights team for SAP® SuccessFactors® solutions hosted interviews with 57 HR leaders from SAP customer organizations and conducted a survey of 1401 individual contributors from around the globe.

Our research focused on the following questions:
- **Defining potential:** What do organizations mean by "employee potential"? Are there different types of employee potential, and if so, what are they?
- **Assessing potential:** How do organizations currently measure employees' potential, and what are the challenges associated with this measurement? How does the assessment of employees' potential need to change or evolve?
- **Utilizing potential:** How is information about employee potential currently used to make people-related decisions? What are the best practices for using information about employee potential? How must these practices change in the future?

In order to truly ignite the potential of their entire workforce, organizations must rethink how they define, assess, and utilize the potential in every employee.

Expanding the definition of employee potential

Any organization's attempt to assess their employees' potential or act on those assessments requires the organization to decide what they mean by the phrase "employee potential." Across the HR leaders we interviewed, definitions of employee potential fell into three different categories:

- **Individual attributes**, such as aspiration, ability, engagement, and learning agility – under these definitions, if an employee has those attributes, they have potential.
- **Ability to take on a certain role** in the future, such as the ability to move up two hierarchical levels in five years, to perform in a strategic role or on a special assignment, or to succeed in a senior leadership position – under these definitions, if an employee could take on a specific role, they have potential.
- **Current performance**, such as classifying employees in the top 10% of performance ratings as having high potential – under these definitions, if an employee performs well in their current role, they have potential (perhaps controversially).

All these definitions come with challenges. Most HR leaders struggled to find a definition of employee potential that their organizations would accept, understand, or apply universally and consistently. Indeed, traditional definitions of employee potential and the ways they are used often lead to biased decisions and other poor outcomes. This is because these definitions are often:

- … **dichotomous**. Traditional definitions consider employees as being either "high potential" or "not high potential," creating exclusivity and possibly jealousy or resentment. Future definitions should consider a wider spectrum of employee potential.

- … **ambiguous** or limited in scope. Traditional definitions either do not answer the question "potential for what?" or provide too narrow an answer, often just "potential for leadership." And when definitions are too narrow, they are often only applicable to certain portions of the workforce. Future definitions should answer the question "potential for what?" with multiple clear outcomes.
- … **top-down**. Traditional definitions implicitly or explicitly limit employee outcomes to certain roles and fail to account for employees' own aspirations. Future definitions should foster employee involvement and agency.

In response to these challenges, we developed a model of employee potential through reviews of the academic and business press literature on the topic. We then discussed the model in qualitative interviews with HR leaders and statistically tested[1] the model using survey data from a global sample of employees. What resulted is an evidence-based and expanded model that conceptualizes the different types and subtypes of potential an employee could have.

[1] Structural equation modeling demonstrated satisfactory fit of a second-order, five-factor model to the survey data (RMSEA = .043, CFI = .958, TLI = .949, SRMR = .033).

Expanded model of employee potential

1

Expert potential

What are the potential ways an employee could **become an expert?**

- Potential for technical expertise
- Potential for subject matter expertise

2

Social potential

What are the potential ways an employee could **interact with others?**

- Potential for showing compassion to others
- Potential for communicating effectively
- Potential for working well in teams
- Potential for building networks

3

Organizational potential

What are the potential ways an employee could **move in their organization?**

- Potential for career advancement
- Potential for upward promotion

4

Project potential

What are the potential ways an employee could **contribute to projects?**

- Potential for taking initiative
- Potential for managing and allocating resources effectively
- Potential for generating new ideas
- Potential for problem-solving

5

Leadership potential

What are the potential ways an employee could **become a leader?**

- Potential for directing others
- Potential for developing others
- Potential for inspiring others
- Potential for influencing others

When discussing this model, it was most common for HR leaders to report that their organization assesses both leadership potential (35%) and expert potential (35%). And, it is important to note that this model of employee potential is intended to be applicable to every organization, industry, or role, but it is not intended to be completely exhaustive or prescriptive. It is our recommendation that this model of employee potential is used as a foundation for HR leaders, people managers, and employees to co-create an expanded definition of employee potential that best suits the unique needs of the business.

35%
of organizations currently assess leadership potential

35%
of organizations currently assess expert potential

When developing an expanded model of employee potential for your organization, ask yourself the following:

- What do the trends in your industry suggest will be important for your workforce in the future?
- What are your organization's strategic priorities for the future and what skills will be needed to meet those objectives?
- What new products or services is your organization considering for the future? What are the workforce skills or competencies required to make those ideas a reality?
- What aspects of organizational culture do you want to build or promote?
- What business-critical skills or competencies do you expect to lose in the future due to turnover or retirement?

Regardless of the specific ways in which a definition would be expanded, all HR leaders believed that expanding their definition of employee potential generally would improve their people practices, and data from our global survey show that employee experiences would be better as a result.

According to our HR leaders, an expanded definition of potential would…

According to employees, their experiences are…

Give them a **broader – and more comprehensive – understanding** of their workforce's potential.

> *"This allows us to extend our thinking beyond the traditional ways of considering potential."*
> *– Executive of People at an engineering, construction, and operations organization*

27%

better when their organizations are very aware of their potential.

Enable managers to better understand, discuss, and realize their team members' potential.

> *"Looking at a more expanded view of potential helps leaders to talk about potential with individual contributors and generate good discussion. That's just not happening today."*
> *– VP of Talent and Communications at a mill products and mining organization*

25%

better when their managers are aware of their potential.

Ensure that employee potential practices are **more inclusive** of all employees.

> *"An expanded view of potential is different than what we're currently doing. I could see this allowing us to include more of the organization than we currently are."*
> *– VP of HR Operations at an engineering, construction, and operations organization*

22%

better when their organizations' practices are inclusive.

Improving the assessment of employee potential

Irrespective of the scope of an organization's definition of employee potential, our research uncovered many challenges in the process of assessing employee potential, including what is measured, how it is measured, and who is involved.

Disagreement about the use of performance to measure potential. HR leaders who currently have formal measurement strategies for employee potential are most often assessing an employee's ability as an indicator of their potential, followed by their performance, aspirations, agility, leadership skills, and engagement. Employees in our global survey agreed that some of these attributes – professional and technical skills (such as ability) and aspirations – are good indicators of their potential.

However, there is a critical misalignment in beliefs about using performance to assess employee potential. Whereas this was the second-most measured indicator of employee potential among the HR leaders we interviewed, employees in our global survey felt that this was not a good indicator of their potential and ranked it number 12 out of 13 (above learning styles). An employee's potential to become something more or different in the future cannot be assessed by their current performance alone, especially if one's intention is to understand an employee's potential for an entirely different career path or set of skills.

What do employees think should be measured to assess their potential?[2]

1. Professional skills
2. Mindsets
3. Technical skills
4. Passions
5. Motivations
6. Aspirations
7. Work environment preferences
8. Communication styles
9. Team strengths
10. Traits
11. Work styles
12. Past performance
13. Learning styles

[2]Participants were asked to select the six attributes they believed were most important to consider when assessing an employee's potential. This ranked list was developed based on the frequency with which each attribute was selected into participants' top six.

Concerns about bias and inconsistency in measurement methods. According to our research, methods of measuring employee potential can fall into two categories: tool-based methods and discussion-based methods. Typically, organizations with mature employee potential practices were using a combination of both methods, such as a validated assessment or potential-versus-performance matrix tool, followed by a discussion of the results with managers, HR professionals, and business leaders in a calibration session.

HR leaders were less concerned about the measurement methods themselves than how individual raters (such as managers or HR leaders) were adopting them. The top challenge in assessing potential was rater subjectivity, or raters using their "gut feelings," opinions, or biases to inform their potential assessments rather than the organization's definition or criteria. For example, managers may (perhaps unconsciously) consider an employee as having high potential based on their own familiarity with or similarity to the employee rather than more objective indicators. Survey data from employees suggest that HR leaders should be concerned about this bias: about one-third of employees (30%) feel their organizations' potential practices are unfair.

Missing valuable perspectives on employee potential. The most common source of information about an employee's potential is their direct manager, followed by HR professionals and sometimes senior leaders (for select groups of employees). Our research suggests that **managers** don't know as much as they want to about their direct reports' potential; 83% of managers report it would be somewhat or very valuable to better understand their direct reports' potential. And managers also don't know about everyone's potential equally, creating the possibility of bias in potential ratings; only 45% of managers believe they know an equal amount about all their direct reports – most believe they know slightly more (40%) or a lot more (15%) about some than others. This indicates that the manager's perspective must be supplemented with other sources.

According to the HR leaders that we interviewed, peers' opinions of an employee's potential are rarely included – only two of the 44 organizations we worked with included peers in a 360-degree assessment of employee potential. But according to employees, peers are a valuable data source. Employees feel their peers are as aware of their potential as their managers are, and that both are statistically significantly more aware than their organization in general: 73% of employees believe their peers and their managers are "somewhat" or "very" aware of their potential, compared to 66% for their organizations.

Additionally, **employees themselves** were even less likely to be included, with only one organization reporting that employees are involved in assessing their own potential. Unsurprisingly, employees want to be more involved in this assessment. Of employees who have had their potential assessed, 56% would like to be more involved in the future. Of all employees, 77% believe that they should be "somewhat" or "very" involved in their company's assessment of their potential.

In response to these challenges, we recommend the following strategies:

- Develop **clear and expanded definitions** of employee potential (like that in Part 1) to help anchor all methods of potential assessment, such as providing a conversation starter for discussion-based methods or a set of criteria for tool-based methods. Socialize and gather feedback on these definitions to improve perceptions of fairness in potential practices.
- Consider assessment strategies that follow **multi-trait, multi-method principles**. By assessing employees' potential using multiple indicators and collecting multiple perspectives on these indicators – ideally including peers and employees themselves – organizations can mitigate bias and allow for a more holistic and accurate understanding of employees' potential. Using validated assessment tools to measure these indicators will increase measurement accuracy, reduce subjectivity in the assessment process, and help clarify ambiguity in interpreting assessment results.
- Include a **calibration or talent review session** in the potential assessment process to gain consensus across multi-source ratings, ensure consistency across assessments, and provide session participants with broader visibility into potential across their teams, departments, or functions.

- Incorporate potential evaluations and potential-related discussions into **continuous performance management processes** to improve the quality and quantity of data related to employees' potential. Train managers to have transparent and productive discussions with their direct reports about their potential (including their own interests and aspirations) to improve the validity of potential assessments and direct reports' sense of inclusion and purpose.

How inclusive are organizations' current practices for assessing employee potential?

1 Organizations most often include only leaders – which includes managers, directors, or senior leaders (for executive roles) – when assessing potential.

2 Only 10 of 44 organizations from our HR leader interviews (23%) assess all employees. In agreement with this finding, only 23% of our employee survey participants felt their organizations' employee potential practices were very inclusive.

3 Only four of 44 organizations from our HR leader interviews (9%) assess employees who are specifically selected through other means, such as during onboarding or by manager nomination (often considered "emerging" or "hidden" potential).

Using employee potential more effectively

In general, our research suggested that HR leaders currently use potential data to make informed decisions, including matching the right employees to the right roles at the right time (such as succession planning, career pathing, or internal mobility), identifying how to develop employees to reach their potential (such as development planning or performance management), ensuring the satisfaction and retention of employees with high potential, and evaluating and improving the effectiveness of employee potential practices.

However, achieving these outcomes is not without its challenges. HR leaders struggle to use employee potential data consistently and across different practices in which it would be beneficial for decision-making. And HR leaders struggle to enable managers and employees to use employee potential information for decision-making, too: managers struggle most to use direct reports' potential as the basis for making compensation decisions, making promotion decisions, and informing their direct reports' career paths, and employees struggle most to make decisions about their own skill development and career decisions based on their potential.

In response to these challenges, we recommend the following strategies:
- Prioritize the **most valuable employee potential data use cases** to HR leaders, managers, and employees.
  - » Results from our research indicate that HR leaders, people managers, and employees themselves feel it is most important to use employee potential for development planning (including skills initiatives and identifying mentors) and career pathing.
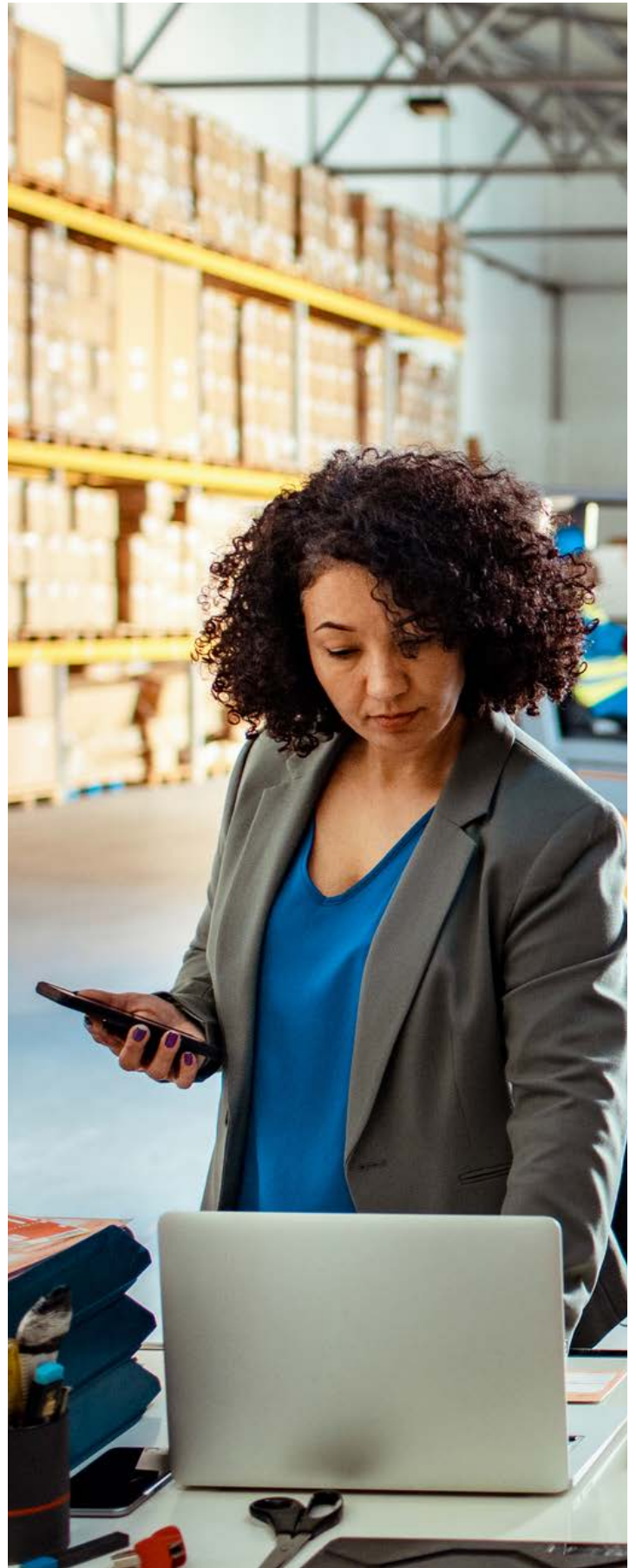
» While HR leaders tend to avoid using employee potential data for compensation decisions because of concerns about managers intentionally inflating ratings, employees and managers think this is an important (though admittedly challenging) use case for such information. Additionally, aligning compensation structures with a broader strategy for employee potential ensures that employees with potential are rewarded and retained. HR leaders can avoid the impact of intentional inflation by combining ratings with results from validated assessments of potential-related attributes.

• Provide better access to employee potential information and **clear and transparent guidance** for how to use such employee potential information to make decisions at the individual employee level and for the entire workforce.

• Most crucially, **expanding our view of potential** has the greatest benefit to how we use employee potential data. This is because as employee potential definitions expand, employee potential information becomes richer and more multi-faceted, allowing for more and better evidence-based decisions to be made. For example, development and career plans based on expanded potential data can more effectively target areas where employees have the potential for success, making better use of development resources and employees' time. Expanded employee potential data allows organizations to better understand the current and future states of internal talent pools, improving workforce planning, succession planning, and broad talent management strategies. And managers can align their work assignments, feedback, and goal-setting activities with employees' unique areas of potential success, improving productivity at the employee and team levels.

Our research suggests that the effective use of employee potential data can also lead to positive employee outcomes. Employees believe that if they knew their organization effectively used information about their potential to make decisions, it would positively impact their:

78%[3]
Job performance

76%
Employee experience

74%
Willingness to stay at the company

74%
Job satisfaction

[3]Percent of the sample that responded "somewhat agree" or "very much agree" to the item, "If I knew my company effectively used information about my potential to make decisions, it would positively impact my (job performance, overall experience as an employee, willingness to stay at the company, satisfaction with my job)."

Enabling employee potential practices with technology

In addition to the strategic and practical recommendations made throughout the previous sections, the results of this research suggested numerous ways that technology can play a role in the employee potential practices of the future.

1 **Scaling up potential practices**. Most HR leaders want to take a more inclusive approach to employee potential but lack the ability to scale their current practices. Technology can allow for the collection, storage, analysis, and reporting of large amounts of complex and multi-source employee potential data to get a holistic picture of the potential of individuals and the workforce more broadly.

2 **Improving the quality of employee potential data**. While HR leaders in our research wanted intelligent technology to automatically assess employee potential, employees and managers are somewhat more comfortable with – and would find more value in – intelligent technologies to help improve the quality of existing employee potential data. Intelligent technologies can improve data quality by flagging inconsistencies between assessments and detecting bias in ratings.

3 **Making data more widely available and comprehensible**. HR leaders and managers want to have better visibility into employee potential. Improving integration and data flow between HR systems, work technologies, and external data sources and increasing access to employee potential data (such as role-based permissions, accessibility via mobile, language localization, or search capabilities) will improve cross-functional awareness of employees' potential and allow all decision-makers to use data about employees' potential, skills, and interests. Generative artificial intelligence technologies can further improve this visibility by creating automatic individual-, team-, function-, or organizational-level reports using employee potential data.

4 **Offering intelligent, data-driven, and unbiased recommendations**. HR leaders struggle to use employee potential data for decision-making across HR and people practices and enable managers and employees to do the same. Intelligent technology can surface action recommendations based on employee potential data, such as organization-level workforce planning and individual-level career pathing, project assignments, promotion decisions, and development planning. Intelligent technology can also notify leaders when decisions that are incongruent with employee potential data (and thus possibly biased) are made.

Conclusion

The most pressing issues that organizations face today could be addressed, at least in part, by having a strong understanding of the potential of each employee. However, the employee potential practices of the past are not inclusive, rigorous, or effective enough to fully realize each employee's potential. Organizations must expand how they conceptualize employee potential, improve their assessment of it, and use this information more effectively. Those organizations that can understand and ignite the potential of their workforce will not only realize their business objectives, but also create a positive experience for all employees.

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