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Talent is your biggest risk

A cross-sector panel of leaders discusses the challenges and opportunities inherent in talent, and identifies ways that companies can spot—and mitigate—the most important talent risks they face.

As executives work to attract, retain, and develop top talent in a volatile and hypercompetitive market, an unsettling realization sinks in: talent is both an organization's single biggest asset and its single biggest risk. Success depends on finding and keeping the right people—but far from being a ready-made cog, each individual brings a source of potential value as well as potential conflict. This reality is intensifying as industries struggle to embrace millennials and a more transient workforce.

At its heart, talent risk revolves around customization: creating a tailored talent plan, from search to onboarding to assimilation to retention. Leaders who recognize and act on issues of talent risk can earn a significant advantage while competitors, driven by internal turmoil and thus not operating at pace, fall into disarray.

To learn more about talent risk and how organizations both perceive and address it, Heidrick & Struggles convened a panel of leaders from across sectors and backgrounds: Col. Bernard Banks, professor of behavioral sciences and leadership at the US Military Academy; Matt Breitfelder, chief talent officer of BlackRock; David Clark, chief learning officer of American Express; Sarah Dahlgren, former head of financial-institution supervision at the Federal Reserve Bank of New York; Robert Gulliver, chief human-resources officer of the National Football League; Gary Hediger, head of human resources for technology and operations at MetLife; Sharon Meadows, board director, Standard & Poor's, and former chief credit officer of Credit Suisse; Jeremy Shapiro, global head of talent analytics at Morgan Stanley; Colleen Taylor, executive vice president of Capital One Bank; and Paul Wood, chief risk and compliance officer at Bloomberg. The following article, adapted from their conversation, features insights on how leading companies and organizations can better understand, plan for, and mitigate talent risk. The panel was moderated by Kerry Sulkowicz, a senior advisor to Heidrick & Struggles.

Risky business

The participants began by airing their biggest talent risks—from the actions of individual employees to the downsides of managing an increasingly transient workforce.

Gary Hediger: Institutions are changing rapidly, which brings inherent talent risks. As soon as you plug a person into a job, the job changes. The question is whether our employees are agile enough to adapt and evolve. My biggest worry is that, as institutions, we're not doing enough to tell our employees where they're going, what they're going to be doing, and what's going to happen to them. The roles are going to be fluid, and institutions must therefore learn to be much more fluid in response.

Robert Gulliver: In the NFL, our people are our product. And our risk factors are heightened in the area of social media. Anything our players say on social media becomes very visible very quickly. That certainly heightens the level of risk in our environment.

So in the locker room, we rely on our guys to self-police and to call out bad behavior when they see it. It's no different than in other environments in which I've worked; I came from banking where we held the belief that managing risk and behavior was part of everybody's job. It wasn't just the manager or leader. It wasn't just the risk-management department. It needs to be really baked into what everybody does on a day-to-day basis—baked into the culture.

Paul Wood: Before I got into the commercial world, I spent 20 years as a counterintelligence officer, so I suppose I am naturally suspicious of people. Institutions large and small recruit a mix of all types of people—with different backgrounds, ideas, and values—who bring those foundations with them to the organization. And while the organization may be tempted to embrace and trust everybody, we should not trust everybody, or perhaps not even very many.

There are a few reasons for this: today's workforce is transient. Younger generations in particular do not often stay with an organization more than two or three years. They are always looking for the next thing. Perhaps more worrisome is the damage employees can reap on an organization from the inside—but this idea often appalls. CEOs and senior management may resist acknowledging the threat of employees acting badly. They think it's not a real threat because we all want to trust one another inside the corporate environment. But if you go back and look at how many companies have been brought down by technology issues, insider trading, noncompliance—people inside the company knew what was going on but failed to act.

Sharon Meadows: That's true. Employee-related problems should never be a surprise to management. In the banking environment, there are opportunities to be a rogue trader or steal money from a client—but you can often predict this behavior before it happens. One indicator I've studied is the way an employee relates to other employees, whether it be his or her peers, supervisors, or subordinates. For example, we've found that among people who were "bad actors" from an interpersonal standpoint, there was often a correlation to "bad acts" later. And the challenge for any organization, of course, is that managers may choose to ignore the initial bad interpersonal behavior of the individual, usually because the individual is a great profit contributor. We must guard against this inclination to let behavioral issues slide.

Kerry Sulkowicz: Over the course of my career, I have witnessed instances where someone has clearly done something wrong—for example, a fireable offense at the top of the pyramid—but the organization doesn't handle it swiftly or transparently. Top leadership knows they must terminate that individual, but they're tempted to soft-pedal the "why." And sometimes it's well intentioned, to give the person a graceful exit. But in those cases the company fails not only to terminate the person but also to reassert its values and say, "This behavior was unacceptable, and here's why."

The other temptation is to squander the opportunity to discover whether this is a systemic problem. So while terminating the individual is absolutely appropriate, this person might be a scapegoat if the larger systemic problems aren't also addressed.

Paul Wood: Parity of treatment is also important. If senior management is seen to be playing by a different set of rules, rank-and-file employees may be incited to operate against the company's best interests. So your culture must be consistent and equitable. When you deal with people who are being jerks at work, you must deal with them in the same way across all levels of the organization. Otherwise, you create a bigger mess.

The millennial challenge

Several participants noted that millennials' restlessness creates unique challenges, as these workers are more accustomed than older generations to jump from company to company.

Sharon Meadows: Millennials often don't hang around long enough to become imbued with the culture. If you don't have the luxury of keeping people in your organization for long, then you have critical roles to fill every single year. High turnover, particularly if you do a lot of external hiring, is bad for employees because they don't see their long-range

path through the organization. It leaves money as the only incentive. Your employees say "I want to know what my bonus is at the end of the year" rather than "I want to do well because I aspire to work my way up through the company."

Matt Breitfelder: When the talent discussion becomes one-dimensional and comes down only to money, you are in trouble. Most people, especially millennials, need a sense of purpose in their work. So the key to retention is focusing on nonmonetary incentives and ensuring a multidimensional talent value proposition. If you are systematic about having these conversations earlier in an employee's career, it's easier to address their restlessness and ensure they are gaining valuable learning against their career goals.

Colleen Taylor: I see many young people join companies but start looking for a new job within a year. And this generation seems to look externally first, rather than internally. That tells me that few companies do a very good job of helping people assimilate.

Paul Wood: That's true. As people move between companies, we must recognize that these employees come into the organization with a different way of operating. My last two jobs have been in really unique cultures. Before I went to Bloomberg, I was at Bridgewater—a company known for having a culture of absolute candor. It is very transparent. Bloomberg also has a unique culture. And regardless of what outsiders might think of these cultures, both companies go out of their way to help people assimilate. Bridgewater has a great induction program, for example, and Bloomberg has a strong buddying system that matches new, inexperienced hires with old-term Bloomberg people to smooth the transition. These assimilation practices help to ease people in and mitigate talent risk.

Sarah Dahlgren: Onboarding and acculturation processes matter hugely to companies. We can't let our guard down and assume the next generation—or any other, for that matter—will come to us well behaved.

The manager's role

The participants returned to the issue of employee behavior and discussed how all organizations contend with talent risk—but not all fall victim to worst-case scenarios. Managers who are tuned in to their employees can flag trouble spots early and provide a competitive advantage by curating a diverse workforce.

Matt Breitfelder: In so many ways, from driving performance and engagement to managing risk, all roads lead back to the manager. Every day, managers are rewarding or penalizing the microdecisions that impact risk. We depend on them to know their employees well and to heed early warning indicators. Of course, we also need the managers themselves to model the right behaviors and serve as guardians of the culture on a day-to-day basis.

The research on unconscious bias is also really important and has taught us a lot. Because in a VUCA[1] environment, we need more diversity of thought, not less. We need more cultural and global sophistication, not less. We need more gender diversity, not less. That means a manager's job is about ten times more complicated and challenging than it was before—and frankly, most managers out there probably weren't great at managing before the VUCA world.

Yet we can also help managers improve. One huge difference from before is that we have good data now. We all run employee-engagement surveys that, if we

[1] Volatile, uncertain, complex, and ambiguous.

analyze them properly, tell us an awful lot about how managers around the world are doing on very specific issues. Diversity of thought and productive conflict lead to higher performance; thus that's a critical skill set. With predictive analytics, we now have the ability to be much more precise about rooting out the risks. Historically the HR profession has not been very data driven but can become so very quickly. And it has become much easier to hold managers accountable because it's easier to tell what's going on. It's no longer squishy.

Paul Wood: Managers have a hard job. It's facing the difficult questions. It's answering the difficult problems. Often, it's confrontational. And people avoid uncomfortable confrontation, so most naturally don't want to go down that route. It comes back to my earlier statement about parity and equality of treatment because once the manager lets the little things slip, it becomes the norm. And then it is very difficult to turn that on its head and change it.

Ultimately, I think it comes down to the very simple premise that managers have to do more. They have to understand the whole spectrum of individuals and how each is performing. They may even have to micromanage to an extent more than they have done so far, I think.

Kerry Sulkowicz: What can managers do in practical terms to combat talent risk?

Paul Wood: Companies now have many new tools at their disposal, including insider monitoring and predictive analytics. Increasingly, it's actually possible to predict when someone is going to jump ship. For example, are there signs that an employee has diverged from his normal pattern of behavior? Has he been coming in at odd hours? Printing more than usual? Accessing external sites more frequently? Such indicators can predict if this employee is planning to resign and take things with him. Companies need to be prepared and ready to say: "OK, fine, we will take your resignation, but can you give us back our intellectual property?" Or: "Can you sign an agreement that says you don't take this with you to your next role?"

What I push hard at Bloomberg is a more open mindset about what our staff is actually doing. Companies should scrutinize most closely those with privileged access—technology people, those in key business and financial positions, and so forth. These individuals are the focal points of talent risk.

It starts at the top

The participants agreed that, ultimately, cultural attitudes—what constitutes acceptable behavior—start at the very top of the organization.

Colleen Taylor: Although managers are the front line of enforcement, culture shaping starts at the CEO level. The CEO should be setting the tone for managers, direct reports, and then the next layer down. When CEOs spend time and make a personal commitment to this, they can create strong, even visionary cultures.

David Clark: All good companies measure results and what you do, but great companies also measure how you do it. It's also critical to promote a culture of learning—and it's the senior leader's job to get the company thinking and acting that way. For example, leadership may ask questions like, "What did you do to help someone else, and what was the business impact? What didn't go so well, and what will you do differently as a result of that?" All that starts at the top.

Bernard Banks: Leaders are often fond of talking about climate as if it is culture. The climate of a corporation can change when you get new leadership or new managers. But the pervasive company

culture is always there underneath. A CEO can have priorities—things that are important right now—but all leaders should also understand the underlying culture, the basic premise of it, because culture is what influences day-to-day behavior and the culture influences what the organization steers toward over time. Too often, leaders haven't made a commitment to finding out what the true drivers of their culture are. It's the leader's job to understand those drivers and how they may contrast with what is actually transpiring in the climate at any given point in time.

Robert Gulliver: I'd add that we talk about culture as if it is one overarching blanket, but the reality is that in any organization you are going to have microcultures. At the NFL, our culture in New York is different than in Los Angeles, where we have a media business. And it's different in New Jersey, where NFL Films is based. And those differences apply to every medium-sized or large organization. You are not going to have just one culture that applies to the entire organization, and that makes the leader's job that much harder.

Speaking truth to power

As the director of talent, the chief human-resources officer (CHRO) has an important role to play in mitigating talent risk—often by being brutally honest about issues as they arise.

Paul Wood: I see the role very much as being part of the conscience of the organization and being the eyes and ears of the organization from the board and CEO's perspective. You must be empowered and competent enough to have frank and open discussions. You must be able to tell the CEO and the board what they might not want to hear—saying it constructively and pragmatically and realistically. As the chief risk officer, I get pushback frequently on what I am saying, but I feel like I've done what I'm being paid to do, which is to be honest and open about an issue as I see it, whether it be a person risk, a tech risk, or whatever it may be.

Gary Hediger: Part of the CHRO's role is to advise the company on how to stay out of trouble. Part of it is to advise about talent. But it really depends on the state of the organization. If the organization is in turmoil, if it is really trying to find itself, the role may be about the organization's survival.

The board's role

The participants' conversation turned to the board. Board members might not lead cultural efforts, but they have a unique window on the company, as well as the ear of the CEO.

Sarah Dahlgren: The board ultimately helps CEOs see their blind spots—particularly in regard to the people who are closest to the CEO. That's a critical role.

Sharon Meadows: Candidly, too many CEOs view the board as a problem, not an opportunity. I think that's a normal human reaction. If you are the head of the organization, you are charged with its success. You think you know how to do it, and you really don't want to hear anyone else's point of view about it. CEOs should listen to their boards more and take account of the diversity and the experience available to them via the board. CEOs can do better on this.

Of course, the board's role is not to manage the organization. Still, board members can learn a lot about the organization's issues just by sitting through regular presentations by senior management. You would be amazed by what you can tell by the tone and the quality of presentations and the offhand comments that are made to you in the hall. And a lot of those issues are cultural; you can spot imperial CEOs whose rule is stifling, or you can have

someone who is too friendly and familiar with the subordinates. You don't need to know all the day-to-day management details or problems to get the sense of what the general atmosphere or culture is like in the organization—and to advise the CEO and senior management on identifying and fixing those issues.

One of the things that boards don't do—or, at least, I don't think they do anywhere nearly enough—is have conversations with employees and shareholders. Both of those groups can give you a lot of additional insight and information. Those opportunities are pretty rare. You have to kind of demand them. Not all senior-management teams want to facilitate that.

Senior executives know that an organization's workforce is its lifeblood, and they widely agree that the surest route to lasting competitive advantage is to create an organization that attracts, develops, retains, and motivates exceptional talent. Yet many executives lose sight of the fact that talent also poses great risks. Only by developing a better understanding of how talent risk operates within the organization can leadership, managers, and employees alike begin to mitigate it. ■

About Heidrick & Struggles' roundtable participants

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This executive roundtable is part of an ongoing series of conversations with senior leaders from across industry and functional lines to share best practices on important talent-related issues. To comment on this article, or for more information about the series, write to TalentRisk@heidrick.com.

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