From Performance To Potential: Rethinking Leadership Identification In The Indian Public Sector

Authors
[1]Shaikhom Joy Meetei; [2]Dr. Yumnam Surbala Devi

[1]**Chief Manager (HR)**
[2]**Associate Professor**

[1]**Grid Controller of India Ltd, New Delhi, India**

[2]**AIIMS, New Delhi, India**

Abstract: In every organization, there are two realities which cannot be ignore. (1) Performance today does not guarantee success in a tougher role tomorrow. (2) Traditional promotions based on manager gut feel lead to costly missteps. The missing link is a rigorous, evidence-based evaluation of actual leadership capability rather than assumptions. The leadership potential assessment may address this gap by providing structured insights into an individual's readiness to lead, influence, and think strategically, thereby strengthening leadership pipelines. For instance, a high-performing employee may excel in technical delivery yet struggle with team leadership or long-term planning when promoted, revealing the difference between past performance and future potential. Identifying and nurturing future leaders therefore requires systematic approaches that uncover vision, influence, resilience, and the ability to guide teams through challenges - qualities that inspire people to follow and enable organizations to build sustainable leadership capacity.

Prior to 1991, public sector organizations in India largely operated within a protected environment, with limited competitive pressures. Performance appraisal systems were often designed to avoid confrontation between the reporting officer and the employee, resulting in uniformly high ratings that does not distinctions between high and low performers. This lack of differentiation created challenges in identifying suitable successors for leadership roles, with seniority frequently becoming the dominant criterion in succession planning rather than demonstrated capability or potential leadership. This paper highlights the performance plateau effect in evaluation have distinct and clear differentiate in the leadership potential assessment between the same cohort. The paper also suggested of ensuring continuity of expertise and leadership, while retaining and developing intellectual capital in key positions to mitigate market risks and support individual advancement within the public sector - where institutional knowledge, consistency, adaptability, and long-term commitment are vital. The study advocates for a more inclusive and context-sensitive approach to leadership identification that moves beyond plateaued performance ratings and seniority-based progression. It further contributes to the sociology of development and inequality by illustrating how organizational assessment systems can convert formal equality in performance evaluation into substantive inequality in leadership opportunity and recognition.

Keywords: Performance, Seniority, Public Sector, Leadership, Assessment Development Centre.

1. INTRODUCTION

The contribution of the Indian Public Sector Enterprises (PSEs) in transforming of the country's economy is commendable. Their significant contribution for the country over the decades in nation building, post-independence is undeniable. Their operation has supplemented the growth of nation economy through rigorous transformational changes, shaping the dynamic India. They operate within complex policy frameworks, with high accountability, and long-term service mandates. From the seeding phase of 1950-69, to build modern industrial country with the growth of indigenous capital goods. Indian PSE has been the key players in the corporate sector and, over the years, they have garnered a significant presence in strategic sectors like aerospace, defence and many other self-reliant. Since inception, Indian public sector has stood with the nation in sailing the tough time and always remain committed for the service of the country. With their perseverance, prowess and performance, shown through their resilient during the challenging times of global recession, they have emerged stronger and more competitive than ever. They have not only achieved record levels of profitability, productivity, and revenue, but have also played a significant role in strengthening the country's social fabric. As the world increasingly functions as a global village, Public Sector Enterprises (PSEs) have expanded their horizons and are now extending their presence beyond national boundaries to establish an international footprint. At the same time, they continue to emphasize building a robust capital base in core sectors such as railways, steel, power, oil, telecommunications, mining, and transportation. The sector was restructured post 1984, to overhaul Public sector, especially after 1991 that's pushes for efficiency, privatization or listed. The sector Reorganized and Rethink post 2021 exploring new ideas in important and strategic areas such as defence, manufacturing, green power and green technology, with an emphasis on improving competitiveness, innovation and adopt new technology, engage more in global trade and enhance value addition in India to celebrate the "Make in India" for the "Viksit Bharat 2047".

As on 31 March 2025, with a total paid-up capital of ₹6.87 lakh crore and cumulative financial investment of ₹31.65 lakh crore. The overall capital employed across all CPSEs stands at ₹47.87 lakh crore, while operating CPSEs generated a gross operational revenue of ₹37.01 lakh crore (ref: https://scopeonline.in/psu).

2. Background & Literature Review:

Developing Leaders is the one skill that unanimously emerged as a key gap in any organization, particular with the public sector. In order to prepare the organization for the future, leaders must develop a long-term view, have a strategic perspective and be able to anticipate the future. Leadership effectiveness depends not only on exceptional individual performance and seniority. Amid a rapidly evolving external environment, leadership require skills to navigate dilemmas such as: doing well and doing good; balancing operational flexibility with hardwired practices; growth focus while navigating dispersed reporting; evolving with time while upholding traditional values; maintaining equity as they push for excellence; and balancing risk aversion and future orientation. Many fortune 100 private sector organization models emphasis where leadership pipelines prioritize rapid advancement of high-potential individuals, public sector career trajectories are typically longer, structured, and governed by institutional norms (Boyne et al. 2010). Thus resulting faster career advancement in private sector in comparative to their counterpart in public sector. This paper examines the proposition that beyond.

In 2020, we have seen a crisis it has not seen before. And to steer the mass of humanity through this crisis, even the leadership had to transform and reinvent themselves. The pandemic brought more meaningful to the importance of visionary leaders. Leaders who could lead through a crisis with a balanced head, think critically, and keep their heads straight even as the worst hit us. Leaders who took risk and manage their teams in situations unheard of before.

In the era of uncertainty, organizations often concentrate on what they do know: They look for people who've taken on more responsibility in their careers or have nailed their performance targets. In short, they look for future leaders by focusing on past track records. This approach can be effective when filling well-defined roles, particularly where candidates have already demonstrated the required competencies and attributes. However, past performance doesn't tell you who can do things they *haven't* done before. It also doesn't help identify high potentials earlier in their career. The leadership pipeline could be missing out on other, potentially richer sources of talent - people who haven't had equitable access to mentoring, sponsorship, development, and advancement opportunities.

To address such situation, organization should consider of having their own model for predicting leadership potential that's grounded not in achievements but in observable, measurable behaviours. Like ability to grow and how they leverage their intellect, motivations, and interpersonal style.

3. Case Study for differentiation of performance evaluated by the organization and the leadership potential assessment through third party Assessment Development Centre (ADC)

A study was conducted for 390 senior experienced cohorts with more than 20 years of service in one of the large and successful public sector organization in India where performance ratings are consistently high with limited variance. The organization is widely recognized for its robust policies and significant national impact, and all key positions - particularly those up to two levels below the Board are classified as critical roles.

3.1 Methodology:

3.1 (i) Performance Score and Identification of sample

Key positions expected to become vacant in the coming years due to retirements and resignations were systematically mapped. A comprehensive inventory of these critical roles was developed to form the basis for identifying potential candidates for elevation to the next higher grade. Accordingly, 390 candidates were included in the study. The eligibility criteria required that candidates be positioned one level below the post anticipated to fall vacant, with selection further guided by organizational norms such as age, length of service, and minimum tenure in the current grade.

Performance scores of all 390 officials over the preceding four years were considered for analysis. Performance was evaluated on a scale of 1 to 5, where 5 represented the highest rating and 1 the lowest, resulting in a maximum cumulative score of 20 across four years. The performance assessment captured dimensions such as technical competence, achievement of targets, and key performance indicators related to stakeholder management. The performance data corresponded specifically to each candidate's eligibility period, for example, the four years of service in the present grade.

3.1 (ii) Assessment Development Centre (ADC)

All 390 participants underwent an Assessment and Development Centre (ADC) process to evaluate behavioural competencies and leadership potential using the organization-approved framework of 10 competencies. Each competency was rated on a scale of 1 to 5, where 5 represented the highest and 1 the lowest, resulting in a maximum total competency score of 50. The assessment methods included group exercises, role plays, presentations, case analyses, model behaviour simulations, and the critical incident technique, among others. The ADC process was designed to assess behavioral strengths, leadership potential, and alignment with future role requirements, thereby identifying areas where individual capabilities could be most effectively leveraged.

The framework of 10 competencies behavioral are as under:

1. Strategic Orientation
2. Customer Focus
3. Planning and Decision Making
4. Winning with Collaboration
5. Achievement Orientation
6. Process / System Excellence
7. Execution Excellence
8. People Development
9. Communication
10. Change Orientation

3.2 Data Analysis and Discussion

Data set, Sample size = (N = 390)

Table 1: 9 box Performance /Potential Matrix			
Leadership /Performance	**Low**	**Medium**	**High**
High Potential	37	45	48
Medium Potential	37	43	50
Low Potential	56	44	30

Table 2: Descriptive Analysis					
Variable	**Mean**	**Standard Deviation (SD)**	**Min**	**Median**	**Max**
Performance Score	19.45	0.39	17.08	19.56	19.97
Leadership Potential Score	23.45	3.36	12.08	23.44	35.66
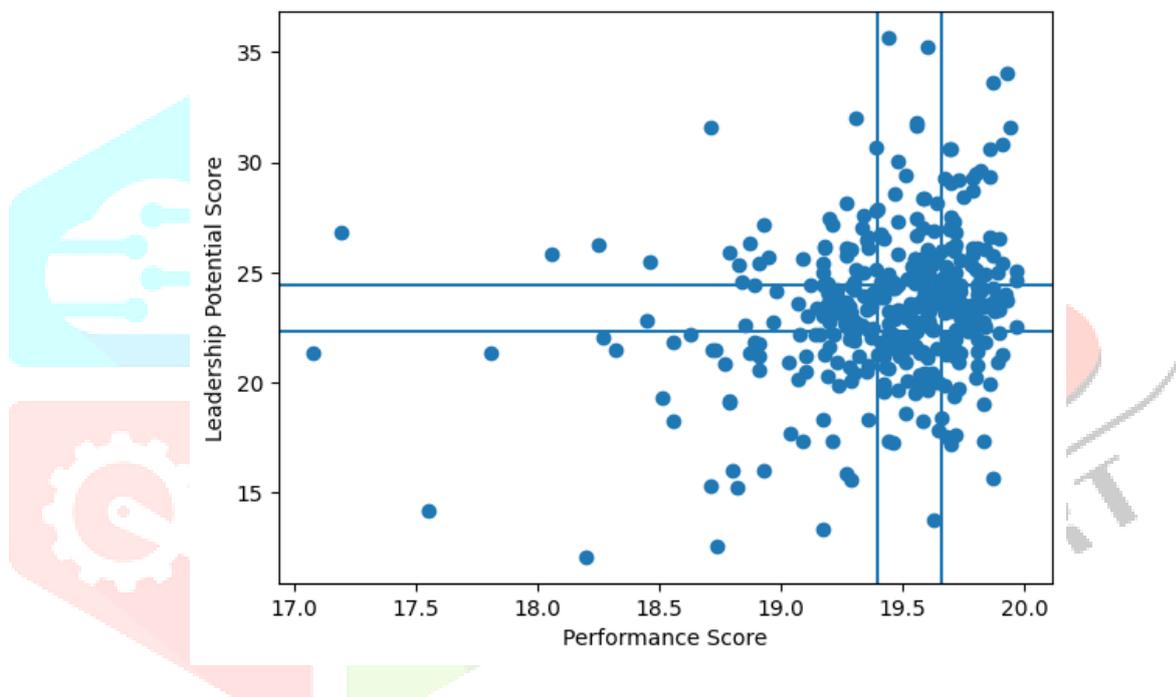
Graph 1: Tertile cut - offs: Performance Score and Potential Score

Observation of Variable

Performance Score Distribution

- Very low variability **(SD = 0.39).**
- Performance Score (narrow range: 17.08 to 19.97)
- Scores are tightly clustered between 19 - 20, indicating rating inflation or plateauing effect.

Leadership Potential Score Distribution

- Much higher variability **(SD = 3.36).**
- Wider range (wider range: 12.08 to 35.66)
- Demonstrates stronger discriminatory capacity compared to performance ratings.

3.2 (i) CORRELATION ANALYSIS (PERFORMANCE / LEADERSHIP POTENTIAL SCORE):

A Pearson product - moment correlation was conducted to examine the relationship between Performance and Leadership (DC) scores. Results indicated a small negative, non-significant correlation.

Pearson Correlation (r) = 0.229

Interpretation

- The correlation is **positive but weak**.
- Higher performance ratings are not meaningfully associated with higher leadership (ADC) scores.
- This indicates that the relationship is **not strong enough** to rely on performance ratings alone for identifying leadership readiness.
- The data suggest **performance rating plateauing effect,** where most employees receive similar high ratings.

This supports the argument that leadership potential assessment provides stronger differentiation among employees than performance ratings at senior levels, particularly in organizational contexts where performance scores show limited variability of **Standard Deviation (SD=.39)** and that of Leadership potential score has wider **SD=3.36**. The data further shows weak correlation between performance score and leadership potential score. The results further reinforce the proposition that performance ratings alone may be insufficient for distinguishing leadership readiness, especially at higher organizational levels where rating compression is common. The divergence observed between performance and leadership scores suggests that Development Centre assessments are more effective in capturing forward-looking leadership capabilities - such as learning agility, systems thinking, and decision-making under ambiguity - that may not be adequately reflected in annual performance appraisals.

3.2 (ii) Regression Analysis (Performance / Leadership Potential Score):

A simple linear regression analysis was conducted to examine whether performance scores predicted leadership potential.
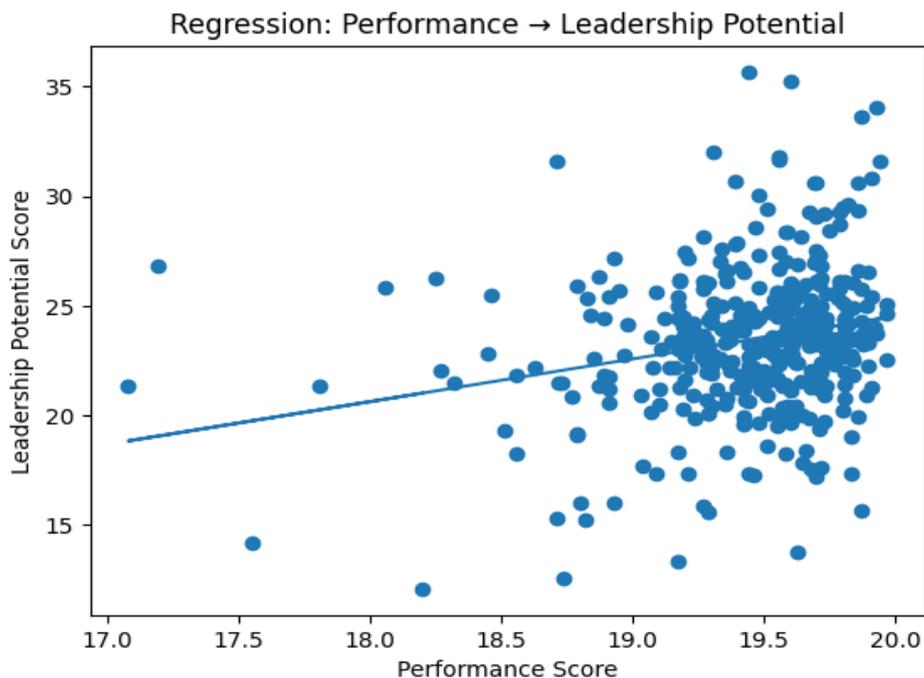
Graph 2: Regression analysis of dataset (N = 390), where Performance Score **predicts** Leadership Potential Score**.**

   = R² (Coefficient of Determination) =0.053

Interpretation

- The $R^2 = 0.053$ indicates that performance ratings account for only a small proportion of leadership potential differences ie. only **5.3%** of the variance in leadership potential.
- Approximately **94.7% of variation** in leadership potential is explained by other factors.

The regression results showed that performance was a statistically weak predictor of leadership potential **($R^2 = .053$)**, indicating that performance ratings explained only 5.3% of the variance in leadership potential scores. The low explanatory power suggests that leadership potential is shaped by a broader set of competencies that extend beyond measurable performance outcomes alone.

Conclusion

Identifying next-generation leaders remains a complex challenge for organizations because future role demands are uncertain, and traditional indicators such as past performance alone do not adequately predict future leadership effectiveness. This study reinforces the view that leadership success extends beyond operational performance, particularly in the public sector, where leaders must balance commercial viability with national service obligations and broader societal impact. Public sector leaders operate within competing expectations - delivering financial outcomes while upholding social responsibility - which requires ethical judgment, resilience, and the ability to navigate complex stakeholder environments.

The findings strongly reinforce the argument that performance ratings alone are insufficient for identifying leadership readiness, particularly at senior organizational levels where rating compression is prevalent. Employees with similarly high performance scores exhibited considerable variation in leadership potential, indicating that performance evaluations do not adequately capture future leadership capability. In this given data above, the leadership assessment tools offer significant additional discriminatory value beyond conventional performance management systems.

The findings further emphasize that effective leadership in contemporary contexts demands agility to respond to rapidly changing competitive conditions, innovative and courageous thinking to build dynamic organizational capabilities, and the integration of transformational and transactional behaviours to foster innovation and strategic collaboration. Strategic leadership becomes especially critical in volatile, uncertain, complex, and ambiguous (VUCA) environments, where business model adaptation and forward-looking decision-making are essential. Leadership competencies play an increasingly important role in strengthening market orientation, partnerships, and organizational responsiveness. Evidence further indicates that employees with consistent high performance may not necessarily have higher leadership potential. The leadership effectiveness is driven by organizational fit during the time of uncertainty

References

[1] Standing Conference of Public Enterprises (SCOPE), n.d., Public Sector Undertakings in India, Available at: https://scopeonline.in/psus/

[2] People Matters, n.d., Identifying Future Leaders Through Assessments, Available at: https://www.peoplematters.in/article/leadership/identifying-future-leaders-through-assessments-28785

[3] AIHR Academy, n.d., What is Succession Planning?, Available at: https://www.aihr.com/wp-content/uploads/What-Is-Succession-Planning.png

[4] AIHR Academy, n.d., The 9-Box Grid Explained, Academy to Innovate HR, Available at: https://www.aihr.com/

[5] Kaya Y., 2023, Agile Leadership from the Perspective of Dynamic Capabilities and Creating Value, Sustainability, Vol. 15, 15253, Available at: https://doi.org/10.3390/su152115253

[6] Rothwell W. J., 2010, Effective Succession Planning: Ensuring Leadership Continuity and Building Talent from Within, 4th Edition, New York, AMACOM.

[7] Harvard Business Review, 2022, How to Spot and Develop High-Potential Talent in Your Organization, Available at: https://hbr.org/2022/05/how-to-spot-and-develop-high-potential-talent-in-your-organization

[8] ICFAI Publications, n.d., Introduction to Human Resource Management, Hyderabad, ICFAI University Press.

[9] Standing Conference of Public Enterprises (SCOPE) and Center for Creative Leadership (CCL), n.d., Future–Fluent Nation Builders: State of Leadership in Public Sector in India, Research Report, New Delhi, SCOPE.

[10] HR Footprints Management Services Pvt. Ltd., 2026, Assessment & Development Centres: The Hidden Engine Behind Future-Ready Leaders, Simplifying Excellence, Available at: https://www.linkedin.com/

[11] Lišková S. and Tomšík P., 2013, Competency-Based Approach to Human Resources Management, Agricultural Economics – Czech, Vol. 59, No. 11, pp. 496–504.

[12] Walker R. M., Boyne G. A. and Brewer G. A. (Eds.), 2010, Public Management and Performance: Research Directions, Cambridge, Cambridge University Press.

[13] Harvard Business School, n.d., Grooming Next Generation Leaders, Available at: https://www.library.hbs.edu/working-knowledge/grooming-next-generation-leaders.