Fix it before your knowledge workers walk out

Creative, engaged, ethical, and team-oriented knowledge workers focused on their strengths and potential unlocking are now the critical wealth-generating resources that companies must acquire, deploy and retain in order to win. With this comes a major risk that few companies can take: that of having an inefficient internal marketplace.

By *Serge Roux-Levrat* and *Hans C. Steckling*

A recent McKinsey Quarterly article suggested that the big companies are the big winners in today's economy. And the fact is that many statistics support this view. For example, there were 18 corporations in 2004 with at least $100bn in revenues in the global Fortune 500 ranking, up from just 11 in 1999. Similarly, 12 Fortune 500 global companies generated profits of over $10bn in 2004, compared to only 1 in 1999.

However, if we look at the ultimate productivity of corporate knowledge workers (a.k.a. employees), we see that the big companies are not really winning along this dimension.

As the McKinsey Quarterly article also noted, of the 25 corporations that employ 200'000 or more people, only four – Citigroup, GE, IBM and Toyota Motor – earn as much as $20'000 or more per employee, versus a weighted average of $60'000 for the top 150 corporations (as defined by market capitalization). Additionally, our experience shows that few companies are able to engage actively at least 25 percent of their employees. And that leads companies to incur substantial costs in lost productivity, innovations and revenues. Our own research and work suggests that teams who enjoy a high level of active engagement among their employees outperform their peer group by 15 to 30 percent.

Hence, yes the big companies win in terms of absolute numbers, but the majority of them do so while operating at a fraction (40 to 60 percent) of their potential.

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The good news is that companies are increasingly realizing that their human capital is indeed the main lever that they can pull to multiply the value of their structured capital, which consists of the value of their customer relationships (incl. market access) and business processes; innovation and brand capital also playing a key part as well here.

Indeed, many CEOs are now acknowledging that their biggest challenge today is to maximize the human capital multiplier effect. Succeeding here will make the difference between mere survival and wining.

What are the implications for the company's human capital strategy? Many. But first and foremost it means that a company's human capital strategy must be focused on potential unlocking and the creation of an efficient internal talent marketplace. One without the other will lead to sub-performance. Not convinced? Then just think, for example, of a *critical* project that your company must complete in a timely manner, and where failing would mean the loss of many of your top value-generating customers. Wouldn't you want to have the best-qualified managers and knowledge workers on this project? You bet.

Unfortunately, the facts are here to tell us that many line managers experience great difficulty at identifying top internally "available" project managers or knowledge workers. Similarly, many "available" knowledge workers are unaware of the opportunities for development and/or

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enrichment that they could seize internally.

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Additionally, as is the case with top-qualified external candidates, the best internal candidates increasingly like to be "hunted" rather than to apply to an internal job opportunity themselves. And the truth is that the best job opportunities are rarely posted, which does not really encourage them to apply in the first place!

Yes, many companies have put in place professional recruitment centers lately, but too often these centers rarely have the power, authority, tools and/or experience to succeed as internal headhunters. Many of these centers follow a rather mechanical approach to their work; i.e they only start the recruitment process as and when there is a vacancy to fill.

However, many managers do not even start a recruitment process, preferring to fill a vacancy by themselves. This sounds good, but the main problem with this approach is that, to a large extent, managers limit their fishing pond to their own circle of influence, which tends to be a fraction of the fishing pond that they could access with a powerful internal headhunting unit.

And when we know that there is a significant leverage differential between a second best candidate and a top candidate who will have a multiplier effect on results, team motivation and employee engagement, then we quickly come to realize that an internal headhunting unit is not a nice-to-have, but a "must".

As part of its mandate, an internal headhunting unit should help internal knowledge workers find a new challenge (or probably manager) before they become too disenchanted and make themselves available on the external talent marketplace.

In fact, if the internal headhunting unit is successful, it will rapidly play a key coaching role, thereby increasing considerably the retention of top knowledge workers. This alone almost justifies the cost incurred in setting up such a unit.

As an important by-product of its work, an internal headhunting unit will also become an invaluable source of insight into the company's leadership capital. It will confidently know which leaders (at all levels) are best at inspiring, engaging, attracting and retaining top knowledge workers. This insight, coupled with the work of the leadership development unit, will help a company gain a holistic view of its leadership capital. All in all, the internal headhunting unit should be able to contribute significant value and insight to a company's succession planning and leadership development processes. And if we consider that the local manager / leader is most often the single most important factor in explaining performance variation between company units, then we realize that the value that an internal headhunting unit can generate is truly substantial.

How should such an internal headhunting unit be remunerated? Although several options exist, we recommend that hiring managers pay a fee to the internal headhunting unit, as this will tend to create fair internal talent market rules. We would also suggest that part of the fee be credited to the manager who lost a knowledge worker, as he will, in most cases, now have to go to the internal and/or external talent markets to replace the "redeployed" employee.

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"**But wouldn't an internal headhunting unit create an internal chaos, with managers stealing each other's employees and generating a crazy number of disruptions?**", we hear you saying. The answer is no; in fact, this would make things clearer. Why? Because such a unit would work under clear guidelines. For example, a company could stipulate that employees cannot be headhunted before they have been in a position for at least one year.

What is important to realize is that a "mechanical" solution - i.e. the simple creation of an internal headhunting unit - **to the challenge of an inefficient internal talent marketplace is unlikely to work**.

Why? For several reasons. Firstly, because, unless many leaders are above-average people managers, companies will continue to lose their best knowledge workers even if a top internal headhunting unit is created. Why? Because as our executive search work demonstrates time and again, the impact of the direct manager on the emotional engagement of an employee is paramount and unless the manager feeds the emotional engagement needs of his employees, they will either make themselves available on the external talent marketplace or stay around, but operating at a fraction of their potential.

Secondly, if becoming a top people manager is not viewed as a prerequisite for being promoted to a higher leadership position, then few executives will make the efforts required to become one. And without top people managers (and project leaders), the work of an internal headhunting unit will become far more difficult.

And to become a top people manager, an executive shouldn't be allowed to "dispose" too quickly of an (under-performing) employee. Most of the time, managers do not take the time required to turn an under-performer into a top performer. More worrisome, they tend not to show convincingly to the under-performer that they sincerely believe that he can become a top performer.

It is therefore no surprise that many under-performers stay where they are. Yes, not all employees will be able to make it, but the assumption should be that most can with the right coaching. It is the role of people managers to help employees find their strengths and develop the confidence to undertake a new challenge, even while being afraid!

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If this leadership development approach exists in a company, then the internal headhunting unit will be able to coach many disenchanted employees into staying in their current position until such time as they have developed the attitudes and character traits required to go to the next level.

Finally, unless managers (and project leaders) are genuinely rewarded for developing and passing to the rest of the organization top knowledge workers, then they will find subtle ways to diminish the effectiveness of the internal headhunting unit. Thus, a company has little hope of being able to create an efficient internal talent marketplace if the creation of an internal headhunting unit is not supported by the right leadership capital management charter, and one that is lived by. In particular, the top executive management team should collectively be responsible for acting as "headhunters" and "coaches" to the top 10 or 15 percent of the employees.

It goes without saying that **the creation of an efficient internal talent marketplace goes hand in hand with the building up of top capabilities to poach selectively on the external talent marketplace.** You cannot excel in one and not the other; if you do, then you will end up with a very weak employer brand! And that means in particular being able to scan – most effectively through the help of an external headhunter – regularly the external talent market in order to ensure that your fishing pond of top qualified and externally available candidates is as large as possible.

The strategy that consisted of basing one's corporate future on its production capacity and its distribution might is gone. Knowledge is what powers corporate success nowadays, and with it come two new currencies and sources of risk: human capital and leadership capital. Never before has their importance to the success of a company been so high and with them the creation of an efficient internal talent marketplace. The sooner a company translates this emerging pattern into practice, the better it will thrive.