

Beyond Performance: When Potential Matters to Employee Career Outcomes

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Abstract

Using proprietary data from a multinational organization pertaining to almost 15,000 unique managerial employees, I provide an in-depth analysis of an evaluation system where managers provide a backward-looking assessment of employee performance *and* a forward-looking assessment of *potential* (i.e. promotion prospects). I find that divergences between performance and potential are not uncommon and that such divergences vary systematically with several employee-level variables. I also find that changes to assessed potential are just as common as performance changes, and while such changes are statistically associated with several factors, the explanatory power is low. While performance tends to play a larger role than potential in employees' voluntary departure decisions, potential appears to be particularly relevant to the decisions of more poorly performing employees, where I observe a negative linear relation between potential and the likelihood of departure. Finally, I find that downward revisions in potential are associated with a greater likelihood of voluntary departure while upwards revisions are associated with a lower likelihood of departure, though changes in performance appear to have no such effect. Collectively, my findings provide novel evidence on how a formal system differentiating employee performance from potential plays out in an organizational context.

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1. INTRODUCTION

Many firms rely on internal promotions of existing employees to fill higher-level positions rather than hiring externally. Historically, theoretical and empirical research in accounting and economics has focused on the use of *performance measures* (reflecting employee effort and/or ability) in promotion decisions (e.g. Campbell [2008]; Cichello et al. [2009]; Gibbs [1995]). Promoting employees on the basis of performance provides incentives for employees to exert effort in their current role, and is a mechanism often used by organizations seeking to sort employees to more senior positions that best suit their skills and abilities (Campbell [2008]; Gibbs [1995]).

Notwithstanding the value of using performance measures in promotion decisions, performance is typically an incomplete metric for identifying employees who should advance the hierarchy. This is because divergences often arise between an employee's current job performance and his or her suitability for higher-level positions (Bol and Leiby [2018]; Grabner and Moers [2013]; Peter and Hull [1969]). Recognizing this limitation, organizations are increasingly requiring managers to distinguish between current performance and future-oriented *potential* (i.e. promotion prospects) when evaluating employees. Such assessments are intended to facilitate managers' personnel decisions at the employee level (i.e. in making promotion and termination decisions), and at more aggregate levels of analysis, human resource management and succession planning more broadly (De Pater et al. [2009]).

Despite the use of potential assessments in practice, our knowledge of how these assessments play out in an organizational context is limited. A primary reason being that several characteristics of potential assessments pose important challenges for empirical work in this area. For instance, potential assessments are often not standardized across an organization or captured

in a sufficiently systematized manner to enable an empirical study. In other instances, these assessments are not disclosed to employees, or are disclosed only in certain circumstances (for instance, some companies inform only “high potential” employees of their status), resulting in ambiguity as to employees’ knowledge of their potential (making it difficult to draw inferences as to how potential assessments influence employees’ actions).¹

In this study, I overcome many of the challenges faced by empiricists wishing to study potential assessments by using extensive archival data from an organization’s “performance and potential system”. For the purposes of this study, I define “*performance and potential systems*” as the formal routines and procedures that managers use to: (1) explicitly evaluate and rate employees on past performance and future potential on a periodic basis; (2) communicate these ratings to employees; and (3) determine compensation and promotion decisions. Specifically, I use proprietary, longitudinal data from a multinational organization pertaining to more than 15,000 unique managerial employees, spanning the period 2008 through 2015. The organization introduced a performance and potential system in 2008 for all of its managerial employees, replacing a less sophisticated system of potential assessments (and moving to a forced distribution system for performance assessments).

Using this data, I address several related questions. First, how important are potential ratings (in combination with performance ratings) to employee career outcomes determined by the organization, specifically promotions and terminations? Assuming that performance and potential ratings both play an economically meaningful role in such decisions, the second question I address is, what is the extent of divergences between performance and potential, and

¹ Of the organizations surveyed in the CEB 2016 HIPO Survey, 21% always communicate high potential status to employees identified as such, 47% sometimes communicate high potential status, and 32% never communicate high potential status. Furthermore, less than half of the surveyed organizations said they had a formal “high potential” definition with consensus across the organization. (Corporate Leadership Council [2016]).

what observable employee-level variables are systematically related to the occurrence of these divergences? Third, how common are revisions to potential ratings and what employee-level variables are associated with such revisions (and how does this compare to performance ratings)? Finally, how are potential ratings, in combination with performance ratings, associated with employees' voluntary departure decisions?

My first set of results highlights the importance of both potential and performance ratings to promotion and termination decisions, with the likelihood of promotion increasing in performance and potential, and the likelihood of termination decreasing. Employees receiving the highest performance rating (*Top*) combined with the highest potential rating (*Vertical Potential – 2 levels*) had a 34% probability of being promoted in the subsequent year, while employees receiving the highest performance rating combined with the second highest potential rating (*Vertical Potential – 1 level*), or the second highest performance rating (*Strong*) combined with the highest potential rating had a probability of approximately 16-18% of being promoted in the subsequent year. Employees receiving the lowest possible performance rating (which was automatically combined with the lowest potential rating) had a 38% probability of being terminated in the next year, consistent with the organization's policy of these employees exiting the organization. Employees receiving the second lowest performance rating (*Moderate*) combined with the lowest potential rating (*Well Placed*) had a 9% probability of being terminated, while employees receiving the second lowest performance rating with the second lowest potential rating (*Horizontal Potential*) had just a 3% probability of being terminated.

I find that divergences between performance and potential assessments are not uncommon, though the prevalence of divergences dissipated over time at the organization I study. I distinguish between two types of divergences, performance-positive divergences – where

performance is considerably more favorable than potential – and potential-positive divergences – where potential is considerably more favorable than performance – and find that these types of divergences vary systematically with several employee-level variables. Focusing just on employees within the top two performance ratings, I predict and find that performance-positive divergences are more likely the longer an employee’s tenure, though inconsistent with my expectations I fail to find compelling evidence of a relation between tenure at the current management level and the likelihood of this divergence, and I find that such divergences are more common for lower-level managers. This latter result may be suggestive of organizations become increasingly selective in who is employed at higher management levels, whereby those managers are more likely to have the skills and abilities necessary to move up the organizational hierarchy. Conversely, at lower management levels the organization may permit a more diverse employee base. Contacts at my research site suggested another possibility, whereby potential assessments may be more likely to be “inflated” for more senior managers due to a fear that such employees may leave if they receive a low assessment.

Focusing just on poorer performing employees (but not those receiving the lowest possible performance rating), I predict and find that recently promoted and newly hired employees are more likely to experience a potential-positive divergence, reflecting the fact that assessors may still recognize the inherent abilities of such employees despite their lower performance in a new role. Consistent with expectations I find that potential-positive divergences are less likely the longer an employee has been with the company, and more likely for employees who recently changed business unit, function, or country of employment (which could negatively impact their performance but not necessarily their potential). Surprisingly, I find that a potential-positive

divergence is *more likely* to occur for an employee who experienced such a divergence in the prior year, indicating that such ratings are not purely transitory for a single period.

Interestingly, I find that potential assessment revisions (upwards or downwards) occur just as often as changes in performance assessments. Downward revisions in potential are more likely following a recent promotion and are less likely as tenure (at the company or at the current management level) increases and as the number of times the employee has been evaluated under the system increases. This suggests that over time an employee's potential becomes stickier. A change in supervisor increases the likelihood of either a downward or upward revision in potential suggesting that different managers may apply different schemas when evaluating potential (despite the use of calibration committees within the organization). Turning to performance changes, a recent promotion, a greater number of times being evaluated under the system and a change in manager are all associated with a greater likelihood of a performance drop, and a lower likelihood of a performance increase. Longer tenure is associated with a lower probability of either a performance drop or a performance increase suggesting that performance reaches an equilibrium level the longer an employee's tenure. A change in one's country of employment is associated with an increased likelihood of a performance drop and a reduced likelihood of a performance increase suggesting that maintaining one's performance level may be particularly difficult in a completely new environment. While these various factors were statistically significantly related to potential and performance changes, the explanatory power of these variables was relatively low, suggesting that it is inherently difficult to predict which employees are likely to experience a change in their assessments.

Lastly, I examine how voluntary departure decisions of employees are related to their performance and potential ratings. I find that the likelihood of departure is generally decreasing

in performance, and that potential appears to be especially important for *Moderate* performers, whereby those with higher potential are less likely to leave than those with lower potential. This finding suggests that potential ratings may be particularly informative to poorly performing employees as they assess their match quality and future prospects with an organization. In analyses focusing on the years subsequent to the introduction of the system and just those employees who were assessed in the first year and chose to stay until the second year or later, I find that revisions to potential play a role in voluntary departure decisions, whereby those employees experiencing a downward revision in potential exhibit a greater likelihood of leaving while those experiencing an upward revision are less likely to leave. I find no such effects of changes in performance ratings.

This study contributes to the literature in several ways. First, I extend the literature in accounting and economics on performance evaluation systems. With one notable exception, an experimental study documenting that managers distinguish between current job performance and promotion prospects (potential) when performing overall assessments (Bol and Leiby [2018]), the literature has been almost silent on evaluations of employee potential. My study uses archival field data from an organization that has formalized such evaluations, enabling a detailed examination of the attributes of potential assessments, and providing empirical evidence on how these assessments are related to employee career outcomes.

Second, I contribute to the literature on employees' voluntary separation decisions. While not a study of performance and potential systems per se, a related study (Bjorkman et al. [2013]) uses survey data (employees in nine organizations were surveyed) to examine the relation between being identified as "talent" and employees' voluntary departure intentions. The study finds that employees identified as "talent" have lower departure intentions than employees not

identified as “talent” (but their departure intentions are no different to employees who don’t know whether they have been identified as “talent”). My study differs from this prior study in several important ways. First, I use comprehensive archival data from a single organization, enabling me to hold firm-level characteristics constant, to control for various employee-level variables, and to study actual voluntary departures rather than departure intentions. Second, I study a continuum of potential ratings rather than a simple “talent” or not dichotomy. Third, all employees in my setting know their potential rating in my sample period.

Finally, this study has practical implications for organizations and their managers as they consider whether and how to measure and communicate potential. The performance and potential system studied in this paper is a variant of what is commonly referred to as a “9-box grid” among practitioners. Despite the popularity of 9-box grid systems, empirical evidence on the effects of such systems is lacking. My study highlights several outcomes of the system following what appears to be a successful implementation by a large, global organization. Hence, this study should be of interest not only to organizations considering adopting such a system, but also to organizations that have already adopted such a system and who may find it timely to assess the impact of the system in their organization.

The remainder of the paper proceeds as follows. Section 2 provides background on potential assessments. Section 3 describes my research setting and data. Section 4 presents my empirical tests and results. Section 5 concludes.

2. BACKGROUND ON POTENTIAL ASSESSMENTS

In addition to effort, employee productivity depends on the quality of the match between the employee and the organization as a whole, and the employee’s skills and abilities and those required by their specific job (e.g. Grabner and Moers [2013]; Gibbs [1995]; Jovanovic [1979]).

The importance of match quality is reflected in the *sorting role* of promotions, whereby individuals are promoted on the basis of the match between their skills/abilities and those required at higher levels (Grabner and Moers [2013]; Gibbs [1995]). Much of the empirical research on promotion decisions finds that the likelihood of promotion is increasing in current job performance (e.g. Campbell [2008]; Cichello et al. [2009]; Gibbs [1995]). Promoting employees on the basis of performance provides incentives to employees (since promotions are typically accompanied by increases in pay, prestige, etc.) and, unless the skills and abilities needed in the next job are orthogonal to those needed in the current job, enables the firm to sort employees to some degree.

To the extent that divergences exist between an employee's current job performance and his or her suitability for the next job in the organizational hierarchy, performance represents an incomplete metric for identifying the best promotion candidates (assuming the organization wishes to optimize match quality, rather than using promotions primarily for incentive purposes).² Consequently, organizations are increasingly evaluating not only employees' performance, but also their potential (i.e. promotion prospects). Assessments of potential enable an organization to capture factors (including, but not limited to, specific skills and abilities) relevant to an employees' "promotability", but which are not necessarily reflected (or fully reflected) in performance. For instance, these assessments could take into account an employee's leadership competencies (since such competencies are likely to become increasingly important as an employee ascends the corporate hierarchy) and/or the extent to which the employee exemplifies organizational values.

² Chan (2016) provides the following as examples (current job / next job) of where the best performer in the current job is unlikely to be the best candidate for the next job due to the differences in the skills needed: salesperson / sales manager, engineer / project manager, and teacher / school administrator.

Drawing on the findings of their *High-Potential Management Survey*, the Corporate Leadership Council [2005b] defined a high potential (which is typically used interchangeably with promotable) employee as, “someone with the ability, engagement, and aspiration to rise to and succeed in more senior, more critical positions.” Two elements of this definition are particularly noteworthy. First, the attributes of a high potential employee as described in this definition are inherently difficult to observe and quantify. Second, potential relates to actions in the future. Assessing an employee’s potential for future promotion is, by nature, a subjective process whereby managers seek to forecast an employee’s expected match quality with higher-level positions based on observations of their skills, abilities and behaviors in their current job.

Potential assessments are consistent with the ‘*Informativeness Principle*’ (Holmstrom [1979]) applied to the context of promotions, whereby the optimality of managers’ promotion decisions (as well as decisions related to employee development) could be enhanced through the availability of multiple imperfect metrics (i.e. performance and potential), where each conveys relevant information as to an employees’ suitability for promotion.

The basic premise of evaluation systems capturing performance and potential is that employees selected for promotion will be those assessed as having both high performance and high potential (whereas employees with low performance and low potential are likely to be good candidates for termination). Furthermore, aggregating employee assessments in a performance-potential matrix can provide the organization with an overall snapshot of the status of the organization’s labor force, which can inform succession planning and human resource management practices (e.g. Beer [2009]; De Pater et al. [2009]; Corporate Leadership Council [2005a]).

3. RESEARCH SETTING AND DATA

The research site for this study is a large, multinational company (“MULTI”). MULTI employs approximately 50,000 individuals across 80 countries and is a major player in the markets in which it competes. The company is organized into six primary business units and several functional areas reside within each unit. This study focuses on the organization’s managerial employees, numbering approximately 10,000 in 2008 (when my sample period begins) and a little over 11,000 by 2015. The organizational hierarchy comprises six management levels, and for the purposes of this study, I refer to the most senior management level as management level 0, and the most junior level as management level 5.

Following a recent change in leadership and with the global financial crisis posing a number of challenges, in 2008 MULTI began a concentrated effort to transform the organization and create a more performance-driven culture. Widespread organizational efforts to increase the company’s competitiveness included a significant acquisition, aggressively directing resources to the most promising brands and markets, adopting a new company vision statement and accompanying company values, and implementing a performance and potential system for managerial employees.

3.1 Performance Evaluation at MULTI

From the 2008 performance year onwards, the annual performance evaluation process at MULTI culminated in each managerial employee receiving two ratings from their manager: one summarizing the employee’s performance over the past year (*PERFORMANCE*), and the other reflecting the employee’s potential to advance within the organization in the future (*POTENTIAL*). There were four possible performance ratings an employee could receive – *Clearly Below*, *Moderate*, *Strong*, or *Top* – and four possible potential ratings – *Well Placed*,

Horizontal Potential, Vertical Potential (1 level), or Vertical Potential (2 levels) (see Appendix A for the definitions of the potential ratings).³ Appendix B shows the organization's performance-potential grid (note that for simplicity I will often refer to the combined performance-potential rating using the number and letter scheme from the grid, e.g. *T1* for a *Top* performer with *Vertical Potential – 2 levels* as the potential rating). A senior executive at the company explained the rationale for the performance and potential system as follows:

“In 2008 we felt we should change... [the existing system]. We need a higher level of transparency regarding performance and also potential; especially the potential part was even more secret than the performance part... We had in parallel [in the existing system] a performance assessment which was shared with the employee [and] what we saw... was that it did not always correlate to the assessment that was done in secret... Therefore, we said, that needs to be aligned; we don't need two systems. We assess performance and share it, and also assess potential and share it.”

Overall ratings under the new system were based on three performance criteria (*Quality and Quantity of Performance, Customer Orientation, and Teamwork/Cooperation*) and five potential competencies (*Initiative and Determination to Achieve, Decisiveness and Risk Taking, Driving Change and Innovation, Perspective and Judgment, and Convincing and Influencing*).⁴ Criteria and competencies from the previous evaluation system were the main inputs for the criteria and competencies chosen for the new system. Managers were expected to rate employees on each of the individual criterion/competencies (which followed the same rating scale as the overall ratings), and then subjectively aggregate these individual ratings to arrive at the overall ratings.

³ As can be seen in Appendix A, some modifications were made to the potential ratings over time. For instance, some of the rating names were changed (e.g. from *Right Level* to *Well Placed*) and timing guidelines (e.g. promotable to the next level within two-five years for *Vertical Potential (1 level)*, and promotable to two management levels above the current level within 10 years for *Vertical Potential (2 levels)*) were removed. Furthermore, a requirement for the employee to be “geographically mobile” was added for employees rated *Vertical Potential (2 levels)*, as was a requirement for managers at higher hierarchical levels to have completed an assignment abroad for at least one year to receive this rating. I do not account for these changes explicitly in my empirical analyses (I do include year fixed effects) as these changes appear to have had little bearing on the potential ratings given to employees (for instance, I do not observe a sharp increase in the percentage of employees rated as high potential (i.e. those employees rated *Vertical Potential (2 levels)* or *Vertical Potential (1 level)*) when the timing guidelines were removed).

⁴ Managerial employees with formal personnel management responsibilities had an additional performance criterion – *Leadership* – and additional potential competency – *Coaching and Developing People* (and in the years prior to and including 2012, they had a fifth performance criterion – *People*).

To ensure managers sufficiently differentiated amongst employees, the company applied a forced distribution to the overall performance ratings, requiring 5% of employees to be rated as *Clearly Below*, 25% to be rated as *Moderate*, 60% to be rated as *Strong*, and 10% to be rated as *Top*.⁵ Employees rated *Clearly Below* for performance were automatically rated *Well Placed* for potential. There was no specified distribution for the potential ratings.

Towards the end of the performance year (which ended on December 31), managers would conduct a preliminary assessment of each of their direct reports. The company then held numerous calibration committee meetings⁶ over a two to three month period, whereby several managers would meet to discuss the proposed ratings for their direct reports and make modifications as needed. In a typical calibration committee meeting, each employee's manager summarized the employee's performance for the year and explained the overall performance and potential ratings given. Other managers in attendance would then weigh in, sharing their own experiences with the employee and/or asking questions to the employee's manager, in order to come to a consensus on the ratings. Following the calibration committee meetings, and once all ratings were finalized, managers held individual meetings with each of their direct reports to provide ratings, give feedback, and discuss development actions for the coming year.

3.2 Compensation at MULTI

Compensation for managerial employees at MULTI typically comprised a fixed salary and a performance-based bonus.⁷ For the performance-based bonus, the majority of managerial

⁵ The company allowed some flexibility regarding the final ratings distribution, particularly when the system was first implemented. Furthermore, in later years, the company relaxed the 5% requirement for *Clearly Below* ratings, allowing the combined total percentage of *Clearly Below* and *Moderate* to be 30%.

⁶ See Demeré et al. [2015] for a study on calibration committees. These authors find evidence that calibration committees reduce inter-rater differences in initial ratings and mitigate leniency biases, though they also tend to exacerbate centrality biases. Centrality biases are not a major concern in this study (at least not for performance ratings) given the organization's use of a forced distribution for performance ratings.

⁷ The median annual salary during my sample period was approximately \$86,000 (USD), while the median annual performance-based bonus (from the STI) was approximately \$14,000 (USD).

employees participated in the company's "short-term incentive plan" ("STI").⁸ Managerial employees at higher hierarchical levels also participated in a long-term incentive plan.

While the specifics of the STI plan did vary to some degree over time, the performance-based bonus determined under the STI was always a function of: (1) company performance, (2) team performance, and (3) individual performance. The bonus payout also depended on the employee's target bonus (which was typically a set % of the employee's salary; the % varied by management level). From the 2011 year onwards, the employee's *performance* rating from the performance and potential system was an input into the employee's individual performance score for the STI, and hence affected an employee's annual bonus.⁹ Potential ratings were never linked to the STI in any way.

3.3 Data

The data for this study are retrieved from MULTI's personnel and performance management systems. Personnel data was extracted as of December 31 for each of the years 2008 through 2015 (inclusive), and comprised a listing of all managerial employees present in the company as of year-end (including employees who exited on the year-end date). The year-end listing included demographic, employment and compensation data for each employee.¹⁰ A listing of employee exits was extracted for each of the years 2009 through 2015 (inclusive), and performance and potential ratings were extracted from the performance management system for the years 2008 through 2014.

⁸ Some managerial employees however, typically those working in sales functions, did not participate in the STI and instead received performance-based bonuses under a separate, localized, sales-based incentive plan (these employees still received performance and potential ratings under the performance and potential system).

⁹ For the 2011-2013 years (inclusive), 50% of the individual performance score was determined by an employee's performance rating (the remaining 50% depended on performance with respect to two individual key performance indicators); for the 2014 year, the entire individual performance score was determined by the performance rating.

¹⁰ Only a subset of this data was made available to me for the employees (approximately 30) at the most senior management level in the company, management level 0 (the company wished to exclude these employees from the study). However, the available data does enable me to trace promotions to the most senior management level during my sample period.

In total, my sample comprises 68,678 employee-year observations, representing 16,732 unique managerial employees.¹¹ To be included in my sample, these observations met the following criteria: (1) the employee was present in the company as of December 31 of the relevant year (or exited on December 31); (2) the employee was at management level 1, 2, 3, 4 or 5¹²; and (3) one observation per year for each employee. Of these observations, 63,959 (93%) included a valid year-end performance and potential rating for the employee.¹³

Table 1 provides descriptive statistics for the full sample of 2008-2014 employee-year observations (59,906 observations) with valid performance and potential ratings, and with complete data for the variables reported (plus variables capturing fixed effects).¹⁴ Employees in my sample are predominantly male (71%) and are approximately 43 years old on average. The average employee has been working for the company for around 13 years in total and has been at their current management level for around six years. Nearly all of the employees work full-time (95%) and a small percentage of employees are on an international assignment (5%). The most common performance-potential rating received by an employee is *Strong* for performance and *Horizontal Potential* for potential (28% of observations).

Table 2 is a correlation matrix of the independent variables used in my analyses.¹⁵ The correlations between the reported variables are generally small to moderate, with the largest between age and company tenure (0.70), between age and management level tenure (0.51), and

¹¹ This number excludes the 2015 observations (the 2015 data did not include performance and potential ratings as the data was received in January 2016, before the 2015 ratings were finalized), though these observations were used to trace promotions and exits which occurred in 2015.

¹² 775 observations relate to employees at a management level that does not appear in the current management hierarchy. This management level was utilized by a small number of countries prior to 2013 (though the vast majority of observations occur in 2008 and 2009). Where possible, I mapped these observations to one of the existing management levels, as this seemed preferable to dropping these observations.

¹³ In general, the remaining observations were for employees who had only recently joined the company, who had started in a new position, or who were on extended leave during or at the end of the year, and hence were not assessed under the performance and potential system in that year.

¹⁴ For an observation to be included in my analyses, I required at least 10 employees to be working in the employee's country of employment in the current year, and at least 10 employees to be working in the employee's functional area.

¹⁵ For simplicity I construct ordinal performance and potential ratings for the purposes of the correlation matrix rather than including indicator variables for all of the possible performance-potential rating combinations.

between company tenure and management level tenure (0.57).¹⁶ The correlations suggest that males, older employees, and employees with longer tenure (with the company and at their current level) receive lower performance assessments, as well as lower potential assessments (though the correlations with performance are relatively small), while full-time employees and expats (i.e. those on an international assignment) have higher performance and potential assessments. Males are older, have longer tenure, and are more likely to work full-time.

4. EMPIRICAL TESTS AND RESULTS

In this section, I address four questions: 1) How important are potential ratings (in combination with performance ratings) to employee career outcomes determined by the organization, specifically promotions and terminations? 2) What is the extent of divergences between performance and potential, and what observable employee-level variables are systematically related to the occurrence of these divergences? 3) How common are revisions to potential ratings and what employee-level variables are associated with such revisions (and how does this compare to performance ratings)? 4) How are potential ratings, in combination with performance ratings, associated with employees' voluntary departure decisions?

4.1 How Important are Potential Ratings (and Performance Ratings) to Employee Career Outcomes?

In this section, I examine the use of performance and potential ratings in promotion and termination decisions and shed light on their economic significance in terms of promotion and termination probabilities. Prior research supports a positive relation between performance and the likelihood of promotion (e.g. Cichello et al. [2009]), and the premise of potential assessments is that the likelihood of a promotion is increasing in potential. I examine how the combination of performance and potential is related to the likelihood of promotion since these ratings go hand in

¹⁶ Reported VIFs for all of my empirical analyses were <10, suggesting that multicollinearity is not a problem.

hand and within the organization internally it is the combination of ratings that features most heavily, e.g. the rating at the end of the year would be communicated as *S3* for an employee assessed as *Strong* for performance and receiving a *Horizontal Potential* assessment for potential. While I expect employees in the top right quadrant of the performance-potential grid to be more likely to be promoted (e.g. *T1*, *T2*, *S1* and *S2*) than any other performance-potential combinations, I make no prediction for how performance and potential are traded off in the absence of promoting a high-potential, high-performance employee.

In a logit model, I regress whether an employee is promoted in the subsequent year on the combined current year performance and potential rating (using indicator variables to capture the set of possible ratings¹⁷). I set the promotion indicator variable (*Promotion*) equal to one if the employee was promoted during the next year, and equal to zero if the employee was not promoted during the year.¹⁸ Prior research on promotion decisions includes as controls various employee characteristics and employment conditions that may differentially affect the likelihood of promotion (Grabner and Moers [2013]; Gibbs [1995]). Thus, I control for the employee's age, gender, tenure with the company, tenure in current management level, full-time status, and expat status. I also include fixed effects for management level, business unit, function, country of employment, and year. I cluster standard errors at the employee level.¹⁹

Table 3, Column 1 shows that both performance ratings and potential ratings are meaningfully related to the probability of promotion in the subsequent year. For a given potential assessment, the higher the performance rating the greater the likelihood of a promotion, with the exception of *Well Placed* employees receiving *Top* or *Strong* for performance where the

¹⁷ With the exception of the *Clearly Below* performance category since no employees with this rating were promoted in the subsequent year.

¹⁸ This variable takes a value only if the employee was present in the organization as of the relevant year-end (including employees who exited on December 31).

¹⁹ Results are robust to clustering by manager and robust to using a linear probability model.

likelihood of promotion is not statistically significantly different. Similarly, for the same performance rating, the higher the potential rating the greater the likelihood of promotion with the exception of *Moderate* employees receiving a *Vertical – 2 levels* or *Vertical – 1 level* rating for potential where the likelihood of promotion is not statistically significantly different. In terms of economic magnitudes, holding all other variables at their mean values a *Top* performer with the lowest potential rating has a probability of 0.80% of being promoted in the subsequent year, while a *Top* performer with the highest potential rating has a probability of 33.96% of being promoted. Holding all other variables at their mean values, an employee with the highest potential rating and *Moderate* for performance has just a 3.44% probability of being promoted.

Next, I examine the relation between terminations and performance and potential ratings. I expect the probability of termination to be particularly high for employees rated *Clearly Below* for performance, relative to the other performance categories, given the organization used a forced distribution for performance ratings and generally terminated employees in this category. Table 3, Column 2 contains the results from a logistic regression of the probability of termination in the next year as a function of the combined current year performance and potential rating (using indicator variables to capture the set of possible ratings). I set the termination indicator variable (*Termination*) equal to zero if the employee did not exit during the year or if the employee exited voluntarily.²⁰ I set the variable equal to one if the termination reason in my dataset is “employer reason” or “mutual agreement”, where the latter indicates that the employee and employer together decided to end their relationship.²¹ I include the same control variables and fixed effects as in Column 1. Again, I cluster standard errors at the employee level.²²

²⁰ I classify the following termination reasons as voluntary: “development”; “employee’s reason”; “external job offer”; “financial”; “job design”; “manager”; and “personal reason”.

²¹ I exclude from my regressions observations where the employee retired in the subsequent year (“retirement” or “early retirement”). I also exclude observations where the employee exited in the subsequent year if based on the termination reason I

Consistent with expectations, I find that performance ratings and potential ratings both play an important role in the likelihood of termination. Of particular note is that the coefficient on *BEL_WELL* implies that holding all other variables at their mean values, the probability of termination for an employee with this rating is 38.32%. The next most likely category to be terminated in *MOD_WELL* with an implied probability of 8.69%. For a *Moderate* performer with the second highest potential rating, the likelihood of termination is reduced to 2.04%. Within *Top* performers only employees receiving the lowest possible potential rating are more likely to be terminated (probability of 1.66%) relative to the other potential rating categories (with the highest likelihood for these categories being 0.72%). Furthermore, within each performance rating, the likelihood of being terminated is the same for a *Vertical – Two levels* or a *Vertical – 1 level* potential rating.

With respect to the control variables, employees who have been at the company for a longer period of time are less likely to be promoted but are also less likely to be terminated. Tenure at the current management level is positively associated with both the likelihood of promotion and the likelihood of termination. Expat employees (i.e. those on an international assignment) are more likely to be promoted, all else equal (this is not surprising given more promising employees were often encouraged to complete an assignment abroad).

Overall, the results provide compelling evidence that the ratings from the organization's performance and potential system are important determinants of employees' career outcomes, consistent with the premise of these systems (high-performance, high-potential employees are the most likely to be promoted, whereas low performance, low-potential employees are the most likely to leave involuntarily).

was unable to classify the termination reason as “voluntary” or “involuntary” (the termination reasons I did not classify are: “death”; “disinvestment”; “dormant work contract”; “end of probation period”; “leaving”; and “other exit reason”).

²² Results are robust to clustering by manager and robust to using a linear probability model.

4.2 What is the Extent of Divergences between Performance and Potential, and What Are the Circumstances in Which These Divergences are More Likely?

In this section, I provide descriptive evidence on the extent of divergences between performance and potential assessments, and then examine how various employee characteristics are related to the likelihood of a divergence between performance and potential. In their experimental study of performance- and promotion-based assessments, Bol and Leiby [2018] theorize and provide evidence consistent with managers applying different “schemas” when evaluating performance vis-à-vis when evaluating the promotability of an employee. Specifically, they examine how employees’ consultative decision-making affects managers’ assessments. They find that, for promotion eligible employees specifically, more (as opposed to less) consultative decision-making decreases assessments of promotion prospects, while making no difference to, or positively impacting, assessed performance.²³

My study differs from Bol and Leiby’s [2018] study in that in my setting a formal management control system is in place which explicitly requires managers to consider specific performance criteria and specific potential competencies when arriving at the overall assessments. Thus, while I cannot observe employee behaviors that may differentially affect performance and potential ratings, I can provide descriptive evidence on the distribution of the performance-potential ratings within the organization I study. While generalizability is naturally a concern due to using data from a single firm, it is nonetheless informative to understand the distribution of these ratings for a large sample of diverse managerial employees, working across hierarchical levels, business units, functions, and geographies.

Figure 1.1 shows the distribution of performance and potential ratings for managerial employees in the first year of the system (2008), while Figure 1.2 shows the distribution for the

²³ When employees are not eligible for promotion, more consultative decision-making positively impacts both performance and promotion prospects.

last year for which I have these ratings (2014). I refer to the combination of a *Moderate* performance rating with *Vertical Potential – 2 levels* or *Vertical Potential – 1 level* as a “potential-positive” divergence, and the combination of *Strong* performance with *Well Placed* for potential, and *Top* performance with either *Horizontal Potential* or *Well Placed* for potential as a “performance-positive” divergence (the cells corresponding to divergences are shaded in gray). Figures 1.1 and 1.2 show that in both 2008 and 2014 approximately 5% of employees had a potential-positive divergence, while in 2008 almost 30% had a performance-positive divergence; this had decreased to around 13% by 2014.

Next, I examine how the divergences are associated with various employee characteristics. Restricting my sample to *Strong* and *Top* performers, I expect that a performance-positive divergence will be positively associated with company tenure and management level tenure. The longer an employee has been with the company the more likely it is that the employee has been correctly sorted to the position that best suits their skills and abilities, and the longer the management level tenure the more likely to employee has previously been passed over for promotion (Grabner and Moers 2013).

Restricting my sample to *Moderate* performers, I predict that a potential-positive divergence will be more likely for newly hired employees (who likely have been hired on the basis of their “potential”) and for recently promoted employees. Additionally, I expect this form of divergence to be more likely for employees who have recently experienced a change in their working conditions – specifically a change in functional area, business unit, or location (country) – since this may negatively impact their current year performance but should not necessarily impact their potential. Lastly, since I expect potential-positive divergences to be relatively transitory, I predict

that the likelihood of a potential-positive divergence will be lower for employees who received this rating combination in the previous year.

Results are reported in Table 4, where I use a logit regression to examine how various factors are associated with the probability of either a *Performance-Positive Divergence* (an indicator equal to 1 for any of the following combinations: *Strong* performance with *Well Placed* for potential; *Top* performance with *Horizontal Potential* for potential; *Top* performance with *Well Placed* for potential), or a *Potential-Positive Divergence* (an indicator equal to 1 for a *Moderate* performance rating combined with either *Vertical Potential – 2 levels* or *Vertical Potential – 1 level* for the potential rating). Column (1) includes the variables of interest for a *Performance-Positive Divergence*, with column (2) adding additional controls. Column (3) includes variables of interest for a *Potential-Positive Divergence*, with column (4) adding additional controls; columns (5) and (6) repeat (3) and (4) but with additional variables that may further impact the likelihood of a potential-positive divergence.

The likelihood of a performance-positive divergence is increasing in total tenure, but only increasing in management level tenure in the model without the full set of control variables. Contrary to my expectations, I find that the likelihood of a performance-positive divergence is decreasing at increasingly higher management levels. This may be reflective of the organization being more selective at higher management levels such that on average employees at higher levels are more likely to possess the skills and abilities necessary to advance even higher in the organization. Another possibility raised by human resource managers at my research site is that any leniency biases may be more pronounced at higher levels since managers may be more hesitant to reveal “bad news” to more senior employees (since retention of these employees is

particularly important). Interestingly, males are more likely to experience a performance-positive divergence.

Turning to the potential-positive divergences, among *Moderate* performers this rating combination is more likely for employees who joined the organization in the current year or were promoted. The likelihood of a divergence is decreasing in company tenure, and with the exception of column (6) where the coefficient is not statistically significant, is decreasing in management level tenure. Employees who experienced a change in their business unit, country of work or function were more likely to experience a potential-positive divergence. Contrary to expectations, employees who received a potential-positive divergence in the prior year were more likely to receive this combination in the current year, indicating that such a rating combination can persist for more than one period.

4.3 How Common are Revisions to Potential Ratings and What Employee-Level Variables are Associated with Such Revisions? (And What About Performance Ratings?)

Are potential assessments relatively fixed for a given employee or is this assessment likely to be revised over time? This section examines how dynamic the potential ratings given under a formal system are, and as a benchmark examines how dynamic the performance ratings are. Since performance is determined by effort in addition to skills and abilities and can be impacted by uncontrollable factors outside an individual's control, one would anticipate some degree of variation in performance from year to year. However, potential assessments are designed to capture *how* an employee behaves as opposed to the results of that behavior, which is likely to "stickier". Thus, I expect potential ratings to be more stable than performance ratings.

Figure 2 shows – for employee-year observations where the employee was not promoted or demoted in the current year – a transition matrix of the prior year and current year potential rating. Figure 3 repeats this for the prior year and current year performance rating. As expected,

there are many employees who receive a consistent rating from one year to the next, but there are a reasonable number of employees who experience a change.

Interestingly, potential revisions are quite common, occurring in approximately 34% of the employee-years represented in Figure 2. More specifically, 16% of these revisions are downward (i.e. negative) revisions, while 17% are upward (i.e. positive) revisions. The numbers are very similar with respect to the performance ratings – there is a change to performance in 35% of the employee-years, with 19% a change to a poorer performance rating, and 16% a change to a better performance rating.

Table 5 performs a logit regression of the likelihood of a revision to the potential rating, examining various factors that may increase or reduce the likelihood of a revision. I expect the likelihood of a revision to be decreasing in company tenure, management level tenure, and the number of times the employee has been assessed under the system. Conversely, I expect the likelihood of a revision to be increasing following a promotion, as well as an employee experiencing a change in their working environment. I also expect a change in potential to be more likely following a change in supervisor, since despite consistent competencies specified by the organization, different individuals may apply different interpretations and schemas when assessing potential. I begin with these variables in column (1) and add control variables in column (2). I repeat these columns for potential decreases and then potential increases. Table 6 re-performs the logit regressions in Table 5, this time for performance ratings.

I find that recently promoted employees are more likely to experience a drop in their potential and less likely to experience an increase. The times an employee has been assessed under the system is negatively related to the likelihood of a change overall, as well as a drop or an increase. Tenure with the company and tenure in the current management level are both

negatively associated with the probability of a change in the potential rating and the likelihood of a potential drop, but not statistically significantly related to the likelihood of a potential increase. Employees who change supervisor are more likely to experience a potential change, as well as either a potential drop or a potential increase. I find little evidence to suggest that a change to an employee's working situation – function, business unit, or country – impacts the likelihood of changes in potential.

With respect to performance, recently promoted employees are more likely to experience a decrease in their performance rating, and less likely to experience an increase. The more times an employee has been rated under the system, the less likely a change in their performance, though they are more likely to experience a performance drop (they are less likely to experience a performance increase). Total tenure reduces the likelihood of a change, a drop, or an increase, while management level tenure has no impact once the full controls are added. A change in supervisor increases the likelihood of a performance change, specifically a greater likelihood of a performance decline (it also leads to a lower likelihood of a performance increase). I also find consistent evidence that working in a different country is associated with a greater likelihood of a performance change, specifically a greater likelihood of a performance drop. A performance increase is less likely for employees who move countries.

Taken together, the evidence suggests a reasonably dynamic system where many employees experience a change in their potential or performance from one year to the next. Potential and performance changes vary predictably with many factors that would be expected – such as a recent promotion or a change in supervisor – but these factors explain only a small portion of the variation in the dependent variables. For instance, the pseudo r-squared for the full model of potential changes is only 2.44%, while for performance it is only 1.10%. Thus, observables

provide limited indication of which employees are likely to experience a change in their assessed performance or potential, indicative of unobservable individual level variables (and potentially unobservable supervisor level variables) at play.

4.4 How are Potential (and Performance) Ratings Related to Employees' Voluntary Departure Decisions?

Having shed light on the importance of potential ratings to the career decisions made by the organization, and understanding features of the potential ratings, this last question examines the role of potential in employee's decisions to voluntarily depart from the organization.

From the perspective of an organization, there can be significant costs associated with voluntary departures, including the loss of firm-specific human capital and costs of hiring and training new employees (Holtom et al. [2008]). As a result, firms generally seek to minimize these departures, and academic research continues to play an important role in identifying the determinants of individuals' voluntary departure decisions (Holtom et al. [2008]).

In addition to the intended use of potential assessments in promotion and termination decisions, an employee's promotion prospects may be an important input to his or her decision to remain with or voluntarily leave an organization. Prior studies have documented that much of an individual's lifetime earnings comes about via promotions (e.g. Gibbs [1995]). Consequently, employees with low promotion prospects may prefer to find alternative employment where their chances of ascending the hierarchy are greater. Furthermore, firms are likely to devote greater resources (e.g. mentoring, training) to employees rated higher on potential. For instance, prior research has found a positive association between supervisors' assessments of employee promotability and the level of mentoring provided (Wayne et al. [1999]).²⁴ Since perceived organizational support is negatively related to employees' departure decisions (Rhoades and

²⁴ While Wayne et al. [1999] interpret this association as evidence that higher levels of mentoring lead to better promotion prospects, my interpretation is that supervisors invest more heavily in mentoring those employees with more favorable prospects.

Eisenberger [2002]), this unequal allocation of resources and support may further act to retain high potential employees and result in departures amongst low potential employees.

Despite the rewards stemming from promotions, not all employees desire to be promoted; many employees may derive sufficient intrinsic motivation and extrinsic rewards from their existing job (Prendergast [2008]). Furthermore, employees with low promotion prospects may have similar low prospects elsewhere²⁵, and may be better remaining with the organization due to their accumulation of firm-specific human capital and because switching employers is not costless. Consequently, low potential employees may be no more likely to leave an organization voluntarily than high potential employees. In fact, since high potential employees are likely to have more attractive outside options than low potential employees, they may be more likely to leave the organization in search of better external opportunities.²⁶

To date, little empirical evidence exists on how potential assessments are related to employees' voluntary departure decisions. Closest to this study is a recent survey-based study of employees across nine organizations, which finds that employees who have not been formally identified by their organization as belonging to a talent pool have higher departure intentions than employees who have been formally identified as belonging to such a pool (Bjorkman et al. [2013]). However, none of the organizations had a policy of always informing employees of their standing (though all had a formal talent review system in place to identify high performing and high potential employees) and more than two-thirds of respondents did not know whether they were part of their organization's talent pool. Furthermore, it was unclear to what extent

²⁵ While assessments of potential refer to the employee's prospects with their current organization, unless the firm is particularly idiosyncratic, there is likely to be a degree of overlap in the skills desired by the current organization and those desired by firms in the same labor market. What is likely to differ is how the particular skills are weighted by different organizations (Lazear [2009]).

²⁶ Another alternative, which can arise where an organization recognizes a more nuanced continuum of potential (such as in my setting), is that the very lowest and highest potential employees leave (since a very low potential rating may indicate a particularly poor employee-organization match, while a very high potential rating may place the employee in high demand in the labor market). Such a curvilinear relation between performance and voluntary departures has been found in some prior research (Trevor et al. 1997).

performance vis-à-vis potential factored into talent pool decisions, making it difficult to extrapolate these findings to the context of a performance and potential system.

Column (1) in Table 7 examines how the combined performance and potential ratings an employee receives is related to the likelihood of departure in the following year, for the first year the system was implemented (i.e. 2008). I separately analyze 2008 since the degree of “information revelation” is likely to be highest in the 2008 year. We can consider two subsets of employees present in the company in 2008 – recently hired employees and longer-tenured employees. Potential ratings should reveal “new” information to recently hired employees and can act to reduce information asymmetry regarding the basis on which promotion decisions in the firm are made, and what an employee’s prospects are. Since higher potential ratings signal greater promotion prospects and better match quality between the employee and the organization, low-potential employees may exhibit a greater propensity to leave than high-potential employees. Yet, newly-hired employees may make departure decisions based primarily on job performance with little regard to potential ratings (since they may be more concerned about their initial job fit as opposed to their future prospects), and/or may consider initial potential ratings to be too subjective or premature.

Longer-tenured employees on the other hand may already have been aware of their likely prospects in the organization (by observing promotion decisions in the past) and low potential employees remaining may be those who are undeterred by their limited promotion prospects – in fact, it may be those with better prospects, i.e. higher potential, who are more likely to leave in search of better alternatives. Alternatively, employees may be unaware of their prospects. There exists an active debate as to whether organizations should disclose potential ratings (from implicit or less formal systems that fail to meet my definition of a performance and potential

system) to employees (Bjorkman et al. [2013]). The hesitancy to disclose potential ratings largely stems from fears that high performing, yet low-potential employees, will react negatively to their low potential status (e.g. Gelens et al. [2014]; Malik and Singh [2014]; Conger and Fulmer [2003]). In this vein, even if employees are aware of their standing, low-potential employees may react negatively to receiving an explicit rating to that effect²⁷. Thus, in the first year of the system, both recently hired and longer-tenured employees may respond to their assessed potential (while in later years it is less likely that longer-tenured employees will respond since they have previously been rated under the system). The relation between potential ratings and employees' voluntary departure decisions is an empirical question.

Table 7, column (1) reports the results of a logit regression using the 2008 observations, while columns (2) and (3) report the results of logit regressions using the 2009 through 2014 observations. I set the voluntary departure indicator variable (*Voluntary_Departure*) equal to zero if the employee did not exit during the year or if the employee exited involuntarily. I set the variable equal to one if the exit reason in my dataset is consistent with a voluntary departure (e.g. “external job offer”).²⁸ I include indicator variables for the full set of combined performance and potential ratings, and I exclude employees who received the lowest possible performance rating (*Clearly Below*) since voluntary exits by these employees may be reflective of a desire to exit before being terminated involuntarily. Columns (1) and (2) include various control variables, and management level, business unit, and region fixed effects (and year fixed effects in column (2)). Column (3) adds additional control variables that were not available for a sufficient number of observations in 2008 – indicators for whether the employee was promoted or demoted in the

²⁷ On the contrary, a policy of transparency regarding employees' potential status may increase perceptions of organizational justice amongst low potential employees (Dries [2013]).

²⁸ Since employee exit information was contained in multiple sources, in some instances the data included more than one exit reason for an employee. I treated the exit as involuntary (i.e. a termination) if any of the exit reasons were suggestive of an involuntary exit (in order to ensure exits I coded as voluntary truly reflected voluntary departures).

current year (*REC_PROM* and *REC_DEM*, respectively), and a variable capturing the employee's salary relative to the market salary for a similar position (*SALARYPOS*).

The results in column (1) show that voluntary departures were mostly concentrated in employees receiving an *M3* or *M4* for their rating (refer to Appendix B for the performance-potential grid), with employees in either of these categories being statistically significantly more likely to leave than employees in six other rating categories (*T2*, *T3*, *S2*, *S3*, *S4*, and *M2*). Employees receiving a rating of *T4* were more likely to leave voluntarily than employees receiving a *T2* or *T3* rating. The only other statistically significant differences were that employees receiving a rating of *S4* or *S1* were more likely to leave voluntarily than employees receiving a *T2* rating.

Columns (2) and (3) reveal stronger patterns in terms of voluntary departure tendencies, though this is not surprising due to the much larger sample size. The results reveal that performance ratings appear to be the strongest contributor to voluntary departure decisions, though potential does play a role, particularly amongst *Moderate* performers, whereby there is a negative linear relation between potential and the likelihood of leaving (the difference in coefficients between each of the ratings within *Moderate* are statistically significantly different except for *M1* and *M2*, and *M1* and *M3*, but this is not surprising given the few employees who receive an *M1* rating). Potential also seems to play a role amongst *Top* performers with *T2* employees being more likely to leave than *T1* employees, and column (3) shows that *T4* employees are more likely to leave than *T1* employees. There is no evidence to suggest that potential plays a role in the voluntary departure decisions of employees receiving a *Strong* performance rating (the most common performance rating). For *Moderate* employees, potential seems to provide an additional indicator of match quality with the organization, with those with

better long-term prospects being more likely to stay. On the other hand, for *Top* performers it appears that “promotable” employees may be more likely to seek outside opportunities if they do not receive the highest possible potential rating (as per Table 3, *T1* performers had a probability of 33.96% of being promoted the next year, while for *T2* performers, the probability was 15.94%). Untabulated analyses show that amongst “high-potential” employees, the longer an employee has received a high-potential rating without a promotion, the more likely the employee is to voluntarily exit.

As a further analysis, in Table 8 I restrict my analyses just to those employees who were assessed in 2008 and examine their departure decisions in the subsequent years (2009 through 2014). The intention here is to examine how employees who have already been assessed under the system react to the ratings over time (since the observations in Table 7 include employees assessed for the first time each year). Furthermore, I seek to examine the effects of the system itself more directly by examining how *revisions* to an employees’ potential rating are associated with voluntary departures. In column (1), I first repeat the analysis from column (3) of Table 7, but restricting it to employees who had already been assessed under the system in 2008 (i.e. excluding new hires post 2008 or internally promoted employees who joined the management ranks), and then in column (2) I further restrict the sample just to employees who have a valid rating for the current year and the prior year so that I am able to construct my change in potential variables and attribute any changes between columns (2) and (3) to the addition of the drop and increase variables rather than any changes in sample selection.

The results in column (1) show that voluntary departures were mostly concentrated in employees receiving an *M3* or *M4* for their rating, with employees in either of these categories being statistically significantly more likely to leave than employees in six or seven other rating

categories (*T2, T3, T4, S2, S3, S4*, and, for *M4* employees, also *T1*). *T3* employees were *less* likely to leave than employees in eight other rating categories, including *T2* (as well as *S1, S2, S3, S4, M2, M3, M4*). It appears that *Top* performers respond positively to receiving a *Horizontal Potential* rating in combination with their *Top* performance rating (conversely *T2* employees may be more likely to leave in search of outside opportunities). Focusing within the separate performance categories, *T3*s being less likely to leave than *T2*s is the only place where potential seems to make a significant difference (within *S* performers the likelihood of leaving is the same irrespective of potential; the same is true for *M* performers). In general, performance seems to be the main determinant of departure decisions. The results in column (2) are very similar to those in column (1) – recall that the only difference is that employees must have a valid prior year rating in addition to a valid current year rating to be included. In column (3), when I add variables capturing increases and drops in performance and potential, I find that a drop in potential is associated with a greater probability of voluntary departure, while an increase is associated with a lower probability of departure. A downward revision in potential increases the likelihood of voluntary departure by 42% (from 1.43% to 2.02%), while an upward revision in potential decreases the likelihood of voluntary departure 20% (from 1.43% to 1.14%). With respect to the role of potential within performance categories, *T3* employees continue to be less likely to leave than *T2* employees, and now *S4* employees are *less* likely to leave than *S2* employees. Again, performance is somewhat important to the likelihood of voluntary departure, though performance changes appear to make no difference.

Overall, my voluntary departure results suggest that performance appears to dominate potential for the most part in employees' voluntary departure decisions, though there are particular circumstances when potential plays a role, for instance when an employee experiences

a downward or upward revision in their potential assessment. One's "potential" also appears to be particularly relevant for poorly performing employees (i.e. moderate performers) as they assess their match quality with the organization and their decision to stay or leave. Furthermore, my findings seem to provide some support for the company's rationale to distinguish between "low-potential" employees by recognizing those with *Horizontal Potential* and those who are simply *Well Placed*. While the literature predominantly focuses on "low-potential" versus "high-potential" employees, it appears that employees themselves may (in some circumstances, for instance when a performance and potential system is first introduced) respond differently depending on the more nuanced "low-potential" signal that they receive. A senior executive at the company described the decision to include a *Horizontal Potential* rating when implementing the new system:

"... for the potential level, the new level is the kind of horizontal career opportunity where we don't see a move in management level but we see that people can move laterally which we felt is a good signal. Otherwise the people only got the feedback you are not promotable, but ... [that] kind of was a very bad message, especially to those who maybe are not moving up the ranks but have a lot of abilities to fill same level positions in different areas."

5. CONCLUSION

In this study, I examine how various employee-level outcomes are related to performance and potential assessments, taking advantage of data made available through an organization's formal management control system whereby managers evaluate not only past employee performance but also future potential. I first document that potential ratings and performance ratings are important determinants of promotion and termination decisions, providing some of the first evidence on the use of such a system. I then examine how various employee characteristics are associated with divergences between performance and potential (e.g. high

performance but low potential) and with changes in performance or potential from one period to the next. Lastly, I examine how employees' voluntary departure decisions are related to their performance-potential ratings, and the role of upward or downward revisions in these ratings.

I find that the likelihood of performance and potential divergences vary systematically with employee characteristics such as total tenure, or being recently hired by the organization. Changes to potential and performance from one period to the next are also associated with observable factors, but the explanatory power of these factors is relatively low, suggesting that it is difficult to predict which employees are likely to improve or reduce their potential or performance.

I find that poorly performing employees are more likely to voluntarily exit, and that this tends to be most pronounced for employees who also receive a low assessment of potential. This suggests that employees factor not only their current job performance but also their overall match quality and advancement potential in the organization into their departure decisions. Amongst employees who were assessed when the system was first introduced and remained with the organization in (at least some of the) subsequent years, upward and downward revisions of potential are associated with the likelihood of departure, though changes in performance are not.

My study extends the literature on performance evaluation systems and contributes to the body of research on the determinants of employee career outcomes (promotions, voluntary departures, and terminations) by studying how these outcomes are incrementally affected by evaluations of "potential." The findings from this study speak to the human resources management literature on talent management, providing some insights relevant to the debate as to whether or not organizations should communicate potential status to employees.

My study was based on an empirical analysis of archival data from a single firm. Naturally studying a single firm has an associated cost of concerns regarding external validity, but with the benefit of greater internal validity. The findings may not generalize to all organizational settings. My findings are most likely to generalize to organizations with significant promotion opportunities for employees, via either growth in the employee base and/or the creation of vacancies through employee exits. Where promotion opportunities are limited, high-potential employees may exhibit greater propensities to leave the organization voluntarily (as they seek opportunities elsewhere). Despite the limitations of this study, my hope is that it will be a first step in documenting the role of formal systems in assessing and communicating information about promotion prospects to employees.

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Appendix A
Potential Rating Definitions by Year (2011-2014)²⁹

Potential Rating 1

Year	Rating	Definition
2014	Vertical Potential (2 levels)	<ul style="list-style-type: none"> • The employee clearly demonstrates potential to advance by two management levels • The employee confirms geographical mobility within the next 12 months • Management level 2 and management level 3 employees must have accomplished an assignment abroad of at least 12 months to be rated on potential level 1
2013	Top Potential (2 levels)	<ul style="list-style-type: none"> • The employee demonstrates clear potential to advance by two management levels • The employee confirms geographical mobility within next 12 months • Management level 2 and management level 3 employees must have accomplished an international assignment to be rated on potential level 1
2012	Clearly Above	<ul style="list-style-type: none"> • The employee demonstrates potential to advance by more than one management level within the next six to ten years • The employee shows extremely high learning agility • The employee needs to have flexibility (BU/functions and/or job) and mobility (geographical)
2011	Clearly Above (2 management levels within 6-10 years)	<ul style="list-style-type: none"> • The employee demonstrates potential to advance by more than one management level within the next six to ten years • The employee shows extremely high learning agility • The employee needs to have flexibility (BU/functions and/or job) and mobility (geographical)

Potential Rating 2

Year	Rating	Definition
2014	Vertical Potential (1 level)	<ul style="list-style-type: none"> • The employee clearly demonstrates potential to advance to the next management level
2013	Vertical Potential (1 level)	<ul style="list-style-type: none"> • The employee demonstrates clear potential to advance to the next management level
2012	Next Level	<ul style="list-style-type: none"> • The employee demonstrates the clear potential for advancement to the next management level within the next five years • Ability to progress by two or more management levels is not yet clear • The employee has high learning agility
2011	Next Level (1 MC level within 5 years)	<ul style="list-style-type: none"> • The employee demonstrates the clear potential for advancement to the next management level within the next five years • Ability to progress by two or more management levels is not yet clear • The employee has high learning agility

²⁹ 2011 was the earliest year for which I was provided with the rating definitions.

Potential Rating 3

Year	Rating	Definition
2014	Horizontal Potential	<ul style="list-style-type: none"> The employee demonstrates potential to handle other jobs on the same management level
2013	Horizontal Potential	<ul style="list-style-type: none"> The employee demonstrates potential to take over another job on the same management level
2012	Enrichment / Enlargement	<ul style="list-style-type: none"> The employee has potential to handle additional responsibilities/other jobs on the same management level, such as: <ul style="list-style-type: none"> Increased scope of management control (employees/functions) Leading special projects and/or major tasks/initiatives Covering additional / different areas of expertise
2011	Enrichment/Enlargement	<ul style="list-style-type: none"> The employee has potential to handle additional responsibilities/other jobs on the same management level, such as: <ul style="list-style-type: none"> Increased scope of management control (employees/functions) Leading special projects and/or major tasks/initiatives Covering additional / different areas of expertise

Potential Rating 4

Year	Rating	Definition
2014	Well Placed	<ul style="list-style-type: none"> The employee demonstrates potential to handle additional tasks within the current job on the same management level
2013	Well placed	<ul style="list-style-type: none"> The employee demonstrates potential to take over additional tasks/projects The employee is currently placed in the correct job on the right management level
2012	Right Level	<ul style="list-style-type: none"> The employee is currently placed in the correct position / job; correctly placed in his/her area of responsibility Currently unlikely to advance within the same or higher management level
2011	Right level	<ul style="list-style-type: none"> The employee is currently placed in the correct position / job; correctly placed in his/her area of responsibility Currently unlikely to advance within the same or higher management level

Appendix B
Performance-Potential Grid

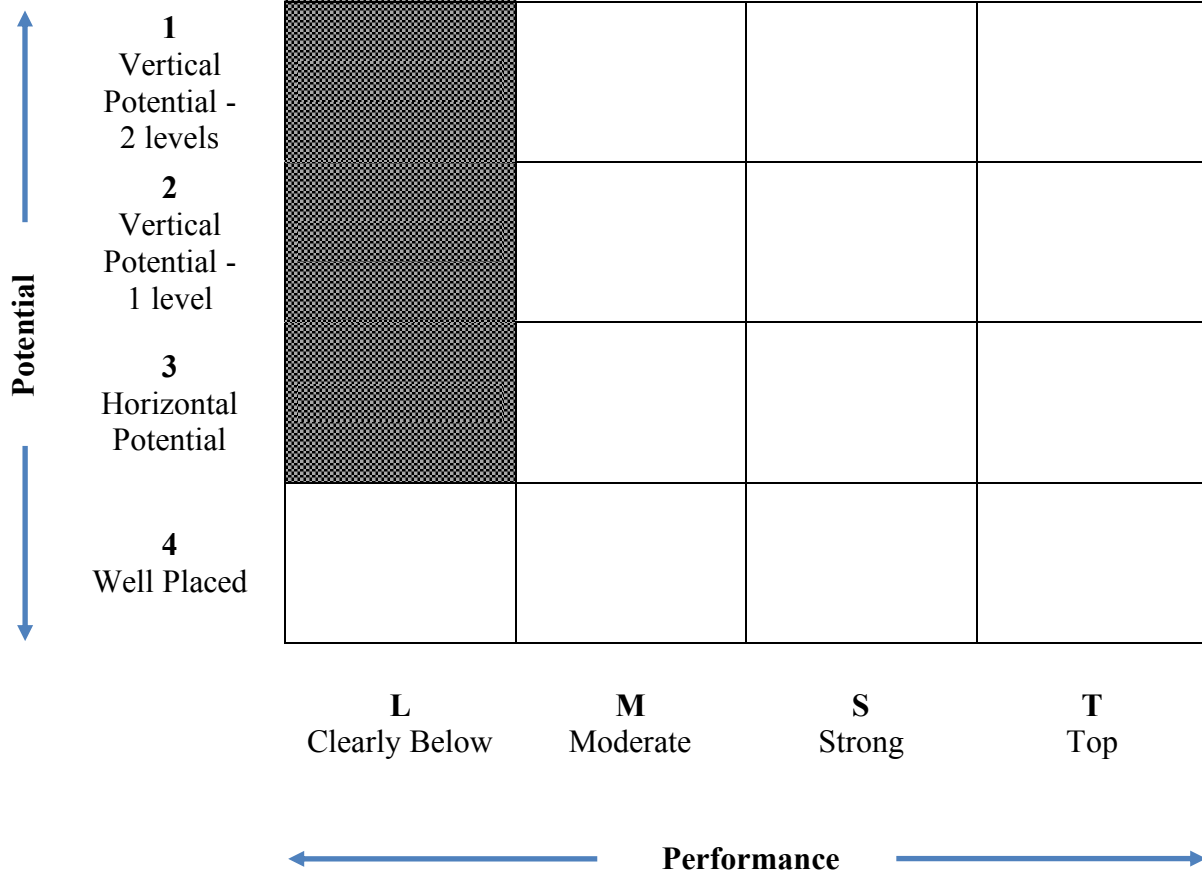


Figure 1.1 – 2008 Distribution of Performance-Potential Ratings

1 Vertical Potential - 2 levels		0.36% (n=32)	1.63% (n=144)	0.63% (n=56)
2 Vertical Potential - 1 level		4.27% (n=377)	14.39% (n=1,270)	4.94% (n=436)
3 Horizontal Potential		8.03% (n=709)	25.33% (n=2,236)	5.40% (n=477)
4 Well Placed	1.86% (n=164)	9.10% (n=803)	20.94% (n=1,848)	3.12% (n=275)
	L Clearly Below	M Moderate	S Strong	T Top

Figure 1.2 – 2014 Distribution of Performance-Potential Ratings

1 Vertical Potential - 2 levels		0.29% (n=28)	2.47% (n=243)	1.21% (n=119)
2 Vertical Potential - 1 level		5.08% (n=499)	21.64% (n=2,125)	5.59% (n=549)
3 Horizontal Potential		14.23% (n=1,398)	28.41% (n=2,790)	2.81% (n=276)
4 Well Placed	1.23% (n=121)	7.28% (n=715)	9.23% (n=906)	0.53% (n=52)
	L Clearly Below	M Moderate	S Strong	T Top

Figure 2 – Transition Matrix of Prior Year and Current Year Potential
(2009-2014, employees not promoted or demoted in the current year)

Prior Year	This Year				
	Vertical Potential (2 levels)	Vertical Potential (1 level)	Horizontal Potential	Well Placed	
Vertical Potential (2 levels)	49.27% (n=509)	43.08% (n=445)	6.97% (n=72)	0.68% (n=7)	100.00% (n=1,033)
Vertical Potential (1 level)	5.55% (n=576)	64.90% (n=6,735)	26.06% (n=2,704)	3.49% (n=362)	100.00% (n=10,377)
Horizontal Potential	0.31% (n=64)	15.45% (n=3,208)	66.42% (n=13,789)	17.82% (n=3,699)	100.00% (n=20,760)
Well Placed	0.02% (n=3)	2.24% (n=272)	29.52% (n=3,582)	68.21% (n=8,277)	100.00% (n=12,134)

Figure 3 – Transition Matrix of Prior Year and Current Year Performance
(2009-2014, employees not promoted or demoted in the current year)

Prior Year	This Year				
	Top	Strong	Moderate	Clearly Below	
Top	46.53% (n=2,180)	48.69% (n=2,281)	4.63% (n=217)	0.15% (n=7)	100.00% (n=4,685)
Strong	7.90% (n=2,243)	73.23% (n=20,784)	18.27% (n=5,185)	0.60% (n=169)	100.00% (n=28,381)
Moderate	1.30% (n=141)	43.19% (n=4,690)	50.74% (n=5,510)	4.78% (n=519)	100.00% (n=10,860)
Clearly Below	0.00% (n=0)	5.82% (n=22)	43.65% (n=165)	50.53% (n=191)	100.00% (n=378)

Table 1 - Descriptive Statistics

Variable	<i>n</i>	Mean	Median	S.D.	Min	Max
<i>TOP-VERT 2 (T1)</i>	59,906	0.01	0	0.10	0	1
<i>TOP-VERT 1(T2)</i>	59,906	0.05	0	0.21	0	1
<i>TOP-HORIZ (T3)</i>	59,906	0.04	0	0.19	0	1
<i>TOP-WELL (T4)</i>	59,906	0.01	0	0.11	0	1
<i>STR-VERT 2 (S1)</i>	59,906	0.02	0	0.14	0	1
<i>STR-VERT 1 (S2)</i>	59,906	0.17	0	0.38	0	1
<i>STR-HORIZ (S3)</i>	59,906	0.28	0	0.45	0	1
<i>STR-WELL (S4)</i>	59,906	0.14	0	0.35	0	1
<i>MOD-VERT 2 (M1)</i>	59,906	0.003	0	0.06	0	1
<i>MOD-VERT 1 (M2)</i>	59,906	0.04	0	0.20	0	1
<i>MOD-HORIZ (M3)</i>	59,906	0.12	0	0.11	0	1
<i>MOD-WELL (M4)</i>	59,906	0.09	0	0.28	0	1
<i>BEL_WELL (L4)</i>	59,906	0.02	0	0.13	0	1
<i>MALE</i>	59,906	0.71	1	0.46	0	1
<i>AGE</i>	59,906	42.83	42	8.82	22	74
<i>TENURE_TOT</i>	59,906	13.22	11.50	9.09	0.02	51.33
<i>TENURE_LVL</i>	59,906	6.03	3.75	6.48	0.003	51.33
<i>FULL-TIME</i>	59,906	0.97	1	0.17	0	1
<i>EXPAT</i>	59,906	0.05	0	0.21	0	1

Descriptive statistics are for the period 2008-2014, where an observation is an employee-year. *TOP-VERT 2 (T1)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Vertical Potential – 2 levels* assessment for potential. *TOP-VERT 1 (T2)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Vertical Potential – 1 level* assessment for potential. *TOP-HORIZ (T3)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Horizontal Potential* assessment for potential. *TOP-WELL (T4)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Well Placed* assessment for potential. *STR-VERT 2 (S1)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Vertical Potential – 2 levels* assessment for potential. *STR-VERT 1 (S2)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Vertical Potential – 1 level* assessment for potential. *STR-HORIZ (S3)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Horizontal Potential* assessment for potential. *STR-WELL (S4)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Well Placed* assessment for potential. *MOD-VERT 2 (M1)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Vertical Potential – 2 levels* assessment for potential. *MOD-VERT 1 (M2)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Vertical Potential – 1 level* assessment for potential. *MOD-HORIZ (M3)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Horizontal Potential* assessment for potential. *MOD-WELL (M4)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Well Placed* assessment for potential. *BEL-WELL (L4)* is an indicator equal to 1 if the employee received a *Clearly Below* assessment for performance and a *Well Placed* assessment for potential. *MALE* is an indicator equal to 1 if the employee is male. *AGE* is the employee's age in years. *TENURE_TOT* is the employee's total tenure with the company in years. *TENURE_LVL* is the employee's tenure at their current management level in years. *FULL-TIME* is an indicator equal to 1 if the employee holds a full-time position with the company. *EXPAT* is an indicator equal to 1 if the employee is on an international assignment.

Table 2 – Correlation Matrix

Variable	1	2	3	4	5	6	7
1 <i>PERF_ORD</i>							
2 <i>POT_ORD</i>	0.28***						
3 <i>MALE</i>	-0.03***	-0.13***					
4 <i>AGE</i>	-0.08***	-0.49***	0.25***				
5 <i>TENURE_TOT</i>	-0.02***	-0.39***	0.17***	0.70***			
6 <i>TENURE_LVL</i>	-0.05***	-0.29***	0.12***	0.51***	0.57***		
7 <i>FULL-TIME</i>	0.01***	0.02***	0.23***	0.01**	-0.02***	-0.04***	
8 <i>EXPAT</i>	0.04***	0.15***	0.01	-0.10***	-0.05***	-0.07***	0.03***

Correlations are for the period 2008-2014, where an observation is an employee-year ($N = 59,906$). *, **, *** denote significance at the 0.10, 0.05, and 0.01 level, respectively. *PERF_ORD* = 4 if the employee received a *Top* assessment for performance, = 3 if the employee received a *Strong* assessment for performance, = 2 if the employee received a *Moderate* assessment for performance, = 1 if the employee received a *Clearly Below* assessment for performance. *POT_ORD* = 4 if the employee received a *Vertical Potential – 2 levels* assessment for potential, = 3 if the employee received a *Vertical Potential – 1 level* assessment for potential, = 2 if the employee received a *Horizontal Potential* assessment for potential, and = 1 if the employee received a *Well Placed* assessment for potential. *MALE* is an indicator equal to 1 if the employee is male. *AGE* is the employee's age in years. *TENURE_TOT* is the employee's total tenure with the company in years. *TENURE_LVL* is the employee's tenure at their current management level in years. *FULL-TIME* is an indicator equal to 1 if the employee holds a full-time position with the company. *EXPAT* is an indicator equal to 1 if the employee is on an international assignment.

Table 3 – Performance-Potential Ratings and Promotions / Terminations

	<i>Promotion_(t+1)</i> (1)	<i>Termination_(t+1)</i> (2)
<i>TOP-VERT 2 (T1)</i>	5.475 ^{T2, T3, T4, S1, S2, S3, S4, M1, M2, M3, M4-} (23.235)	-4.456 ^{T4, S4, M2, M3, M4, L4} (-10.444)
<i>TOP-VERT 1(T2)</i>	4.477 ^{T1, T3, T4, S2, S3, S4, M1, M2, M3, M4} (20.802)	-4.718 ^{T4, S2, S3, S4, M2, M3, M4, L4} (-20.412)
<i>TOP-HORIZ (T3)</i>	2.415 ^{T1, T2, T4, S1, S2, S3, S4, M3, M4} (10.296)	-4.449 ^{T4, S3, S4, M2, M3, M4, L4} (-18.984)
<i>TOP-WELL (T4)</i>	1.320 ^{T1, T2, T3, S1, S2, S3, M1, M2, M4} (3.463)	-3.604 ^{T1, T2, T3, S1, S2, M3, M4, L4} (-13.014)
<i>STR-VERT 2 (S1)</i>	4.621 ^{T1, T3, T4, S2, S3, S4, M1, M2, M3, M4} (20.588)	-4.563 ^{T4, S3, S4, M2, M3, M4, L4} (-13.694)
<i>STR-VERT 1 (S2)</i>	3.847 ^{T1, T2, T3, T4, S1, S3, S4, M1, M2, M3, M4} (18.335)	-4.288 ^{T2, T4, S3, S4, M4, M3, M4, L4} (-33.625)
<i>STR-HORIZ (S3)</i>	2.056 ^{T1, T2, T3, T4, S1, S2, S4, M1, M2, M3, M4} (9.835)	-3.997 ^{T2, T3, S1, S2, S4, M4, M3, M4, L4} (-38.196)
<i>STR-WELL (S4)</i>	0.925 ^{T1, T2, T3, S1, S2, S3, M1, M2, M4} (4.129)	-3.323 ^{T1, T2, T3, S1, S2, S3, M3, M4, L4} (-31.639)
<i>MOD-VERT 2 (M1)</i>	2.806 ^{T1, T2, T4, S1, S2, S3, S4, M3, M4} (8.745)	-4.315 ^{M3, M4, L4} (-5.924)
<i>MOD-VERT 1 (M2)</i>	2.436 ^{T1, T2, T4, S1, S2, S3, S4, M3, M4} (10.637)	-3.394 ^{T1, T2, T3, S1, S2, S3, M3, M4, L4} (-22.172)
<i>MOD-HORIZ (M3)</i>	0.915 ^{T1, T2, T3, S1, S2, S3, M1, M2, M4} (3.955)	-2.851 ^{T1, T2, T3, T4, S1, S2, S3, S4, M1, M2, M4, L4} (-28.337)
<i>MOD-WELL (M4)</i>	Base C ^{T1, T2, T3, T4, S1, S2, S3, S4, M1, M2, M3} (Omitted)	-1.876 ^{T1, T2, T3, T4, S1, S2, S3, S4, M1, M2, M3, L4} (-20.187)
<i>BEL_WELL (L4)</i>	N/A	Base C ^{T1, T2, T3, T4, S1, S2, S3, S4, M1, M2, M3, L4} (Omitted)
<i>TENURE_TOT</i>	-0.008* (-1.945)	-0.034*** (-7.624)
<i>FULL-TIME</i>	0.233 (1.622)	0.145 (0.852)
<i>EXPAT</i>	0.580*** (7.249)	-0.003 (-0.025)
<i>TENURE_LVL</i>	0.035*** (7.836)	0.018*** (3.649)
Intercept	-12.995*** (-19.255)	0.140 (0.258)
<i>MALE and AGE included?</i>	Yes	Yes
Management Level FE?	Yes	Yes
Business Unit FE?	Yes	Yes
Function FE?	Yes	Yes
Country FE?	Yes	Yes
Year FE?	Yes	Yes
<i>N</i>	53,410	57,686

Pseudo R ²	0.2840	0.2094
<i>Implied probabilities</i>		
All variables at mean	1.80%	1.65%
<i>TOP-VERT 2 (T1)</i>	33.96%	0.72%
<i>TOP-VERT 1 (T2)</i>	15.94%	0.55%
<i>TOP-HORIZ (T3)</i>	2.35%	0.72%
<i>TOP-WELL (T4)</i>	0.80%	1.66%
<i>STR-VERT 2 (S1)</i>	17.96%	0.64%
<i>STR-VERT 1 (S2)</i>	9.17%	0.85%
<i>STR-HORIZ (S3)</i>	1.66%	1.13%
<i>STR-WELL (S4)</i>	0.54%	2.19%
<i>MOD-VERT 2 (M1)</i>	3.44%	0.82%#
<i>MOD-VERT 1 (M2)</i>	2.40%	2.04%
<i>MOD-HORIZ (M3)</i>	0.53%	3.47%
<i>MOD-WELL (M4)</i>	0.21%	8.69%
<i>BEL-WELL (L4)</i>	0.00%	38.32%

Logit regressions with robust z-statistics in parentheses, adjusted for clustering at the employee level. *, **, ***, denote significance at the 0.10, 0.05, and 0.01 level, respectively. A pairwise comparison that is significantly different at a 0.10 level of significance or better is indicated using the relevant abbreviation for the comparison category. *Promotion* is an indicator equal to 1 if the employee was promoted to a more senior management level during the year. *Termination* is an indicator equal to 1 if the employee exited the company involuntarily during the year. *TOP-VERT 2 (T1)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Vertical Potential – 2 levels* assessment for potential. *TOP-VERT 1 (T2)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Vertical Potential – 1 level* assessment for potential. *TOP-HORIZ (T3)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Horizontal Potential* assessment for potential. *TOP-WELL (T4)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Well Placed* assessment for potential. *STR-VERT 2 (S1)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Vertical Potential – 2 levels* assessment for potential. *STR-VERT 1 (S2)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Vertical Potential – 1 level* assessment for potential. *STR-HORIZ (S3)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Horizontal Potential* assessment for potential. *STR-WELL (S4)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Well Placed* assessment for potential. *MOD-VERT 2 (M1)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Vertical Potential – 2 levels* assessment for potential. *MOD-VERT 1 (M2)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Vertical Potential – 1 level* assessment for potential. *MOD-HORIZ (M3)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Horizontal Potential* assessment for potential. *MOD-WELL (M4)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Well Placed* assessment for potential. *BEL-WELL (L4)* is an indicator equal to 1 if the employee received a *Clearly Below* assessment for performance and a *Well Placed* assessment for potential. *TENURE_TOT* is the employee's total tenure with the company in years. *FULL-TIME* is an indicator equal to 1 if the employee holds a full-time position with the company. *EXPAT* is an indicator equal to 1 if the employee is on an international assignment. *TENURE_LVL* is the employee's tenure at their current management level in years. *MALE* is an indicator equal to 1 if the employee is male. *AGE* is the employee's age in years.

Table 4 – Divergences Between Performance and Potential

	<i>Performance-Positive Divergence (PERF_DIV)</i>		<i>Potential-Positive Divergence (POT_DIV)</i>			
	(1)	(2)	(3)	(4)	(5)	(6)
<i>TENURE_TOT</i>	0.081*** (36.060)	0.029*** (10.486)	-0.087*** (-17.952)	-0.026*** (-4.138)	-0.077*** (-13.905)	-0.023*** (-3.179)
<i>TENURE_LVL</i>	0.024*** (7.859)	-0.001 (-0.250)	-0.073*** (-6.506)	-0.028*** (-2.626)	-0.062*** (-5.358)	-0.017 (-1.601)
<i>ML_1</i>	-1.376*** (-8.998)	-1.769*** (-11.437)		1.165*** (3.823)		1.226*** (3.723)
<i>ML_2</i>	-0.796*** (-10.504)	-1.115*** (-13.974)		0.398** (2.377)		0.470** (2.565)
<i>ML_3</i>	-0.536*** (-11.789)	-0.728*** (-14.614)		0.320*** (3.416)		0.292*** (2.621)
<i>ML_4</i>	-0.248*** (-6.232)	-0.422*** (-9.775)		0.412*** (6.098)		0.457*** (5.654)
<i>ML_5</i>	Base C (Omitted)	Base C (Omitted)	Base C (Omitted)	Base C (Omitted)	Base C (Omitted)	Base C (Omitted)
<i>MALE</i>	0.376*** (9.898)	0.085* (1.933)		0.154** (2.348)		0.084 (1.083)
<i>REC_PROM</i>			0.568*** (8.296)	0.395*** (5.369)	0.591*** (4.850)	0.379*** (2.875)
<i>JUST_HIRED</i>			0.776*** (9.836)	0.942*** (10.408)	1.232*** (13.558)	1.330*** (12.440)
<i>POT_DIV_(t-1)</i>					1.433*** (14.186)	0.959*** (8.971)
<i>CHGD_BUSUNIT</i>					0.177 (1.437)	0.304** (2.074)
<i>CHGD_FUNCTION</i>					0.427*** (5.749)	0.383*** (4.439)
<i>CHGD_CWORK</i>					0.887*** (6.282)	0.581*** (3.703)
<i>FULL-TIME</i>		-0.237** (-2.258)		0.633*** (3.185)		0.387 (1.628)
<i>AGE</i>		0.120*** (37.502)		-0.138*** (-22.389)		-0.133*** (-18.270)
Intercept	-2.332*** (-53.506)	-5.594*** (-16.434)	-0.535*** (-9.628)	2.288*** (4.809)	-1.005*** (-13.881)	2.283*** (3.718)
Business Unit FE?	No	Yes	No	Yes	No	Yes
Function FE?	No	Yes	No	Yes	No	Yes
Country FE?	No	Yes	No	Yes	No	Yes
Year FE?	No	Yes	No	Yes	No	Yes
<i>N</i>	43,317	43,317	15,420	15,420	11,979	11,979
Pseudo R ²	0.1143	0.2197	0.1614	0.2663	0.2045	0.2963

Logit regressions with robust z-statistics in parentheses, adjusted for clustering at the employee level. *, **, ***, denote significance at the 0.10, 0.05, and 0.01 level, respectively. Columns (1) and (2) comprise only employees receiving a performance rating of *Top* or *Strong* for the current year, while columns (3) through (6) comprise only employees receiving a performance rating of *Moderate* for the current year. *Performance-Positive Divergence (PERF_DIV)* is an indicator equal to 1 if the employee received any of the following performance-potential rating combinations: *Top* for performance and *Horizontal Potential* for potential (*T3*), *Top* for performance and *Well Placed* for potential (*T4*), *Strong* for performance and *Well Placed* for potential (*S4*). *Potential-Positive Divergence (POT_DIV)* is an indicator equal to 1 if the employee received any of the following performance-potential rating combinations: *Moderate* for performance and *Vertical Potential – 2 levels* for potential (*M1*), *Moderate* for performance and *Vertical Potential – 1 level* for potential (*M2*). *TENURE_TOT* is the employee's total tenure with the company in years. *TENURE_LVL* is the employee's tenure at their current management level in years. *ML_1* is an indicator equal to 1 if the employee was a Level 1 manager (highest level in the analyses). *ML_2* is an indicator equal to 1 if the employee was a Level 2 manager. *ML_3* is an indicator equal to 1 if the employee was a Level 3 manager. *ML_4* is an indicator equal to 1 if the employee was a Level 4 manager. *ML_5* is an indicator equal to 1 if the employee was a Level 5 manager (lowest level in the analyses). *MALE* is an indicator equal to 1 if the employee is male. *REC_PROM* is an indicator equal to 1 if the employee was promoted during the year. *JUST_HIRED* is an indicator equal to 1 if the employee was hired during the year. *CHGD_BUSUNIT* is an indicator equal to 1 if the employee moved to a different business unit during the year. *CHGD_FUNCTION* is an indicator equal to 1 if the employee moved to a different functional area during the year. *CHGD_CWORK* is an indicator equal to 1 if the employee moved to a different country during the year. *FULL-TIME* is an indicator equal to 1 if the employee holds a full-time position with the company. *AGE* is the employee's age in years.

Table 5 – Changes in Potential Assessments

	<i>Potential_Change</i>		<i>Potential_Drop</i>		<i>Potential_Increase</i>	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>REC_PROM</i>	0.670*** (17.539)	0.719*** (18.152)	1.251*** (30.428)	1.305*** (30.911)	-0.738*** (-11.974)	-0.778*** (-12.492)
<i>TIMES_RATED</i>	-0.042*** (-6.174)	-0.041*** (-3.710)	-0.034*** (-4.282)	-0.022* (-1.902)	-0.033*** (-4.325)	-0.062*** (-5.578)
<i>TENURE_TOT</i>	-0.014*** (-9.153)	-0.007*** (-3.464)	-0.010*** (-6.380)	-0.013*** (-6.691)	-0.013*** (-8.289)	0.002 (0.969)
<i>TENURE_LVL</i>	-0.006*** (-2.799)	-0.003 (-1.234)	-0.006** (-2.438)	-0.006** (-2.452)	-0.005** (-2.165)	0.003 (1.310)
<i>CHGD_MGR</i>	0.198*** (9.266)	0.186*** (8.533)	0.230*** (8.683)	0.226*** (8.343)	0.077*** (2.892)	0.062** (2.264)
<i>CHGD_BUSUNIT</i>	-0.055 (-1.175)	0.014 (0.275)	-0.092* (-1.682)	0.036 (0.560)	0.006 (0.117)	-0.012 (-0.188)
<i>CHGD_FUNCTION</i>	0.005 (0.190)	0.025 (0.856)	0.023 (0.691)	-0.021 (-0.581)	-0.015 (-0.452)	0.062* (1.663)
<i>CHGD_CWORK</i>	0.075 (1.273)	0.088 (1.450)	0.085 (1.278)	0.133* (1.925)	0.019 (0.261)	-0.039 (-0.520)
<i>MALE</i>		0.048* (1.734)		0.080*** (2.807)		-0.021 (-0.786)
<i>AGE</i>		-0.012*** (-5.793)		0.003 (1.493)		-0.024*** (-11.943)
<i>FULL-TIME</i>		-0.026 (-0.382)		-0.057 (-0.792)		0.021 (0.284)
Intercept	-0.333*** (-10.496)	-0.185 (-0.759)	-1.417*** (-37.980)	-1.918*** (-7.641)	-1.233*** (-34.631)	-0.131 (-0.583)
Management Level FE?	No	Yes	No	Yes	No	Yes
Business Unit FE?	No	Yes	No	Yes	No	Yes
Function FE?	No	Yes	No	Yes	No	Yes
Country FE?	No	Yes	No	Yes	No	Yes
Year FE?	No	Yes	No	Yes	No	Yes
<i>N</i>	44,907	44,907	44,907	44,907	44,907	Yes
Pseudo R ²	0.0164	0.0244	0.0335	0.0423	0.0073	0.0188

Logit regressions with robust z-statistics in parentheses, adjusted for clustering at the employee level. *, **, ***, denote significance at the 0.10, 0.05, and 0.01 level, respectively. *Potential_Change* is an indicator equal to 1 if the employee's current year potential assessment differs to the prior year potential assessment. *Potential_Drop* is an indicator equal to 1 if the employee's current year potential assessment is lower (i.e. worse) than the prior year potential assessment. *Potential_Increase* is an indicator equal to 1 if the employee's current year potential assessment is higher (i.e. better) than the prior year potential assessment. *REC_PROM* is an indicator equal to 1 if the employee was promoted during the year. *TIMES_RATED* is the number of times (as of the current year) the employee has received a valid performance-potential assessment under the system. *TENURE_TOT* is the employee's total tenure with the company in years. *TENURE_LVL* is the employee's tenure at their current management level in years. *CHGD_MGR* is an indicator equal to 1 if the employee changed supervisor during the year. *CHGD_BUSUNIT* is an indicator equal to 1 if the employee moved to a different business unit during the year. *CHGD_FUNCTION* is an indicator equal to 1 if the employee moved to a different functional area during the year. *CHGD_CWORK* is an indicator equal to 1 if the employee moved to a different country during the year. *MALE* is an indicator equal to 1 if the employee is male. *AGE* is the employee's age in years. *FULL-TIME* is an indicator equal to 1 if the employee holds a full-time position with the company.

Table 6 – Changes in Performance Assessments

	<i>Performance_Change</i>		<i>Performance_Drop</i>		<i>Performance_Increase</i>	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>REC_PROM</i>	0.033 (0.848)	0.062 (1.548)	0.359*** (7.988)	0.410*** (8.947)	-0.405*** (-7.318)	-0.434*** (-7.752)
<i>TIMES_RATED</i>	0.001 (0.169)	-0.031*** (-2.846)	0.012 (1.626)	0.055*** (4.736)	-0.008 (-1.014)	-0.089*** (-8.080)
<i>TENURE_TOT</i>	-0.010*** (-6.323)	-0.008*** (-4.164)	0.007*** (4.625)	-0.004** (-2.515)	-0.024*** (-14.158)	-0.009*** (-4.145)
<i>TENURE_LVL</i>	-0.005** (-2.199)	-0.000 (-0.226)	0.003 (1.458)	-0.000 (-0.075)	-0.013*** (-4.741)	-0.001 (-0.379)
<i>CHGD_MGR</i>	0.146*** (6.907)	0.135*** (6.301)	0.243*** (9.665)	0.254*** (9.890)	-0.035 (-1.278)	-0.067** (-2.391)
<i>CHGD_BUSUNIT</i>	-0.094** (-2.044)	-0.004 (-0.074)	-0.041 (-0.787)	0.068 (1.120)	-0.115** (-2.024)	-0.095 (-1.404)
<i>CHGD_FUNCTION</i>	0.023 (0.834)	0.022 (0.767)	0.087*** (2.777)	0.050 (1.458)	-0.062* (-1.770)	-0.024 (-0.626)
<i>CHGD_CWORK</i>	0.257*** (4.513)	0.215*** (3.662)	0.504*** (8.272)	0.529*** (8.222)	-0.260*** (-3.223)	-0.329*** (-3.934)
<i>MALE</i>		0.088*** (3.175)		0.083*** (3.066)		0.068** (2.422)
<i>AGE</i>		-0.004** (-2.230)		0.017*** (8.978)		-0.026*** (-12.242)
<i>FULL-TIME</i>		0.156** (2.156)		0.004 (0.051)		0.277*** (3.349)
Intercept	-0.488*** (-15.417)	0.007 (0.032)	-1.747*** (-49.936)	-2.534*** (-11.130)	-1.115*** (-29.482)	0.042 (0.212)
Management Level FE?	No	Yes	No	Yes	No	Yes
Business Unit FE?	No	Yes	No	Yes	No	Yes
Function FE?	No	Yes	No	Yes	No	Yes
Country FE?	No	Yes	No	Yes	No	Yes
Year FE?	No	Yes	No	Yes	No	Yes
<i>N</i>	44,907	44,907	44,907	44,907	44,907	44,907
Pseudo R ²	0.0039	0.0110	0.0070	0.0149	0.0110	0.0220

Logit regressions with robust z-statistics in parentheses, adjusted for clustering at the employee level. *, **, ***, denote significance at the 0.10, 0.05, and 0.01 level, respectively. *Performance_Change* is an indicator equal to 1 if the employee's current year performance assessment differs to the prior year performance assessment. *Performance_Drop* is an indicator equal to 1 if the employee's current year performance assessment is worse than the prior year performance assessment. *Performance_Increase* is an indicator equal to 1 if the employee's current year performance assessment is better than the prior year performance assessment. *REC_PROM* is an indicator equal to 1 if the employee was promoted during the year. *TIMES_RATED* is the number of times (as of the current year) the employee has received a valid performance-potential assessment under the system. *TENURE_TOT* is the employee's total tenure with the company in years. *TENURE_LVL* is the employee's tenure at their current management level in years. *CHGD_MGR* is an indicator equal to 1 if the employee changed supervisor during the year. *CHGD_BUSUNIT* is an indicator equal to 1 if the employee moved to a different business unit during the year. *CHGD_FUNCTION* is an indicator equal to 1 if the employee moved to a different functional area during the year. *CHGD_CWORK* is an indicator equal to 1 if the employee moved to a different country during the year. *MALE* is an indicator equal to 1 if the employee is male. *AGE* is the employee's age in years. *FULL-TIME* is an indicator equal to 1 if the employee holds a full-time position with the company.

Table 7 – Performance-Potential Ratings and Voluntary Departures

	All Employees 2008 <i>Voluntary_Departure</i> _(t+1) (1)	All Employees 2009 – 2014 <i>Voluntary_Departure</i> _(t+1) (2)	All Employees 2009 – 2014 <i>Voluntary_Departure</i> _(t+1) (3)
<i>TOP-VERT 2 (T1)</i>	Base C (Omitted)	Base C _{T2, S1, S2, S3, S4, M1, M2, M3, M4} (Omitted)	Base C _{T2, T4, S1, S2, S3, S4, M1, M2, M3, M4} (Omitted)
<i>TOP-VERT 1 (T2)</i>	-0.023 _{T4, S1, S4, M3, M4} (-0.022)	0.680 _{T1, S1, S2, S3, S4, M1, M2, M3, M4} (2.226)	0.654 _{T1, S2, S3, S4, M4, M3, M4} (2.135)
<i>TOP-HORIZ (T3)</i>	0.212 _{T4, M3, M4} (0.202)	0.438 _{S1, S2, S3, S4, M1, M2, M3, M4} (1.272)	0.443 _{S1, S2, S3, S4, M1, M2, M3, M4} (1.278)
<i>TOP-WELL (T4)</i>	1.287 _{T2, T3} (1.185)	0.750 _{M3, M4} (1.404)	0.882 _{T1, M4} (1.648)
<i>STR-VERT 2 (S1)</i>	1.039 _{T2} (0.991)	1.004 _{T1, T2, T3, M2, M3, M4} (3.246)	0.921 _{T1, T3, M2, M3, M4} (2.966)
<i>STR-VERT 1 (S2)</i>	0.498 _{M3, M4} (0.501)	0.967 _{T1, T2, T3, M2, M3, M4} (3.350)	0.940 _{T1, T2, T3, M2, M3, M4} (3.259)
<i>STR-HORIZ (S3)</i>	0.540 _{M3, M4} (0.544)	1.025 _{T1, T2, T3, M2, M3, M4} (3.541)	1.021 _{T1, T2, T3, M2, M3, M4} (3.532)
<i>STR-WELL (S4)</i>	0.773 _{T2, M3, M4} (0.772)	1.040 _{T1, T2, T3, M2, M3, M4} (3.464)	1.047 _{T1, T2, T3, M2, M3, M4} (3.479)
<i>MOD-VERT 2 (M1)</i>	1.076 (0.866)	1.203 _{T1, T2, T3, M4} (2.960)	1.053 _{T1, T3, M4} (2.492)
<i>MOD-VERT 1 (M2)</i>	0.554 _{M3, M4} (0.544)	1.381 _{T1, T2, T3, S1, S2, S3, S4, M3, M4} (4.678)	1.361 _{T1, T2, T3, S1, S2, S3, S4, M3, M4} (4.610)
<i>MOD-HORIZ (M3)</i>	1.264 _{T2, T3, S2, S3, S4, M2} (1.271)	1.550 _{T1, T2, T3, T4, S1, S2, S3, S4, M2, M4} (5.333)	1.564 _{T1, T2, T3, S1, S2, S3, S4, M2, M4} (5.390)
<i>MOD-WELL (M4)</i>	1.613 _{T2, T3, S2, S3, S4, M2} (1.607)	1.825 _{T1, T2, T3, T4, S1, S2, S3, S4, M1, M2, M3} (6.144)	1.860 _{T1, T2, T3, T4, S1, S2, S3, S4, M1, M2, M3} (6.260)
<i>MALE</i>	0.050 (0.324)	-0.032 (-0.637)	-0.073 (-1.383)
<i>AGE</i>	-0.027** (-2.096)	-0.039*** (-9.391)	-0.049*** (-10.353)
<i>TENURE_TOT</i>	-0.116*** (-7.131)	-0.078*** (-16.450)	-0.076*** (-13.547)
<i>FULL-TIME</i>	-0.762* (-1.864)	0.014 (0.082)	0.027 (0.157)
<i>EXPAT</i>	-0.365 (-0.927)	-0.126 (-1.121)	0.046 (0.386)
<i>TENURE_LVL</i>			0.001 (0.087)
<i>REC_PROM</i>			-0.239*** (-3.156)
<i>REC_DEM</i>			-0.414 (-0.780)

<i>SALARYPOS</i>			0.004*** (4.944)
Intercept	0.295 (0.207)	-1.651*** (-3.536)	-1.705*** (-3.505)
Management Level FE?	Yes	Yes	Yes
Business Unit FE?	Yes	Yes	Yes
Region FE?	Yes	Yes	Yes
Year FE?	N/A	Yes	Yes
<i>N</i>	8,087	51,875	47,811
Pseudo R ²	0.1386	0.1004	0.1034
<i>Implied probabilities</i>			
All variables at mean	1.42%	2.50%	2.57%
<i>TOP-VERT 2 (T1)</i>	0.70%	0.83%	0.86%
<i>TOP-VERT 1 (T2)</i>	0.68%	1.63%	1.65%
<i>TOP-HORIZ (T3)</i>	0.86%	1.29%	1.34%
<i>TOP-WELL (T4)</i>	2.48%	1.75%	2.06%
<i>STR-VERT 2 (S1)</i>	1.94%	2.24%	2.14%
<i>STR-VERT 1 (S2)</i>	1.14%	2.16%	2.18%
<i>STR-HORIZ (S3)</i>	1.19%	2.29%	2.36%
<i>STR-WELL (S4)</i>	1.50%	2.32%	2.42%
<i>MOD-VERT 2 (M1)</i>	2.02%	2.72%	2.44%
<i>MOD-VERT 1 (M2)</i>	1.21%	3.24%	3.28%
<i>MOD-HORIZ (M3)</i>	2.42%	3.81%	3.99%
<i>MOD-WELL (M4)</i>	3.40%	4.96%	5.30%

Logit regressions with robust z-statistics in parentheses, adjusted for clustering at the employee level in columns (2) and (3). *, **, ***, denote significance at the 0.10, 0.05, and 0.01 level, respectively. A pairwise comparison that is significantly different at a 0.10 level of significance or better is indicated using the relevant abbreviation for the comparison category. *Voluntary Departure* is an indicator equal to 1 if the employee exited the company voluntarily during the year. *TOP-VERT 2 (T1)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Vertical Potential – 2 levels* assessment for potential. *TOP-VERT 1 (T2)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Vertical Potential – 1 level* assessment for potential. *TOP-HORIZ (T3)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Horizontal Potential* assessment for potential. *TOP-WELL (T4)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Well Placed* assessment for potential. *STR-VERT 2 (S1)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Vertical Potential – 2 levels* assessment for potential. *STR-VERT 1 (S2)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Vertical Potential – 1 level* assessment for potential. *STR-HORIZ (S3)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Horizontal Potential* assessment for potential. *STR-WELL (S4)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Well Placed* assessment for potential. *MOD-VERT 2 (M1)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Vertical Potential – 2 levels* assessment for potential. *MOD-VERT 1 (M2)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Vertical Potential – 1 level* assessment for potential. *MOD-HORIZ (M3)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Horizontal Potential* assessment for potential. *MOD-WELL (M4)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Well Placed* assessment for potential. *MALE* is an indicator equal to 1 if the employee is male. *AGE* is the employee's age in years. *TENURE_TOT* is the employee's total tenure with the company in years. *FULL-TIME* is an indicator equal to 1 if the employee holds a full-time position with the company. *EXPAT* is an indicator equal to 1 if the employee is on an international assignment. *TENURE_LVL* is the employee's tenure at their current management level in years. *REC_PROM* is an indicator equal to 1 if the employee was promoted during the year. *REC_DEM* is an indicator equal to 1 if the employee was demoted during the year. *SALARYPOS* is a measure of how the employee's salary compares to the market salary for a similar position (winsorized at the 1% and 99% levels).

Table 8 – Performance-Potential Ratings, Changes in Ratings, and Voluntary Departures

	Employees Assessed Under the System in 2008 2009 – 2014		
	<i>Voluntary Departure</i> _(t+1)		
	(1)	(2)	(3)
<i>POT_DROP</i>			0.347*** (3.269)
<i>POT_INC</i>			-0.236** (-1.979)
<i>PERF_DROP</i>			-0.053 (-0.468)
<i>PERF_INC</i>			0.080 (0.662)
<i>TOP-VERT 2 (T1)</i>	Base C ^{M4} (Omitted)	Base C ^{M4} (Omitted)	Base C (Omitted)
<i>TOP-VERT 1(T2)</i>	0.147 ^{T3, M2, M3, M4} (0.242)	0.073 ^{T3, S2, M2, M3, M4} (0.121)	-0.062 ^{T3, S2, M2, M3, M4} (-0.101)
<i>TOP-HORIZ (T3)</i>	-0.544 ^{T2, S1, S2, S3, S4, M2, M3, M4} (-0.827)	-0.554 ^{T2, S1, S2, S3, S4, M4, M3, M4} (-0.843)	-0.841 ^{T2, S1, S2, S3, S4, M1, M4, M3, M4} (-1.263)
<i>TOP-WELL (T4)</i>	-0.340 ^{M3, M4} (-0.376)	-0.333 ^{M3, M4} (-0.369)	-0.755 ^{M2, M3, M4} (-0.831)
<i>STR-VERT 2 (S1)</i>	0.517 ^{T3} (0.788)	0.431 ^{T3, M4} (0.650)	0.482 (0.730)
<i>STR-VERT 1 (S2)</i>	0.485 ^{T3, M3, M4} (0.836)	0.460 ^{T2, T3, M3, M4} (0.792)	0.384 ^{T2, S4, M3, M4} (0.658)
<i>STR-HORIZ (S3)</i>	0.394 ^{T3, M2, M3, M4} (0.679)	0.389 ^{T3, M2, M3, M4} (0.671)	0.180 ^{M2, M3, M4} (0.307)
<i>STR-WELL (S4)</i>	0.418 ^{T3, M3, M4} (0.710)	0.422 ^{T3, M3, M4} (0.717)	0.048 ^{S2, M2, M3, M4} (0.079)
<i>MOD-VERT 2 (M1)</i>	0.860 (0.698)	1.042 (0.823)	1.184 (0.932)
<i>MOD-VERT 1 (M2)</i>	0.773 ^{T2, T3, S3} (1.272)	0.746 ^{T2, T3, S3} (1.225)	0.714 ^{T2, S3, S4} (1.161)
<i>MOD-HORIZ (M3)</i>	0.914 ^{T2, T3, T4, S2, S3, S4} (1.567)	0.905 ^{T2, T3, T4, S2, S3, S4} (1.552)	0.760 ^{T2, S2, S3, S4} (1.286)
<i>MOD-WELL (M4)</i>	1.073 ^{T1, T2, T3, T4, S2, S3, S4} (1.826)	1.066 ^{T1, T2, T3, T4, S1, S2, S3, S4} (1.813)	0.744 ^{T2, S2, S3, S4} (1.240)
<i>MALE</i>	0.096 (0.996)	0.094 (0.963)	0.090 (0.919)
<i>AGE</i>	-0.043*** (-5.598)	-0.044*** (-5.586)	-0.038*** (-4.723)
<i>TENURE_TOT</i>	-0.086*** (-8.877)	-0.085*** (-8.782)	-0.083*** (-8.572)
<i>FULL-TIME</i>	-0.017 (-0.066)	0.096 (0.332)	0.078 (0.270)

<i>EXPAT</i>	-0.355* (-1.695)	-0.384* (-1.776)	-0.427** (-1.967)
<i>TENURE_LVL</i>	0.010 (0.862)	0.009 (0.719)	0.009 (0.735)
Intercept	-0.945 (-0.949)	-1.031 (-1.026)	-1.164 (-1.150)
Management Level FE?	Yes	Yes	Yes
Business Unit FE?	Yes	Yes	Yes
Function FE?	Yes	Yes	Yes
Region FE?	Yes	Yes	Yes
Year FE?	Yes	Yes	Yes
<i>N</i>	26,275	25,940	25,940
Pseudo R ²	0.1163	0.1152	0.1178

Implied probabilities

All variables at mean	1.47%	1.47%	1.46%
<i>POT_DROP=0</i>			1.43%
<i>POT_DROP=1</i>			2.02%
<i>POT_INC=0</i>			1.43%
<i>POT_INC=1</i>			1.14%
<i>TOP-VERT 2 (T1)</i>	0.90%	0.91%	1.13%
<i>TOP-VERT 1 (T2)</i>	1.05%	0.98%	1.06%
<i>TOP-HORIZ (T3)</i>	0.53%	0.53%	0.49%
<i>TOP-WELL (T4)</i>	0.65%	0.66%	0.53%
<i>STR-VERT 2 (S1)</i>	1.51%	1.40%	1.81%
<i>STR-VERT 1 (S2)</i>	1.46%	1.44%	1.64%
<i>STR-HORIZ (S3)</i>	1.34%	1.34%	1.35%
<i>STR-WELL (S4)</i>	1.37%	1.38%	1.18%
<i>MOD-VERT 2 (M1)</i>	2.11%	2.54%	3.59%
<i>MOD-VERT 1 (M2)</i>	1.94%	1.90%	2.27%
<i>MOD-HORIZ (M3)</i>	2.23%	2.22%	2.38%
<i>MOD-WELL (M4)</i>	2.60%	2.60%	2.34%

Robust z-statistics in parentheses, adjusted for clustering at the employee level. *, **, ***, denote significance at the 0.10, 0.05, and 0.01 level, respectively. A pairwise comparison that is significantly different at a 0.10 level of significance or better is indicated using the relevant abbreviation for the comparison category. *POT_DROP* is an indicator equal to 1 if the employee's current year potential assessment is lower (i.e. worse) than the prior year potential assessment. *POT_INC* is an indicator equal to 1 if the employee's current year potential assessment is higher (i.e. better) than the prior year potential assessment. *PERF_DROP* is an indicator equal to 1 if the employee's current year performance assessment is worse than the prior year performance assessment. *PERF_INC* is an indicator equal to 1 if the employee's current year performance assessment is better than the prior year performance assessment. *TOP-VERT 2 (T1)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Vertical Potential – 2 levels* assessment for potential. *TOP-VERT 1 (T2)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Vertical Potential – 1 level* assessment for potential. *TOP-HORIZ (T3)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Horizontal Potential* assessment for potential. *TOP-WELL (T4)* is an indicator equal to 1 if the employee received a *Top* assessment for performance and a *Well Placed* assessment for potential. *STR-VERT 2 (S1)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Vertical Potential – 2 levels* assessment for potential. *STR-VERT 1 (S2)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Vertical Potential – 1 level* assessment for potential. *STR-HORIZ (S3)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Horizontal Potential* assessment for potential. *STR-WELL (S4)* is an indicator equal to 1 if the employee received a *Strong* assessment for performance and a *Well Placed* assessment for potential. *MOD-VERT 2 (M1)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Vertical Potential – 2 levels* assessment for potential. *MOD-VERT 1 (M2)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Vertical Potential – 1 level* assessment for potential. *MOD-HORIZ (M3)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Horizontal Potential* assessment for potential. *MOD-WELL (M4)* is an indicator equal to 1 if the employee received a *Moderate* assessment for performance and a *Well Placed* assessment for potential. *MALE* is an indicator equal to 1 if the employee is male. *AGE* is the employee's age in years. *TENURE_TOT* is the employee's total tenure with the company in years. *FULL-TIME* is an indicator equal to 1 if the employee holds a full-time position with the company. *EXPAT* is an indicator equal to 1 if the employee is on an international assignment. *TENURE_LVL* is the employee's tenure at their current management level in years.