Schumpeter | The tussle for talent

The best companies are obsessed by "the vital few"

PLATO believed that men are divided into three classes: gold, silver and bronze. Vilfredo Pareto, an Italian economist, argued that "the vital few" account for most progress. Such sentiments are taboo today in public life. Politicians talk of a "leadership class" or "the vital few" at their peril. Schools abhor picking winners. Universities welcome the masses: more people now teach at British ones than attended them in the 1950s.

In the private sector things could hardly be more different. The world's best companies struggle relentlessly to find and keep the vital few. They offer them fat pay packets, extra training, powerful mentors and more challenging assignments. If anything, businesses are becoming more obsessed with ability.

This is partly cyclical. Deloitte and other consultancies have noticed that as the economy begins to recover, companies are trying harder to nurture raw talent, or to poach it from their rivals. When new opportunities arise, they hope to have the brainpower to seize them. The acceleration of the tussle for talent is also structural, however. Private-equity firms rely heavily on a few stars. High-tech firms, for all their sartorial egalitarianism, are ruthless about recruiting the brightest. Firms in emerging markets are desperate to find high-flyers—the younger the better—who can cope with rapid growth and fast-changing environments.

Few people know more about how companies manage talent than Bill Conaty and Ram Charan. Mr Conaty led the human-resources department at General Electric (GE) for 14 years. Mr Charan has spent the past few decades offering advice to some of the world's leading bosses. Their recent book, "The Talent Masters", provides a nice mix of portraits of well-known talent factories, such as GE and Procter & Gamble (P&G), along with sketches of more recent converts to the cause.

"Talent masters" are proud of their elitism. GE divides its employees into three groups based on their promise. Hindustan Unilever compiles a list of people who show innate leadership qualities (and even refers to them throughout their careers as "listers"). Talent masters all seem to agree on the importance of two things: measurement and differentiation. The best companies routinely subject their employees to "reviews" and "assessments" of one sort or another. But when it comes to high-flyers they make more effort to build up a three-dimensional picture of their personalities and to provide lots of feedback. Jeff Immelt, GE's boss, prides himself on his detailed knowledge of the 600 people at the top of his company, including their family circumstances and personal ambitions. Hindustan Unilever's managers build detailed dossiers on their listers. Novartis, a drug firm, asks high-flyers to produce "leader plans" and share them with their mentors and contemporaries.

They single out high-flyers for special training. GE spends $1 billion a year on training, much of it on its elite management college in Crotonville. Novartis sends high-flyers to regular off-site training sessions. Training courses are clearly powerful motivators. But they also help to form bonds between the future leaders of far-flung organisations.

Even more important than off-site courses is on-the-job training. Many companies speak of "stretch" assignments or "baptisms by fire". P&G refers to "accelerator experiences" and "crucible roles". The most coveted are foreign postings: these can help young managers understand what it is like to run an entire company, or force specialists to deal with a wide range of problems. Other tough tests include building a business in an isolated village (a popular challenge at Hindustan Unilever) or turning around a failing division.

Successful companies make sure that senior managers are involved with "talent development". Jack Welch and A.G. Lafley, former bosses of GE and P&G, claimed that they spent 40% of their time on personnel. Andy Grove, who ran Intel, a chipmaker, obliged all the senior people, including himself, to spend at least a week a year teaching high-flyers. Nitin Paranjpe, the boss of Hindustan Unilever, recruits people from campuses and regularly visits high-flyers in their offices. Involving the company's top brass in the process prevents lower-level managers from monopolising high-flyers (and taking credit for their triumphs). It also creates a dialogue between established and future leaders.

Successful companies also integrate talent development with their broader strategy. This ensures that companies are more than the sum of their parts. Adrian Dillon, a former chief financial officer of Agilent, a firm that makes high-tech measuring devices, says he would rather build a "repertory company" than a "collection of world experts". P&G likes its managers to be both innovative and worldly: they cannot rise to the top without running operations in a country and managing a product globally. Agilent and Novartis like to turn specialists into general managers. Goodyear replaced 23 of its 24 senior managers in two years as it shifted from selling tyres to carmakers to selling them to motorists.

The risks of reaching for the stars

Elitism has its drawbacks. In their rush to classify people, companies can miss potential stars. Those who are singled out for special treatment can become too full of themselves. But the first problem can be fixed by flexibility: people who are average in one job can become stars in another. And people who become too smug can be discarded.

Their obsession with talent has served the likes of GE and P&G well. They have trained enough leaders for themselves, with plenty to spare. P&G's alumni include Steve Ballmer (the boss of Microsoft), Meg Whitman (formerly of eBay), Scott Cook (Intuit) and Jim McNerney (Boeing). The world's public sectors could learn a lot from such talent masters. ■

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