Pearl Meyer

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How Wide is Your Talent Moat?

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Moat: a deep and wide trench around the rampart of a fortified place (such as a castle) that is usually filled with water.

Typically the word moat is associated with medieval castle settings, with a group of people inside raising their drawbridge to protect them from harm. Warren Buffet popularized the term in the business world with his concept of an "economic moat," referring to a company's competitive advantage and sustainability—those things that protect from outside threat. This can take the form of a particular technology, the organization's ability to scale or pivot, or a significant barrier to enter a market. Companies with a wider moat are more insulated from competitor's threats.

This same concept can be applied in the HR world. Given today's war for talent, companies should be acutely aware of their own "talent moat," or lack thereof. Understanding the areas where you have competitive advantage in terms of your workforce—and the areas where you are susceptible—is critically important to overall business survival in the short term and success in the long term. Companies that prioritize widening their talent moat can, over the long term, reduce unwanted turnover, engage their workforce, and operate with greater speed and focus. Companies that do not are continually targeted for their talent, making organizational progress slow and challenging.

Identifying and Fortifying a Talent Moat

If we consider a talent moat to be an insulating force or set of forces against competitors' threats to attract your resources, then defining your moat and its special features is an important exercise that will help your organization maintain focus, build on what's important, and fortify the weak points. These factors should be very specific to the things that your organization does well and differently, or aspires to do well and differently.

Some of the more common forces are as follows, but don't default to these if they aren't in fact core to your company's DNA; explore what is fundamental to your unique position.

1. **Corporate Mission:** This is a differentiator when an individual or set of individuals feel very emotionally connected to the company's mission. An example would be someone working for a pharmaceutical company that is trying to develop a cure for a disease that plagues a loved one. Organizations with a compelling mission that connects emotionally to individual employees can have a very strong moat. These employees may be hard-pressed to find another company that aligns with their sense of purpose. Leaders who can make connections between the work that is done and the benefit it serves can greatly contribute to bolstering retention.
2. **Organizational Culture:** Like mission, culture can have an enormous impact on retention and engagement of employees; it can be a glue that holds teams together and provides a sense of belonging. The leaders of the organization should be aligned on the key differentiating aspects of the culture, what areas need improvement based on employee engagement assessments, and how to best capitalize on the key cultural

strengths. This is a retention factor that can be built over time with focus and diligence.

3. **Leadership:** There is a significant amount of research that suggests managers have great influence over whether employees stay or go. A great manager can create a very significant moat for their team, and a set of great managers can create a significant moat for the company. There are a number of existing methods that can help a company improve its leadership profile, including but not limited to manager training, accountability for the development of direct reports, assessment and feedback loops, and job rotations to expand the influence of key talent magnets.
4. **Industry Dominance:** Companies that are widely known for their dominant performance, brand, or both often have a unique talent moat. Typically these organizations are highly selective in terms of who they may consider for employment. There is an inherent intangible reward, and employees feel a lot of pride in being associated with these winning companies.
5. **Total Rewards:** An overall rewards package or individual elements of rewards can also create a wide talent moat. Some aspects may be quantifiable, like the value of equity incentives granted to employees that have not yet vested. If these awards are highly valuable it can create a wide talent moat as it can be very costly for a competitor to replace the value. Other factors here can also be quite powerful: flexibility in work hours and place, enhanced health and welfare or retirement benefits, creative and/or stable work, depending on the individual and job profile.
6. **Individual Development:** Providing employees development opportunities can also have a profound impact on a company's talent moat. Sharing the possibilities for future career growth, understanding and actively supporting an employee's development goals, and mapping out a future with the company can help with retention and engagement.

Key Questions for Assessing your Company's Talent Moat

1. **What defines our moat?**
   - What are the things that make us an employer of choice?
   - What do employee engagement surveys suggest?
   - What do employees say creates retention and engagement in our organization?
   - What do key leaders believe?
2. **Where is our moat weak?**
   - Why do our good people leave?
   - Do exit interviews point to certain themes or trends that can be improved?
   - Are we losing employees to a similar profile company?
   - What makes competitors an attractive employment opportunity?
   - Do we conduct proactive "stay" interviews to gain insight into our employment brand?
3. **Will our moat change over time?**
   - Are the things that are creating your talent moat sustainable or simply a product of a point in time?
   - If the factors are not sustainable, when are they expected to sunset and what factors will replace them?

Moving from Assessment to Action

Once a company has defined its talent moat (including areas of susceptibility), the next step is to develop a set of short- and long-term prioritized actions aimed at fortifying and bolstering it. Some aspects may be relatively easy to operationalize, such as new programs or communication tools to improve on existing strengths or weaknesses. Others may be more challenging and require significant work to achieve. In either case, these are essential activities that must be undertaken in order to build a sustainable business. Ideally, these actions will result in a protective talent moat that provides long-term strength to the organization.

About the Author

Terry Newth is a managing director at Pearl Meyer. He consults on the design, development, and assessment of executive compensation programs that support each organization's business objectives, long term business strategy, and organizational culture. His clients range from Fortune 500 organizations to pre-IPOs to private and family-owned companies in a wide range of industries. Terry's areas of expertise include pay strategy and philosophy development, market-based pay studies, incentive plan design, severance and CIC arrangements, outside director pay, transaction-related compensation, CD&A and supporting table disclosures, corporate governance, and share plan authorizations.

About Pearl Meyer

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