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HUMAN PERFORMANCE

Using performance management to win the talent war

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Employee retention;
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Abstract The talent war is a 21st-century reality whereby organizations of all sizes, across all industries, compete to hire and retain scarce human capital. The talent war is fierce because there are few individuals within each industry who are considered top human capital such that there is not enough to go around, and these top performers generate a great deal of revenues, profit, and overall success for their organizations. In this installment of Human Performance, we describe the nature of the talent war and reasons why winning it is crucial for organizational competitiveness, sustainability, and survival. We discuss how implementing a performance management system can help organizations win the talent war by retaining these coveted top performers. Specifically, we offer the following research-based recommendations for using performance management to (1) create and maintain individualized developmental plans; (2) ensure that work is challenging, interesting, and meaningful; (3) provide clear advancement opportunities, and (4) implement contingent rewards. Implementing these recommendations can turn performance management into an effective tool to retain top talent and prevent competitors from stealing a firm's crucial source of competitive advantage.

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1. Prepare for battle

Increasingly, success comes from being able to attract, motivate, and retain a talented pool of workers. . . . With a finite number of extraordinary employees to go around, the competition for them is fierce. (Bhattacharya, Sen, & Korschun, 2008, p. 37)

The talent war is a 21st century reality whereby both big and small organizations compete with one another to hire and retain scarce human capital (Fishman, 1998; Trevor, Gerhart, & Boudreau, 1997). Perhaps the most visible evidence of the talent war occurs in major professional sports, as teams compete to acquire top human capital on an ongoing basis, in front of a global audience. In fact, such competition has been headlined in news stories for each of the major professional sports in the United States. We highlight two of these. The first includes the broadcast of 'The Decision' where LeBron James announced he was leaving the National Basketball Association's (NBA's)

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Cleveland Cavaliers to “take his talents to South Beach” and sign with the Miami Heat to join forces with other top performers including Dwayne Wade and Chris Bosh—because, as James said, this move gave him the best opportunity to win (Abbott, 2010). It seems that the Cleveland Cavaliers were unwilling or unable to make changes and offer opportunities that would have allowed him to reach his potential and achieve his high-standard goals. The second example involves Major League Baseball. After the St. Louis Cardinals won the World Series in 2011, the Cardinals were not able to retain their star first baseman, Albert Pujols, who signed with the Anaheim Angels. Although the baseballer has not gone into detail regarding this decision, his wife, Deidre Pujols (2011), indicated it was a result of disappointment with a short-term contract offer extended by the St. Louis Cardinals. Apparently, Albert Pujols was looking for greater commitment from the organization.

The negative effects of losing top performers are disastrous. For example, consider the consequences experienced by the Cleveland Cavaliers upon the departure of LeBron James. In a single year, the Cavaliers went from a winning percentage of .744 and a trip to the Eastern Conference Finals to a winning percentage of only .232 (Cleveland Cavaliers, 2012). Further, in the 2 years since, the club has gone from having the second highest attendance in the NBA to the 21st highest attendance (Cleveland Cavaliers, 2012). While these examples address professional sports teams and players who have received much popular attention, a similar war for talent occurs every day among organizations in all industries, yet goes largely unnoticed by the media.

As an illustration outside of professional sports, Facebook is a firm that has shaken up the Internet industry with talent raiding. During 2008, Facebook hired numerous employees from Google, including Chief Operating Officer Sheryl Sandberg and Director Ethan Beard. Commenting on his move to Facebook, Beard stated that it was primarily motivated by a chance to make a difference at the firm (Rogers, 2008). Beard reached the conclusion that his contributions and performance were not sufficiently valued at Google. The impact of Facebook’s talent raiding of Google has been rather substantial. Having moved from Google to Facebook, Sheryl Sandberg started recruiting a string of Google executives to follow her. In 2010, over 200 former employees once considered top Google talent were working for Facebook (Boulton, 2010). Overall, for every employee that has left Facebook for Google, 15.1 employees have done the opposite (Alex, Andrew, & Courtney, 2011). Realizing this trade deficit in human capital, Google responded in many ways, including a 10% pay raise to

all of its employees in an attempt to retain its top talent (Efrati & Morrison, 2010).

The primary reasons for the human capital war are the same in sports as in all other industries, regardless of the size of the firm. First, there are very few individuals within each industry who are considered top human capital, such that there is not enough to go around (Allen, Bryant, & Vardaman, 2010). Second, top performers generate a great deal of revenues, profit, and overall success for their organizations (O’Boyle & Aguinis, 2012). Next, we discuss these and other issues related to the nature and scope of the talent war.

2. Nature and scope of the talent war

There are four major characteristics of the talent war. These include (1) the struggle to retain top talent, (2) competition to hire away top talent from other companies, (3) participation of both big and small organizations on an increasingly leveled playing field, and (4) unexpected and unanticipated effects (Fishman, 1998).

Approximately 65% of executives and managers report that they have insufficient top talent in the ranks of their top 300 leaders, whereas only 10% say that their companies retain most of their high performers (Michaels, Handfield-Jones, & Axelrod, 2001; Ready & Conger, 2007). In line with these reported figures, top performers are more likely to voluntarily leave their organizations than are average performance employees (Trevor et al., 1997; Williams, McDaniel, & Nguyen, 2006). Issues regarding top talent retention are not limited to managers and executives; in fact, this concerns employees across all hierarchical levels in organizations and various occupational groups, such as police officers and teachers (Auguste, Kihn, & Miller, 2010). Because these top talent employees constitute strategic resources that give organizations an advantage in today’s global and hypercompetitive economy, it is not surprising that both researchers and practitioners have urged organizations to devote greater attention to retaining top talent (Fishman, 1998; McCracken, 2000; Trevor et al., 1997).

What makes this phenomenon not only a self-contained struggle but also a ‘war’ is that it is so pervasive and generalized. Organizations compete with one another for top talent to enhance their own competencies and also to sabotage their competitors’ human capital (Gardner, 2005). Indeed, more than 20% of organizations have experienced purposeful talent raiding by their competitors (Kwon, Bae, & Lawler, 2010). It seems that no organization can escape the talent war. For example, even leaders at

business behemoth Johnson & Johnson have increasingly been forced to recruit top-level managers from outside the company. AlliedSignal, also a large corporation, has found itself competing with startups for top talent employees. Being big does not guarantee safety in the ruthless talent war (Fishman, 1998).

Another interesting aspect of talent warfare is that it often takes organizations by surprise; indeed, victims are frequently unaware they are under assault. The reason for this is that top management finds it easier to monitor the attrition rate of high-ranking employees, which averages 4% - 5% per year at senior levels. However, the top performers whom companies are fighting over tend to be less senior people in the middle-management rank, who are and will continue to be in short supply. It is more difficult for top management to monitor the retention and movement of these less senior individuals because big organizations are often so massive that they tend to be highly decentralized. Accordingly, the talent war may occur in silence or even denial (Fishman, 1998; McCracken, 2000).

In Section 3, we discuss in greater detail why winning the talent war matters. Then, in Section 4, we provide four research-based recommendations on how to use performance management to retain top talent.

3. Why winning the talent war is a matter of organizational survival

A recently published study by O'Boyle and Aguinis (2012) highlighted the organizational benefits of retaining top talent by empirically demonstrating that top talent produces a disproportionately large amount of output. These authors provided evidence to debunk the assumption that individual performance follows a normal distribution. The collected data—including 198 samples of 633,263 athletes (e.g., professional and collegiate basketball players, soccer players), entertainers (e.g., writers, movie stars), politicians (e.g., elected officials in state and national legislatures around the world), and researchers in more than 50 scientific fields—demonstrated that individual performance follows a Paretian, or power law, distribution. In contrast to a normal (i.e., bell-shaped) distribution, a *power law* distribution allows for the presence of outliers: extreme scores. This means that “most performance outcomes are attributable to a small group of elite performers” (O'Boyle & Aguinis, 2012, p. 106). To put this in greater perspective, results indicated that 65.8% to 83.3% of performers fell below the mean level of performance and that 10% and 26% of productivity came from the top 1% and 5% of workers,

respectively. Knowing that the majority of workers fall below the mean in terms of performance, and that top performers are responsible for such a large portion of productivity, we can better understand the necessity for retaining top talent.

In addition, the talent war is extremely costly to organizations, both financially and socially. Financial costs of losing a top-talent employee range from 1.5 to 2.5 times employees' annual salary (Solomon, 1998). Such costs are typically associated with recruiting, interviewing, hiring, and training new employees. But the costs do not stop there. Social costs also need to be considered, and are perhaps even more important in many cases. Social costs include the need for other employees to pick up the workload caused by a job vacancy and costs incurred to provide the same level of efficiency and effectiveness until the replacement becomes fully proficient—if he or she ever does (Hillmer, Hillmer, & McRoberts, 2004). That being said, if a top performer leaves the organization, it is highly likely that his or her replacement will never attain the same heights. This represents an organizational loss that is not easy to quantify, and is often not included in calculations of the financial costs of turnover.

Both the benefits accrued from retaining top talent employees and the costs associated with losing them are likely to sharpen as the demand for top performers increases, yet the supply concurrently falls; this will create an even more severe shortage of top talent (Allen et al., 2010; Fishman, 1998). The demand for top performers is becoming fiercer because of an increasingly competitive world economy, including organizations in one's home country, as well as many others from all over the world. Further, traditional sources of competitive advantage—such as financial capital and technology—have become more widely available and less scarce over the past several decades, rendering human capital an even more important means of staying ahead of competitors. Meanwhile, the desired talent pool is projected to shrink due to aging workforces, declining birthrates, and inadequate educational programs. These shifts and changes will continue to heighten the scarcity of already scarce top performers. Thus, it is imperative that organizations create systems to retain top talent. Next, we discuss how this can be done through performance management.

4. Best-practice recommendations on using performance management systems to retain top talent

Most human resource departments have traditionally been concerned with the retention of *all* employees,

based largely on the financial costs associated with turnover. And while there is value in knowing how to influence the turnover and retention of employees in general, in light of the talent war, it is more valuable to identify recommendations that are specific to top talent (Griffeth & Hom, 2001; Hausknecht, Rodda, & Howard, 2009). In fact, blanket turnover and retention policies may be disadvantageous if they appeal to all employees and ignore differences in performance levels (Hausknecht et al., 2009). A properly functioning performance management system can address the challenge of retaining top performers.

5. Performance management: Overview

Performance management is a “continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization” (Aguinis, 2013, p. 2). Such a system entails six distinct cyclical steps: prerequisites, performance planning, performance execution, performance assessment, performance review, and performance renewal and recontracting (Aguinis, 2013). To begin, setting *prerequisites* involves establishment of the organization’s mission and strategic goals, as well as the job in question; here, the goals of the particular job need to be aligned with the organization’s goals (Aguinis, Joo, & Gottfredson, 2011). The second step, *performance planning*, occurs when the manager and the employee together establish what needs to be done by the employee on the job, and how. *Performance execution* occurs when the employee is provided an opportunity to produce the behaviors and results agreed upon via performance planning. The fourth step, *performance assessment*, consists of measuring and evaluating employee behavior and results; one of the main purposes here is to assess whether rewards or punishments should be meted out (Aguinis, Gottfredson, & Joo, 2012). *Performance review* involves a meeting between the employee and the manager to discuss the employee’s performance based upon the measurement and evaluation in step four. This is commonly known as ‘performance appraisal,’ and also includes the opportunity to set future performance and development goals. At this stage, it is common to discuss specific rewards and/or punishments based upon the evaluation of the employee. The sixth and final step, *performance renewal and recontracting*, essentially mirrors performance planning, except that adjustments are made based upon the insights and information gained subsequently. Performance management is cyclical in nature such that each

performance renewal and recontracting phase is always followed by the beginning steps of the performance management process. It is within this framework that each of our recommendations addresses the challenges of boosting top talent retention. We include a brief summary of each of these recommendations in Table 1.

5.1. Recommendation #1: Individualized developmental plans

Our first recommendation is that organizations use their performance management systems to create and maintain individualized developmental plans (IDPs) for their top performers. IDPs are agreed-upon, individually tailored courses of action to be taken by both the manager and the employee to improve performance. Objectives for such plans include improving performance in the employee’s current job, preparing the employee for advancement, and enriching the employee’s work experience (Aguinis, 2013). Such plans should be established during the performance planning step of the organization’s performance management system, but then followed up on and revised during the performance review phase.

Individualized developmental plans are a valuable weapon in the talent war because they address at least two of the talent war characteristics: struggle to retain top talent and competition to hire away top talent. First, an IDP helps improve the retention of top employees because such plans directly address top performers’ expectations about their work: learning new skills on the job (Trevor et al., 1997) and receiving individualized attention (Lombardo & Eichinger, 2000). Too often, managers follow the common adage that the squeaky wheel gets the grease, and thereby allocate the majority of their time to helping and assisting problem employees. This limits the opportunities, visibility, and growth that top talent deserves (Trank, Rynes, & Bretz, 2002). IDPs provide a structure via which employees receive managerial mentorship, ensuring that the objectives of personalized development plans are met. This improves retention of top talent by providing the learning and development opportunities that top performers seek (Allen et al., 2010; Wang-Cowham, 2011).

Individualized developmental plans are also particularly useful in preventing top talent from being poached away by other organizations. If maintained and refined over time, these plans become so intricately tied to the specific company that competitors find them hard to imitate, thus making it difficult to attract or steal away the company’s top performers. In other words, IDPs have high potential

Table 1. Research-based recommendations on using performance management to win the talent war

Recommendation	Brief Description
1. Use performance management to create and maintain individualized developmental plans (IDPs)	<ul style="list-style-type: none"> • IDPs are agreed-upon and individually tailored courses of action to be taken by both the manager and the employee to improve performance, prepare the employee for advancement, and enrich the employee's work experience. • IDPs help improve the retention of top performers because they address their expectations about work: learning new skills on the job and receiving individualized attention. • IDPs become so intricately tied to the organization that competitors will find them hard to imitate, thus making it difficult for competitors to attract away top performers.
2. Use performance management to ensure that work is challenging, interesting, and meaningful	<ul style="list-style-type: none"> • Ensure that top performers' work is challenging (e.g., involves sophisticated knowledge and skills), interesting (e.g., novel, fun), and meaningful (i.e., makes a difference). • Implement job sculpting, which involves matching top performers' jobs to their personal values and embedded life interests. • In larger organizations, use job sculpting to create and then place top performers into smaller and more autonomous units, which makes top performers feel like they are at small organizations while really working at large ones, thereby allowing top talent to get the best of both worlds.
3. Use performance management to provide clear advancement opportunities	<ul style="list-style-type: none"> • Top performers are more likely to cite advancement opportunities as a reason for staying with an organization compared to low performers. • Performance management should be used to (a) communicate to top performers the next rung in the advancement ladder, (b) indicate which new competencies and behaviors should be learned to achieve that next rung, and (c) identify what developmental activities are needed to engage in and set appropriate goals accordingly.
4. Implement performance management systems that include contingent rewards	<ul style="list-style-type: none"> • Top performers are particularly sensitive to whether they are sufficiently compensated and usually possess a highly developed sense of justly earned entitlement, including expectations regarding salary growth. • The contributions that top performers make to the organization should be measured properly and rewarded accordingly.

to create firm-specific human capital (Coff & Kryscynski, 2011).

5.2. Recommendation #2: Challenging, interesting, and meaningful work

Our second research-based recommendation is that organizations use performance management to ensure their top performers' work is challenging (e.g., involves using sophisticated knowledge and skills), interesting (e.g., novel, fun), and meaningful (i.e., makes a difference). Top performers prefer challenging and interesting work; both are strong drivers of commitment and minimize turnover intentions (Trank et al., 2002; Walsh & Taylor, 2007). Also, if top performers feel they are making a difference, they are likely to want to stay with a particular organization (Bhattacharya et al., 2008).

An ideal way of meeting such demands is through *job sculpting*, which involves matching the top talent employee's job to her personal values and embedded life interests (Butler & Waldroop, 1999). The cyclical and continuous nature of performance management systems can help ensure that job sculpting is not a one-time occurrence, but rather is updated and adjusted regularly. That is, during the review phase of the performance management process, the top talent employee and his supervisor openly discuss any significant incongruences between the employee's job responsibilities performed so far and his personal values and life interests. Such a discussion may result in mutually agreed-upon changes to the top performers' job responsibilities that now more closely match his personal values and life interests. Then, in the subsequent performance renewal and recontracting phase, any agreed-upon changes to the employee's job responsibilities are formalized.

As an example of how job sculpting can be achieved through performance management, consider the following vignette of a top performer (Butler & Waldroop, 1999, pp. 151-152):

Carolyn had one foot out the door. When she received a huge raise (even by the standards of [her] firm and her own compensation history), she was actually angry, commenting to a friend, "That's typical of this company; it thinks that it can solve every problem by throwing money at it." Although she loved analysis and mathematics, she had a strong desire to have a greater impact on the decision making and direction of the research group. She had definite opinions regarding what kind of people they should be hiring, how the group should be organized and the work assigned, and how the group could

most effectively work with other departments. In other words, she had deeply embedded life interests in enterprise control and managing people and relationships. A performance review gave Carolyn a chance to express her dreams and frustrations to her boss. Together they arrived at a 'player-coach' role for Carolyn as coordinator of research. She was still an analyst, but she also had taken on the responsibilities of guiding and directing several teams, making decisions about hiring and promotions, and helping set strategic direction. A year later, all parties agreed that the research group had never been more productive.

As can be seen in this example, Carolyn was dissatisfied with the constraints that did not allow her to engage in activities that were consistent with her embedded life interests. The performance management system in place allowed her to clearly and constructively voice this dissatisfaction with her supervisor during a performance review. As a result, the two parties were able to come to a fruitful agreement, or job sculpting, thereby eliminating Carolyn's source of dissatisfaction. Allowing top performers to take on responsibilities that are more challenging, interesting, and meaningful will help organizations retain their top talent.

Many top performers leave large organizations to work at startups because these small firms often afford them the opportunity to assume weighty roles capable of making a difference. Accordingly, some of the best large organizations have learned to mimic small ones through job sculpting by creating and then placing top performers into smaller and more autonomous units. Such job sculpting has allowed large organizations to successfully make their top talent employees feel like they are at small organizations, offering the best of both worlds (Fishman, 1998).

5.3. Recommendation #3: Advancement opportunities

Our next recommendation is that organizations provide advancement opportunities to their top performers. Consider the following supportive evidence. Hausknecht et al. (2009) investigated the importance of 12 different employee retention factors and ascertained that high performers were more likely than low performers to cite advancement opportunities as a reason for staying with the firm. Moreover, Walsh and Taylor (2007) discovered that hospitality workers were highly likely to leave not only their organization but the industry altogether in the absence of clear advancement opportunities.

The planning and review phases of the performance management system are well-suited for identifying clear advancement opportunities for top performers. This is when supervisors can best share information about the existence of such opportunities and how to go about maximizing the chance of securing them. Specifically, when discussing the developmental plan, the supervisor should (1) communicate to her top performers the next wrung on the advancement ladder; (2) indicate which new competencies and behaviors must be learned to achieve that step; and (3) identify necessary developmental activities, setting appropriate goals accordingly (Aguinis, 2013). These three steps will require consistent follow-up and feedback by managers.

Establishing well-defined advancement opportunities will allow organizations to better retain talent (Hausknecht et al., 2009; Walsh & Taylor, 2007). Additionally, this will facilitate identification of top performers at lower levels of the organization. In turn, such identification is likely to prevent the talent war from taking companies by surprise.

5.4. Recommendation #4: Contingent rewards

Extrinsic rewards, including employees' salary and other financial compensation, are very important regarding the retention of top talent; indeed, these individuals are particularly sensitive to whether they are receiving enough. Top performers usually possess a highly developed sense of justly earned entitlement, and if adequate salary and rewards are not provided, their performance may actually decline (Groysberg, Nanda, & Nohria, 2004). In addition to adequate salary, top performers expect opportunities for compensation improvement. As discovered by Trevor et al. (1997), there is a clear association between high salary growth and low turnover among this group. Finally, top performers expect to earn a great deal more than the average employee. As eloquently stated by Baldwin, Bommer, and Rubin (2013, p. 262), "Nothing is likely to burn out your star performer as much as equal rewards, whereby everyone receives the same. . . regardless of performance."

Based on the extensive body of compensation research, organizations should implement contingent reward plans as part of their performance management systems. This entails measuring top performers' contributions to the organization and remunerating them accordingly as individuals. In addition, contingent reward plans need to allow growth in extrinsic rewards that is commensurate with performance. Because top performers are so much more productive than the average worker (O'Boyle

& Aguinis, 2012), their compensation should reflect this by not only being significantly higher, but also have the potential to increase with further improvements in performance. Top performers are more likely to stay with firms that use contingent reward plans and, accordingly, such plans are worth the investment (Sturman, Trevor, Boudreau, & Gerhart, 2003).

Implementing contingent reward plans is also significant in preventing competitors from hiring away top talent from the organization. As mentioned earlier, top performers value challenging, interesting, and meaningful work, as well as advancement opportunities. But, without adequate and well-managed compensation mechanisms embodied in contingent reward plans, top performers will become increasingly willing to leave. Competitors can quite easily poach such individuals by offering the more satisfying option of contingent rewards, and paying people better is not a rare or difficult-to-imitate strategy (Coff & Kryscynski, 2011).

6. Concluding remarks

Human capital is a key source of organizational competitiveness, sustainability, and survival. Certain critical resources—such as financial capital and technology—have become more widely and easily obtainable (Aguinis & Vaschetto, 2011), while there is a marked shortage of top performers in organizations of all sizes across industries. Given this shortage and the fact that top performers account for a disproportionately large amount of outcomes compared to average performers, we are currently experiencing a talent war on a global scale (Aguinis, Joo, & Gottfredson, in press). Performance management systems, when properly implemented, can be an effective tool in retaining top talent and preventing competitors from wooing away these employees.

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