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Retaining Your Top Performers

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Leaders in organizations around the world are debating the changing nature of work. Discussion has centered on the perceived decline in job security (the lifelong career at a benevolent company is a fading memory) and the erosion of corporate loyalty. In countries from Sweden to Germany, the United States, and Japan, employees are beginning to wonder, "If the company is willing to dump me at *its* convenience, why shouldn't I be willing to dump the company at my convenience?"

We tend to focus, understandably, on the profound impact that these and other workplace changes are having on the lives of individuals, But too often leaders overlook the equally profound impact these changes are having on their organizations. The fact is that the "new work contract"— where employees take responsibility for their own careers and corporations provide them with career-enhancing but impermanent opportunities—can be as difficult for organizations to manage as it is for individuals. We, as leaders, still understand little of the mechanics of retaining essential high performers in turbulent times.

Our task is complicated by five additional, less widely acknowledged trends:

1. *The reduced status of working for a major corporation.* John Kotter, in his book *New Rules,* notes that from 1974 through 1994, Harvard Business School graduates who worked for smaller corporations tended to make more money and have higher job satisfaction than their counterparts in large corporations. A growing number of the top young leaders and technical specialists around the world now avoid working for major corporations. Instead, they are increasingly attracted to the risks and rewards of small start-up companies. Harvard business professor Regina Herzlinger notes that over half her graduate school students now want to be entrepreneurs.
2. *The frequent lack* of *connection between pay and contribution*. When I asked more than two thousand managers from a wide variety of major corporations, "What is the typical difference in contribution between a top performer and a below-average performer at the same pay-grade level?" the average answer was "Over 100 percent." When they were asked, "What is the typical pay difference?" the average answer was "Between 5 and 10 percent." In fact, many managers cited cases of younger employees who were contributing more to the company but made less money than older employees.
3. *The decline in opportunities for promotion*. Restructuring has led to fewer layers of management at many corporations. Although this change may have led to increased efficiency, it has often also led to fewer opportunities for promotion. In most companies, pay

scales are still tied directly to rank, not performance. In the past, many organizations have rationalized the lack of differentiation within pay grades by pointing out that top performers tend to be promoted rapidly. Without the opportunity for rapid advancement, however, top performers can become more inclined to seek other opportunities.

4. *The increase in workload and the decline in support staff.* Most employees in major corporations believe that they are working harder today than they were ten years ago. Support staff and many of the "amenities" of working for a large organization have started to disappear. Whereas employees at small, entrepreneurial organizations have always worked hard, the relative difference in workload and support between major corporations and smaller corporations is perceived to be declining.

5. *The rise in the influence of the knowledge* worker. Peter Drucker has noted the dramatically increased importance of the knowledge worker in modern organizations. Yet we are often not sure what this means to the way we lead. Microsoft Corporation's chairman, Bill Gates, recently remarked that Microsoft would do "whatever it takes" to attract and retain the brightest software developers in the world. Innovative high-technology corporations such as Sun Microsystems are currently paying employees large bonuses to recruit top talent. In tomorrow's world, the "intellectual capital" brought in by high-knowledge employees will be a major, if not the primary, competitive advantage for many corporations. As the perceived value of key knowledge workers increases, the competition to hire these workers will intensify.

A Strategy for Retaining High-Impact Performers

Leaders can no longer afford to let the vagaries of the job market determine who leaves and who stays with the organization. We must learn to manage our human assets with the same rigor we devote to our financial assets. These seven steps can help you to accomplish that task:

1. *Clearly identify which employees you want to keep.* In recent years, many organizations have focused on determining which employees they should get rid of rather than on which ones they should keep. Many downsizing packages have been offered that gave all employees with similar experience levels the same incentive to leave. Unfortunately for the organization, the employees who decided to leave were often the high-impact performers who could find other work quickly.

2. *Let them know that you want to keep them.* Amazing as it may seem, many high-impact performers who are asked why they've left an organization report, "No one ever asked me to stay!" Many organizations have deliberately not told high-impact performers that they were special in any way, *for* fear of alienating the "average" performers. In the future, it will become increasingly easy to retain "average" performers and increasingly difficult to retain high-impact performers.

3. *Provide recognition.* Although compensation is an important factor for retaining high-impact performers, several studies indicate that it is currently not the most important factor. Typically, the major reasons great people leave major organizations are lack of recognition, lack of involvement, and poor management. The CEO of one of the world's leading telecommunications companies has recently embarked on an innovative new approach. Division-level executives provide a quarterly report on high-impact performers who should be recognized. The CEO personally calls, thanks them for their contributions, and asks for their input on what the corporation can do to increase effectiveness. The CEO believes that

this process not only helps to retain key talent but also yields great feedback and generates ideas for continuous improvement.

4. *Provide opportunities for development and involvement.* One of the world's largest consulting and accounting firms has recently embarked on an innovative program to identify and cultivate high-potential leaders. As part of the process, young leaders engage in an "action learning" project in which they work on real-life problems facing the firm. This gives young leaders a fantastic developmental opportunity and gives the firm valuable input on solving real problems. It also enhances the young leaders' commitment to stay with the firm. The firm's leaders say that such a process would not have been tried just a few years ago, for fear of alienating other partners, but that today the firm has no choice but to identify and retain high-impact partners.

5. *Challenge the compensation plan.* Organizations that are unwilling to make performance, rather than mere seniority, the key driver of pay will face an increasing challenge in keeping top talent, especially young talent. One Fortune 500 industrial company recently refused to implement a variable, performance-based compensation plan because half the employees felt uncomfortable with the concept. The corporation neglected to measure *which* half felt uncomfortable with more differentiated pay, but my guess is that **it** was the lower-performing employees. High-impact performers of the future will be able to demand and receive substantially more pay than their lower-performing peers. A "socialistic" compensation plan combined with a lowered potential for promotion will lead to an "average" workforce.

6. *Relax the culture.* In addition to reducing bureaucracy, high-performing, high-tech companies like Netscape, Sun Microsystems, and AT&T Wireless (formerly McCaw Cellular) are known for providing freedom in dress codes, scheduled hours, and lifestyle choices. Although employees may work very hard, they appreciate the lack of rules, regulations, and strictures that can inhibit their freedom without increasing their productivity.

7. *Provide intrapreneurial opportunities.* Gifford Pinchot, inventor of the term intrapreneur, has shown how major corporations can provide positive opportunities for reasonably autonomous enterprises to operate within the larger corporate structure. By allowing high-potential leaders to "run a business" inside a larger business, a corporation can gain commitment and ownership of results while simultaneously developing people. People who see opportunities for ownership and personal development are much more likely to stay with the organization.

In the past, when a high-impact performer in a major corporation was offered a position at another company, the employee was likely to say no. Most managerial and professional jobs offered good pay, job security, the possibility of promotion, and status. Today the high-impact employee is much more likely to say yes. To retain such talent in the future, organizations will need to clearly identify, develop, involve, and recognize key people. Traditional compensation plans will need to be challenged, needless bureaucracy eliminated, and intrapreneurial opportunities provided.

Organizations that are unable to modify their human resource systems to match tomorrow's realities will lose the competitive edge. Those that are able to create a dynamic, new human resource model will retain the high-knowledge talent needed to succeed in tomorrow's globally competitive environment.

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