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SPOTLIGHT ON LEADERSHIP: THE NEXT GENERATION

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How to Keep Your Top Talent

by Jean Martin and Conrad Schmidt

Included with this full-text *Harvard Business Review* article:

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How to Keep Your Top Talent

Idea in Brief

Nearly 40% of internal job moves involving high potentials end in failure. If you want to keep your rising stars on track...

1. Don't just assume they're engaged. If emerging leaders don't get stimulating work, lots of recognition, and the chance to prosper, they can quickly become disenchanted.

2. Don't mistake current high performance for future potential. Stars will have to step up into tougher roles. Explicitly test candidates for three critical attributes: ability, engagement, and aspiration.

3. Don't delegate talent development to line managers. That only limits stars' access to opportunities and encourages hoarding of talent. Manage the quantity and quality of high potentials at the corporate level.

4. Don't shield talent. Place stars in "live fire" roles where new capabilities can—or must—be acquired.

5. Don't assume high potentials will take one for the team. A critical factor determining a rising star's engagement is the sense that she is being recognized—primarily through pay. So offer A players differentiated compensation and recognition.

6. Don't keep young leaders in the dark. Share future strategies with them—and emphasize their role in making them real.

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Spotlight on Leadership: The Next Generation

How to Keep Your Top Talent

by Jean Martin and Conrad Schmidt

Practically every company these days has some form of program designed to nurture its rising stars. With good reason—these high-achieving individuals can have an enormous impact on business results.

Programs aimed at this class of talent are usually organized around some sort of annual nomination process and offer targeted leadership-development opportunities such as business rotations and special stretch assignments. But despite the prevalence of these programs, most haven't delivered much in the way of results. Our recent research on leadership transitions demonstrates that nearly 40% of internal job moves made by people identified by their companies as "high potentials" end in failure.

Moreover, disengagement within this cohort of employees has been remarkably high since the start of the recession: In a September 2009 survey by the Corporate Executive Board, one in three emerging stars reported feeling disengaged from his or her company. Even more striking, 12% of all the high potentials in the companies we studied said they were actively searching for a new job—suggesting that as the economy rebounds and the labor market warms up, organizations may see their most promising employees take flight in large numbers.

Why do companies so often end up with a shortfall in their talent pipeline? And what distinguishes organizations that have been able to prepare their rising stars for postpromotion success? Working directly with human resources officers, we and our research team at the Corporate Leadership Council have examined current practices to identify what works (and what does not). We have studied more than 20,000 employees dubbed "emerging stars" in more than 100 organizations worldwide over the past six years, exploring how they viewed their employers, how they were managed, and how they reacted to changes in the economy.

Throughout different industries and countries, and in both booms and busts, our findings were consistent: With startling clarity, they showed that most management teams stumble badly when they try to develop their next generation of leaders. Senior managers tend to make misguided assumptions about these employees and take actions on their behalf that actually hinder their development. In isolation or in combination, these mistakes can doom a company's talent investments to irrelevance—or worse. In this article we'll take a closer look at the six most common errors, and by highlighting what some organizations are doing right, we'll show what can be done to correct them.

Mistake 1: Assuming That High Potentials Are Highly Engaged

You've assembled the newest crop of candidates for your fast track, and your CEO is about to step forward to address the group. The room is filled with bright, shining talent. It would seem fair to assume that this group, of all the crowds you could have assembled, comprises people who are enthusiastic about your company. But if your young stars are anything like those at the companies we've studied:

- One in four intends to leave your employ within the year.
- One in three admits to not putting all his effort into his job.
- One in five believes her personal aspirations are quite different from what the organization has planned for her.
- Four out of 10 have little confidence in their coworkers and even less confidence in the senior team.

Why all the negativity? Our study of this group suggests two main reasons: outsized expectations and lots of alternatives. Many of these employees set an incredibly high bar for their organizations. Precisely because they work harder (and often better) than their peers, they expect their organizations to treat them well—by providing them with stimulating work, lots of recognition, compelling career paths, and the chance to prosper if the organization does. So when the organization is struggling—as most are these days—your star players are the first to be disappointed. Meanwhile, they are much more confident than their rank-and-file peers about their ability to find new jobs and are much less passive about researching other opportunities. As a result, when organizations cut back and ask employees to "tough it out," the stars will be the first to say, "No thanks. I'd rather find an employer who appreciates the high level of contributions I'm making."

The downturn has also taken a measurable toll on morale. Since 2007, when companies began adjusting their strategies and curbing spending in response to the weakening economy, employee engagement has plunged. The number of employees who can be described as "highly disengaged"—those most critical of their coworkers, admittedly reducing their effort, and looking for new employment opportunities—has more than doubled, from 8% in the first half of 2007 to 21% at the end of 2009. And as noted earlier, that figure is especially high among star players.

The disenchantment of high potentials has troubling implications for companies. In our research, we found that discretionary effort (that crucial willingness to go above and beyond) can be as much as 50% lower among highly disengaged employees than among their colleagues with average engagement. No CEO, especially in the current environment, can afford to lose so much productivity from a company's core contributors.

It may seem obvious, but the solution is for senior management to double (or even triple) its efforts to keep young stars engaged. That means recognizing them early and often, explicitly linking their individual goals to corporate ones, and letting them help solve the company's biggest problems.

It also means regularly taking the temperature of these valuable employees. In China's rapidly growing market, where finding and retaining talent is especially challenging, multinationals are paying careful attention to their satisfaction. Shell has appointed career stewards who meet regularly with emerging leaders, assess their level of engagement, help them set realistic career expectations, and make sure they're getting the right development opportunities. Executives at Novartis have created a simple checklist to get a read on how crucial employees in China are feeling. Managers rate their relationships with those employees and stars' happiness with their jobs, career opportunities, and work-life balance. The checklist raises the red flags—and managers, with support from the company's HR team, address them quickly.

Even when the bonus pool is running dry, companies can still get up-and-coming talent excited. One retail company rewards its stars

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by running banner ads celebrating their successes on its intranet, offering them telecommuting or other flexible work options, and even naming companywide initiatives after them. A large manufacturer we studied gives its rising stars privileged access to online discussion boards, led by the CEO, that are dedicated to the company's biggest challenges. Emerging leaders are encouraged to visit the boards daily to share ideas and opinions and to raise their hands for assignments. The site not only boosts their involvement and captures innovative ideas but also gives the CEO and other senior leaders a direct line to the company's best and brightest.

Mistake 2: Equating Current High Performance with Future Potential

The "high potential" designation is often used, at least in part, as a reward for an employee's contribution in a current role. But most people on your leadership track will be asked to deliver future results in much bigger jobs—a consideration that often gets overlooked when senior management anoints elite talent.

It's true that not many low performers have high potential. But it's wrong to assume that most high performers do. Our research shows that more than 70% of today's top performers lack critical attributes essential to their success in future roles. The practical effect of this is that the bulk of talent investments are being wasted on individuals whose potential is not all that high.

What are the attributes that best define rising stars? Our analysis pinpoints three that really matter: ability, engagement, and aspiration. *Ability* is the most obvious attribute. To be successful in progressively more important roles, employees must have the intellectual, technical, and emotional skills (both innate and learned) to handle increasingly complex challenges. No less important, however, is *engagement*—the level of personal connection and commitment the employee feels toward the firm and its mission. As suggested earlier, this attribute should not be taken for granted—and just asking employees if they are satisfied with their jobs isn't enough. Instead, try this simple but powerful question: "What would cause you to take a job with another company tomorrow?" This query prompts people to share their underlying criteria for job satisfaction and to list which of those elements are missing.

Similarly, managers should not make assumptions about promising employees' levels of *aspiration*. This third critical attribute—the desire for recognition, advancement, and future rewards, and the degree to which what the employee wants aligns with what the company wants for him or her—can be extremely difficult to measure. In our experience, it is best to be direct with high-potential candidates, asking pointed questions about what they aspire to and at what price: How far do you hope to rise in the company? How quickly? How much recognition would be optimal? How much money? And so on. (Of course, these responses should be balanced against individuals' "softer" objectives involving work-life balance, job stress, and geographic mobility.)

Shortcomings in even one of the three attributes can dramatically reduce candidates' chances for ultimate success. (See the sidebar

10 Critical Components of a Talent-Development Program

In our research, we uncovered a core set of best practices for identifying and managing emerging talent.

Explicitly test candidates in three dimensions: ability, engagement, and aspiration.

Emphasize future competencies needed (derived from corporate-level growth plans) more heavily than current performance when you're choosing employees for development.

Manage the quantity and quality of high potentials at the corporate level, as a portfolio of scarce growth assets.

Forget rote functional or business-unit rotations; place young leaders in intense assignments with precisely described development challenges.

Identify the riskiest, most challenging positions across the company, and assign them directly to rising stars.

Create individual development plans; link personal objectives to the company's plans for growth, rather than to generic competency models.

Reevaluate top talent annually for possible changes in ability, engagement, and aspiration levels.

Offer significantly differentiated compensation and recognition to star employees.

Hold regular, open dialogues between high potentials and program managers, to monitor star employees' development and satisfaction.

Replace broadcast communications about the company's strategy with individualized messages for emerging leaders—with an emphasis on how their development fits into the company's plans.

"The Ways High Performers Can Fall Short.") And the cost of misidentifying talent can be high. You might, for instance, invest dollars and time in a star who jumps ship just as you are looking for her to take the lead on a project or problem.

Senior leaders need to find a good way to assess top performers on each of the three dimensions. (See "Measuring Employee Potential.") Companies such as AMN Healthcare have done just that—building their annual talent-assessment processes around measures for ability, engagement, and aspiration. Last year, as part of its annual succession-planning process, AMN Healthcare conducted interviews with more than 200 rising leaders, specifically to get a read on their engagement and aspiration levels. This information, combined with managers' assessments of ability, gives AMN a clear picture of its bench strength. "Our executive committee has far more confidence in the employees identified as high potentials since we started using this model," says Laurie Jerome, the company's vice president of learning and talent development.

Mistake 3: Delegating Down the Management of Top Talent

It's easy to understand why most companies do this: Line managers know their people best and have a very concrete view of their strengths and weaknesses. Most organizations also recognize the economic benefit of delegating talent management to line leaders—when corporate and HR budgets are limited, it shifts the costs of development programs from headquarters into the budgets of business units.

That said, it is a bad idea to delegate management of high potentials to line managers. These employees are a long-term corporate asset and must be managed accordingly. When you leave the task of identifying and cultivating tomorrow's leaders exclusively to the business units, here's what tends to happen: Candidates are selected solely on the basis of recent performance. They are offered narrow development opportunities that are limited by the business units' scope of requirements and focus mostly on skills required now rather than tomorrow. Talented employees can also be hoarded by line managers—collected and protected and certainly not shared.

Responsibility for high potentials' development must be shared by general managers. Johnson & Johnson's LeAD program offers a great example of this approach. As part of J&J's organizational and talent review process, the company's managers select individuals they believe could run a business (or a bigger business) in the next three years to participate in LeAD. The program lasts nine months in total. During this time, participants receive advice and regular assessments from a series of coaches brought in from outside the company. They also must develop a growth project—a new product, service, or business model—intended to create value for their individual units. Each candidate's progress in this regard is evaluated during a leadership session that is held in an emerging market such as China, India, or Brazil in order to increase participants' global knowledge. Graduates leave the program with a multiyear individual development plan and are periodically reviewed by a group of senior HR heads for further development and reassignment across the corporation.

J&J managers believe that the LeAD process has accelerated individual development. "More than half of the LeAD participants have already moved on to bigger positions in the company, and the program has been in existence just three years," says Corey Seitz, vice president of global talent management at the company. One program participant told us, "It was an incredible experience—one that will certainly improve my ability to lead and contribute to J&J." The company has found that when top talent is seen as a critical organizational asset to be developed by senior leaders across the firm—and made to feel like right-hand partners to management—the group's ability and willingness to contribute to the firm dramatically increases.

Mistake 4: Shielding Rising Stars from Early Derailment

In many talent-development programs, a central concern is derailment—or the failure or

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underperformance of a candidate at the next level. Human resources executives and line managers alike will go to great lengths to ensure that employees with promise are placed in training assignments that provide a bit of a stretch but little real risk of failure. That's understandable; they want to avoid disrupting the business. So most high-potential rotation programs rely on an annual session in which open positions at that point of the calendar year are matched to candidates with the best chances of success. These rotations typically cover various functions and business units—under controllable levels of danger to all concerned.

By being too cautious, however, HR executives and managers can thwart employees' development and put the business at greater risk in the long term: Emerging talent is never truly developed and tested, and the firm finds itself with a sizable cadre of middle and senior managers who can't shoulder the demands of the company's most challenging (and promising) opportunities.

True leadership development takes place under conditions of real stress—"the experience within the experience," as one executive told us. Indeed, the very best programs place emerging leaders in "live fire" roles where new capabilities can—or, more accurately, must—be acquired.

A great example here is Procter & Gamble. Several years ago managers in the company's flagship Family Care division identified a set of complex, high-impact positions that offered particularly quick development and learning—for instance, "brand manager for a leading product" or "director of marketing for a new segment or region." Division managers dubbed these "crucible roles" and began a concerted effort to fill 90% of them with high potentials. Candidates had to pass through three screens to be eligible: They had to have adequate qualifications to perform well in the particular crucible role, stellar leadership skills, and a clear developmental gap the crucible role could help fill.

Through this program, P&G has measurably increased the percentage of employees qualified for promotion: More than 80% of P&G's high-potential employees are ready to take on critical leadership roles each year—putting the company at a tremendous talent advantage when the going gets tough.

Mistake 5: Expecting Star Employees to Share the Pain

Great leaders elect to suffer alongside the rank and file—and sometimes more, in the tradition of the captain who goes down with the ship. So it might seem that your star employees would embrace that same sense of honor and duty. Not so fast. Particularly in difficult business environments, the decision by a senior executive team to freeze or cut salaries and performance-based compensation across the board may seem fair, but it erodes the engagement of the stars. (Recall that one of the most important factors determining a rising star's engagement is the sense that he or she is being recognized—primarily through pay.) The head of human resources at a leading U.S. financial services firm recently bemoaned to us the general unwillingness of his firm's business leaders to differentiate among employees' performances and to direct scarce merit

The Ways High Performers Can Fall Short

The sobering truth is that only about 30% of today's high performers are, in fact, high potentials. The remaining 70% may have what it takes to win now but lack some critical component for future success. Indeed, our analysis suggests that individuals in this latter group fit into one of three common archetypes:

1. Engaged Dreamers

Engaged dreamers have high levels of engagement and aspiration, but insufficient ability to succeed in more challenging roles. Only about 7% of current high performers fall into this category. Unless the organization can significantly—and quickly—raise these employees' talent and skill levels, the probability that they will succeed at the next level is effectively zero.

2. Disengaged Stars

Frighteningly, more than 30% of today's high performers suffer from a lack of engagement. They have the ability and aspiration to be high potentials but are insufficiently committed to the organization to be prudent bets for long-term success. Indeed, employees who exhibit this profile have only a 13% chance of succeeding at the next level. This group represents a sizable opportunity, however: Organizations can heavily influence employees' engagement levels—if they're paying attention.

3. Misaligned Stars

This group accounts for 33% of current high performers. Misaligned stars have both the ability and engagement needed to successfully take on more critical responsibilities, but either don't aspire to the roles available at more senior levels or don't choose to make the sacrifices required to attain and perform those high-level jobs. Their lack of aspiration is less damaging to their potential than a lack of engagement or ability, as evidenced by their 44% chance of success at the next level. But organizations must triage them to separate those whose aspirations might change from those whose long-term career and personal goals would be better accommodated in another organization.

pay to the highest-performing and highest-potential people. Such well-intentioned egalitarianism is a critical mistake.

Our research indicates that under normal circumstances, high potentials put in 20% more effort than other employees in the same roles. Their contributions may be even larger in constrained organizations, where stars tend to be carrying a disproportionate share of the workload because of recent downsizing efforts or restructuring. When you consider that—alongside our discovery (through conversations with recruiting executives) that many firms are actively creating "hit lists" of talent they can target at other firms, and the data showing a significant drop in "intent to stay" scores among top employees—an alarming picture emerges.

During tight fiscal times, it actually costs less to create meaningful differentiation in compensation—even without the jet fuel of (now out-of-favor) stock options. Modest cash or restricted stock grants go further than before, and rank-and-file expectations with respect to merit pay have never been lower. One manufacturing firm recently dedicated a proportion of the dollars saved through layoffs to sweetening the bonus pool for emerging leaders, in order to stave off attrition among them. A retail company we studied has altered salespeople's compensation plans so that high potentials can reap more of what they sow: It doubles the commission salespeople receive for every dollar sold above their annual goal. And another, smaller manufacturing firm we observed has been quietly buying its high potentials lunch every day this year. Even modest signals can go a long way toward helping talent feel appreciated.

Some executives worry that by giving A players special treatment, they may be creating the perception of a "favored class" at the organization. Indeed, 60% of the firms we studied say they avoid using the "high potential" label publicly. But that doesn't mean companies shouldn't make emerging stars feel special. Our research suggests that even employees who haven't been dubbed high potentials work harder (and seem happier) in a system in which good things (raises, promotions, and the like) happen to the people who deserve them. The bottom line: An employee's rewards should be in line with his or her contributions. And if you're treating everyone equally, you're not doing enough to support and keep the people who matter most.

Mistake 6: Failing to Link Your Stars to Your Corporate Strategy

High potentials are acutely aware of the health of the firm and are rightly focused on the acuity of the senior team's strategy. In fact, our research shows that their confidence in their managers—and in their firms' strategic capabilities—is one of the strongest factors in top employees' engagement. An organization that goes "radio silent" with respect to its strategy—or, even worse, explicitly or implicitly signals a strategy freeze in the midst of economic uncertainty—runs the risk of disengaging its rising stars just when they are needed most.

Firms have developed a number of ways to share their future strategies on a privileged basis with their young leaders and to emphasize their role in making that future real. Some companies send them e-mail updates detailing firm performance and strategic shifts; some invite them to quarterly meetings with high-level executives; and some provide access to an online portal where the company's strategy is outlined and critical metrics can be viewed. A global information services firm we've studied gives its high potentials access to a website that allows them to serve as a kind of "shadow board"—weighing in (and even voting) on corporate direction. As part of its Key Talent Programs, HP offers high potentials the opportunity to attend closed-door briefings on important strategic issues, work in teams to help resolve them, and discuss their final recommendations with senior leaders at the company.

A firm's most talented staffers can have meaningful effects across the business. But when burgeoning talent is misidentified, unchal-

Measuring Employee Potential

Drawing on its work with corporations over the past decade, the Corporate Leadership Council has developed several ways to measure the three core qualities of potential—ability, engagement, and aspiration. We've combined them in a process we call HIPO-ID. At the heart of this process is a set of questions for candidates and their managers. An abbreviated version of this tool is at www.executiveboard.com/humancapital/CLC-highpotential.html. Readers can use it to assess their own employees' potential.

lenged, or unrewarded, these individuals become a drag on overall performance. Even worse, their disengagement and eventual derailment can lead to depleted leadership ranks and damage employee commitment and retention across the firm.

Senior executives need to reinforce the message that the "high potential" designation is not primarily an acknowledgment of past accomplishment but mainly an assessment of future contribution. Their talent-management initiatives must challenge and cultivate rising stars, not just celebrate today's high achievements. As the head of HR at one technology firm told us, "These are the people who will launch new businesses, find new ways to strip out costs, build better customer relationships, and drive innovation. Really, the future of our organization is in their hands."

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