



Insights from The Clarion Institute

The War for Talent Lessons from the Front

By William McKendree

Businesses have been warned that if they lose the war for talent, then their company will die. Granted, human talent is a large, risky and expensive asset that must be managed well. But concentrating on talent development without equal attention to business strategy and management infrastructure is likely to backfire.

At The Clarion Institute, we believe that, while particular approaches may come and go, any successful business must have an operating model that aligns three core business components: business strategy, management infrastructure, and organization behavior. Our premise is that a focus on one component to the exclusion of the others will undermine business performance.

And that's our concern about the recent emphasis on talent development as the primary route to a company's success. Instead, we believe that the real challenge is to both develop strong talent and reward actual performance and also to create an inclusive culture buttressed by systems and disciplined management that bring out the best in people. Ultimately, this challenge falls squarely in the lap of the CEO.

Driven by CEO, not Human Resources

Many successful CEOs have come to realize that they play a key role in the quality and career progression of their people, a role that requires their sponsorship, active involvement, and articulation of the business need. Those CEOs most involved in grooming company leaders claim to spend 30-40% of their

time in this endeavor, interviewing all senior manager hires, teaching in some of the management development programs, and participating in quarterly succession and high talent planning sessions.

One organization that has sustained talent development over time is General Electric where CEO Jack Welch was personally involved in the hires of the company's top 300 executives. GE's talent development process features stretch assignments, performance feedback from multiple sources (360° feedback), and targeted executive education.

A CEO-driven approach to talent is a clear departure from the days when Human Resources led the company's talent charge. Yet, experience has shown that when someone other than the CEO (typically Human Resources) has been the stimulus, efforts falter. Managers might comply with the process for one cycle of activity but gradually opt out of attending talent discussions, interviewing yet another candidate for a senior position, or having lunch with yet another high potential employee. Eventually, HR has a harder and harder time getting executives and managers to provide the information needed to keep the process going. Not surprisingly then, such efforts acquire a "program du jour" reputation and are apt to fade away into oblivion.

Even with CEO sponsorship, talent development is not without its difficulties. Company managers complain about the paper-intensive process involved in assessing employees. And even though moving people into different company positions often provides a good de-

velopment opportunity for a talented individual, it can leave a manager short-handed and a department in confusion. So, given these difficulties, why are some companies so focused on talent development?

A Call to Arms

While the United States' economy and the size of its workforce are predicted to grow over the next decade, this forecast includes an anticipated decline in the age group that traditionally supplies companies with its future leaders, setting up an increased demand and decreased supply scenario. Because companies will have to compete for leadership talent, the need to recruit, develop, and retain talent has moved to the forefront of business concerns.

Indeed, The War for Talent, a book released in 2001 by researchers at McKinsey & Company, trumpets a call to arms for companies concerned about attracting their fill of talent. The supply/demand imbalance could set off a virtual "war" among companies determined to meet (or exceed) their share of talent. Based on surveys of over 6000 executives at more than 60 companies, the book claims that when companies focus on attracting, developing and retaining talent, they reap real results, not only in terms of better individual job performance but also in markedly improved financial results. According to these researchers, companies that developed a talent "mindset" showed an average of 22 percent higher return to shareholders than did other companies. While the book makes talent development the responsibility of everyone in the company, it reinforces talent management as the top CEO priority. Larry Bossidy, Allied Signal CEO, was quoted as saying, "At the end of the day, we bet on people, not strategies."

The McKinsey research builds on Brad Smart's 1999 book Topgrading that proposed sorting talent into "A," "B," and "C" players and rewarding them accordingly. As the top 10%-20% of managers, "A" players receive the highest compensation and the plum assignments. "B" players represent the 60-70% of managers who should be developed, hopefully

into A players. "C" players are the bottom 10-20% who must ramp up quickly or face a job change, either in or out of the company.

Smart advises that putting lots of resources into "C" players is the equivalent of throwing good money after bad. Not only do C players get sub-par results but they also have a negative impact on others. According to Smart, C players fail to recruit top talent, inhibit the development of talented people, and so taint the organization's morale that better performers sometimes leave the company. Better to bank on A players to lead the company to a competitive position, even though recruiting and retaining such talent comes with a hefty price tag.

Backlash to War

But this very focus on and differentiation of talent may set up a debilitating dynamic of arrogance and internal competition that flies in the face of learning, sharing information, and working collaboratively. Some critics have gone so far as to cite the Enron debacle as an example of the ultimate talent-focused company gone awry. With a star system that each year brought in 250 top MBA graduates lured by storied compensation packages (said Enron's Richard Foster, "We hire very smart people and we pay them more than they think they are worth)," Enron is now bankrupt. Somewhere along the line, Enron lost not only its ethical grounding but also its profit orientation, preferring instead to let its star talent pursue business opportunities that interested *them*, sometimes losing sight of customers and shareholders. Likewise, when a company constantly looks outside to find its talent, internal candidates feel overlooked and undervalued.

Along with the proponents of emotional intelligence, Malcolm Gladwell asks in his *The New Yorker* article, "What if smart people are overrated?" He posits that it is not so much one's intelligence that produces outstanding results as it is a company's systems facilitating and coordinating the work of many people. In fact, he believes that it is the *systems* that make people smart, not the other

way around. He criticizes Enron for rapidly advancing talented people without giving them the time to achieve results or without adequately evaluating their performance. Even more disturbing was Enron's practice of tolerating repeated failures from the same individuals in the name of providing them opportunities to learn from their mistakes. Gladwell wonders, "If talent is defined as something separate from an employee's actual performance, what use is it, exactly?"

Critics of the talent war continue. In his *Organizational Dynamics* article, Stanford's Jeffrey Pfeffer points out that effective teams outperform even more talented collections of individuals. He adds that labeling and directing the resources of time and attention to only a few stars becomes a self-fulfilling prophecy that causes others to perform below their potential. Within a company like Enron intent on topgrading its talent, the top 10% (A players) received bonuses two thirds higher than those in the next 30% while those at the bottom received nothing. With B players the "also-rans," C players the "losers," and internal candidates "chopped liver," only the A players came out as "winners," not a dynamic that creates a vibrant, committed, and sharing organization culture.

Everyone is a Winner

All researchers agree that most employees care about company culture. Pfeffer extols the virtues of an inclusive culture for leveraging people's particular contributions and the McKinsey researchers acknowledge that a positive company culture attracts and retains talented people.

And agreement exists on the key elements that constitute an attractive company culture. Specifically, people want to work for a company with a compelling mission and strong values so that they can take pride in their company. They want to have challenging work and opportunities for skill development.

They want to feel that they can make a difference, that their contributions are appreciated and their voice is heard by senior managers and colleagues. They want a company that engenders trust, encourages open communication, and shares information. They want to act as a partner in a business characterized by teamwork and mutual commitment. They want some autonomy in how they approach their work and some flexibility in accommodating work to their preferred lifestyle.

Unfortunately, topgrading focuses the company on the individual, not on the needs of groups or even the entire company. When a company creates a culture that kowtows to its stars, it runs the risk of alienating everybody else and underutilizing their talent. Such companies fail to build the climate and systems that capitalize on everybody's talent.

There are other companies, however, that do seek to maximize everybody's contributions. For instance, at Toyota, Proctor and Gamble, and Southwest Airlines, disciplined management, efficient systems, and a supportive culture have cultivated teamwork among ordinary people and have led to sustained, excellent business results. Perhaps Pfeffer's preference for effective teams over collections of talented individuals has enough merit to put an end to the "war for talent" rhetoric.

Lessons from the Front

The real challenge for CEOs and their senior managers is to balance and align the three operating model components (business strategy, management infrastructure, and behavior) that compete for their attention. The table below outlines each core business component and its implication for talent development.

Aligning Talent Development with the Business Operating Model

Core Business Component	Key Considerations	Talent Alignment
<p>Business Strategy <i>(How an organization navigates the business environment, competes and delivers value to customers)</i></p>	<ul style="list-style-type: none"> ▪ Value Propositions <i>Product Leadership</i> <i>Customer Intimacy</i> <i>Operational Excellence</i> ▪ Stage of Evolution <i>Young Company</i> <i>Established Company</i> <i>Mature Company</i> ▪ Compelling vision and values ▪ Metrics for key business drivers 	<ul style="list-style-type: none"> ▪ Link between business strategy and talent development articulated by CEO ▪ CEO sponsorship and involvement in recruiting, developing and retaining talent. ▪ Leadership profile/ competency model
<p>Management Infrastructure <i>(How an organization produces work, moves information, and makes decisions through its internal processes and functions)</i></p>	<ul style="list-style-type: none"> ▪ Governance ▪ Planning and decision-making/accountability ▪ Organization structure and job design ▪ Information systems ▪ Business processes 	<ul style="list-style-type: none"> ▪ Systems and processes that facilitate the work of all employees ▪ Human resource systems aligned to competency model <i>Recruitment</i> <i>Performance Management</i> <i>Succession Planning</i> <i>Talent Development</i> <i>Compensation</i> <i>Rewards for Individuals and Groups</i>
<p>Behavior <i>(How employees, especially leaders, need to operate, individually and collectively, in order to align with a particular business strategy)</i></p>	<ul style="list-style-type: none"> ▪ Values and beliefs ▪ Management style 	<ul style="list-style-type: none"> ▪ Leveraging individuals' particular talents ▪ Mentoring ▪ Trust and mutual commitment ▪ Shared information, open communication ▪ Collaboration and teamwork ▪ Flexibility to accommodate a variety of lifestyles

In summary, CEOs and senior managers must develop strong talent and reward actual performance within an inclusive culture facilitated by disciplined management and systems that bring out the best in people. When Enron leaders boast, "We allow people to go in whichever direction that they want to go," they are shirking their responsibility for disciplined management. Playing to the interests of the company's stars may play havoc with the smooth functioning of existing operations, stability of the book of business, customer satisfaction, and perhaps the long-term, bottom line, best interest of the company.

In our work with executives intent on grooming talent, we repeatedly have seen the following elements as crucial to the success of their efforts:

Strategy

- CEO understands and articulates the link between the business strategy and talent development
- CEO believes in and is personally involved in talent development (e.g., interviews for all senior management hires, talent development discussions, etc.)

- CEO keeps perspective on all key business drivers, only one of which is talent development
- Guided by Human Resources, CEO and senior managers develop a leadership profile (or competency model) needed to meet the company's present and future strategic objectives

Management Infrastructure

- Senior managers fix systems and business processes in order to facilitate the work of all employees
- CEO brings sound discipline to management processes
- Human Resources applies the competency model to all human resource processes (e.g., hiring, succession planning/ talent development discussions and plans, performance management)
- Senior managers gather relevant, results-focused, objective quantitative and qualitative information from multiple sources for discussion of all company assets, including human capital
- Guided by Human Resources, senior managers and their staffs assess employee performance

Behavior

- Senior managers facilitate high performance of groups as well as individuals
- Senior managers encourage sharing information, asking for help, and collaborating

- Senior managers value all company employees

In addition, we have learned that companies vastly underestimate the amount of time and high touch required to successfully mentor and develop talent, to know what really motivates each individual. When Jack Welch says, "Top talent must be loved, nurtured, and rewarded in the soul and the wallet, because they are the ones who make magic happen," he is talking about high touch, a dimension where most companies are failing.

High touch requires people to mentor talented leaders, people to learn what makes them stay at the company and, likewise, what might induce them some day to leave, people to understand their hopes and dreams; in short, people who genuinely care. Especially in large, decentralized companies with many field employees, it is difficult to know everybody. In addition, there is a revolving door of young employees in search of career development, mentoring, and higher compensation who routinely leave one company for another. All too frequently, the company doesn't know who is walking out the door and the extent of its loss.

So, in the final say, is talent development important? Absolutely. Equally important, however, are the business strategy, a disciplined and efficient management infrastructure, and organization behavior that produces an inclusive culture, that recognizes individuals and groups for their performance and that brings out the best in everybody.

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