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Making **talent** a strategic priority

The War for Talent never ended. Executives must constantly rethink the way their companies plan to attract, motivate, and retain employees.

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Companies like to promote the idea that employees are their biggest source of competitive advantage. Yet the astonishing reality is that most of them are as unprepared for the challenge of finding, motivating, and retaining capable workers as they were a decade ago.

Ten years after McKinsey conducted its War for Talent research,[1] the 1997 study drawing attention to an imminent shortage of executives, the problem remains acute—and if anything has become worse. Companies face a demographic landscape dominated by the looming retirement of baby boomers in the developed world and by a dearth of young people entering the workforce in Western Europe. Meanwhile, question marks remain over the appropriateness of the talent in many emerging markets.

Business leaders are deeply concerned, judging by two McKinsey Quarterly global surveys. The first, in 2006, indicated that the respondents regarded finding talented people as likely to be the single most important managerial preoccupation for the rest of this decade. The second, conducted in November 2007, revealed that nearly half of the respondents expect intensifying competition for talent—and the increasingly global nature of that competition—to have a major effect on their companies over the next five years. No other global trend was considered nearly as significant.[2]

The widespread belief that expensive efforts to address the problem have largely failed compounds the frustration of many senior executives. In the past decade, organizations have invested heavily to implement human-resources (HR) systems and processes, and talent issues have unquestionably moved up the boardroom agenda. Although these moves are laudable and necessary, they have been insufficient at best, superficial and wasteful at worst. Too many organizations still dismiss talent management as a short-term, tactical problem rather than an integral part of a long-term business strategy, requiring the attention of top-level management and substantial resources. “Everyone spends time on today’s business—we attribute very little value to doing anything else,” one European COO lamented recently. “Talent management puts you under strain because it stops you from doing what you are rewarded for.”

In our work, senior executives have frequently acknowledged their failure (and that of their line managers) to pay enough attention to these issues. Our research at scores of global corporations has highlighted the obstacles that executives face, including short-term mind-sets, minimal collaboration and talent sharing among business units, ineffective line management, and confusion about the role of HR professionals (Exhibit 1).

To manage talent successfully, executives must recognize that their talent strategies cannot focus solely on the top performers; that different things make people of different genders, ages, and nationalities want to work for (and remain at) a company; and that HR requires additional capabilities and encouragement to develop effective solutions. Only in this way will talent management establish itself at the heart of business strategy.

The growing challenges

Three external factors—demographic change, globalization, and the rise of the knowledge worker—are forcing organizations to take talent more seriously. But the threats don’t come solely from the outside; companies themselves have made matters worse.

External forces

While the developed world wrestles with falling birthrates and rising rates of retirement, emerging markets are producing a surplus of young talent; in fact, they graduate more than twice as many university-educated professionals as the developed world does. Many organizations have been eyeing this source of talent enthusiastically, but riding the new demographic tide won't be straightforward. HR professionals at multinational companies in emerging markets such as China, Hungary, India, and Malaysia have told McKinsey researchers that candidates for engineering and general-management positions exhibit wide variations in suitability. Poor English skills, dubious educational qualifications, and cultural issues—such as a lack of experience on teams and a reluctance to take initiative or assume leadership roles—were among the problems most frequently cited (Exhibit 2).

A particular demographic challenge comes from Generation Y—people born after 1980—whose outlook has been shaped by, among other things, the Internet, information overload, and overzealous parents. HR professionals say that these workers demand more flexibility, meaningful jobs, professional freedom, higher rewards, and a better work–life balance than older employees do. People in this group see their professional careers as a series of two- to three-year chapters and will readily switch jobs, so companies face the risk of high attrition if their expectations aren't met. The Gen Y cohort, already representing 12 percent of the US workforce, is therefore perceived as substantially harder to manage than its predecessors. As one North American HR director explained, "The millennial generation doesn't want to work 100 hours a week. These kids want a different deal; they have seen their parents work all their life for the same company and then get fired. They are not interested in killing themselves for work."

Another challenge, as companies expand into new international markets, comes from globalization. To succeed in countries such as Brazil, China, India, and Russia, organizations must have executives willing and able to work abroad. They also require talented local people, with an international mind-set, who understand local ways of doing business and local consumers—notably, the needs of an expanding middle class.

Finally, knowledge workers, the fastest-growing talent pool in most organizations, have their own demands and peculiarities. By one estimate, 48 million of the 137 million workers in the United States alone can be classified in this group; a single company can employ upward of 100,000.[3] Knowledge workers are different because they create more profit than other employees do—up to three times more, according to our research—and because their work requires minimal oversight. Yet the performance of knowledge-intensive companies within the same industry varies significantly, which suggests that some of them struggle to extract value from this newly enlarged type of workforce. What's more, the technology supporting its work has created faster and better ways to share information, and that further drives the demand for such workers and their potential impact.

The enemy within

To a considerable extent, executives must blame themselves for their current talent woes. Granted, shareholders and investment analysts are largely responsible for the obsession with short-term performance. But managers too readily treat talent in a reactive, knee-jerk manner—say, by hiring additional sales and marketing people only when new products take off. "Short-termism," as one European HR director recently observed, diverts management attention from longer-term issues such as talent sourcing and career development. Since investments in talent intangibles are expensed rather than capitalized, managers may try to raise short-term earnings by cutting discretionary expenditures on people development.[4] This tendency may turn into a vicious circle: a lack of talent blocks corporate growth, creating additional performance pressures that further divert the attention and thinking of executives toward the short term.

When companies do make talent a priority, they often fall into another trap: focusing narrowly on HR systems and processes, which divert attention from the place where most of the obstacles lie: people's heads. "Habits of mind are the real barriers to talent management," one financial-services executive confided.

The HR department's declining impact and the dearth of talented people willing to serve there haven't helped at all. McKinsey's global organization structure database[5] and work by the Saratoga Institute[6] separately found that less than two-thirds of all HR directors report directly to the CEO. Recent UK salary surveys show that senior sales, finance, marketing, and IT managers earn up to 50 percent more than their HR counterparts.[7] Our research confirms the idea that HR's influence is declining. The executives we interviewed criticized HR professionals for lacking business knowledge, observing that many of them worked in a narrow administrative way rather than addressing long-term issues such as talent strategy and workforce planning (Exhibit 3). As one HR director explained, senior executives "don't see us as having business knowledge to provide any valuable insights. We're doing many things based on requests, and they don't see HR as a profession."

Clearer thinking about talent management

Much has happened in the last ten years to redefine the talent issues facing companies. Some organizations are grappling successfully with the challenges, but others urgently need to start working on them. According to a recent survey by the Society for Human Resource Management, for example, a third of US companies have done nothing about the aging of the workforce.

The War for Talent work still informs our thinking. Robust talent systems and processes for recruiting, developing, and retaining employees—which we emphasized ten years ago—lie at the heart of any successful talent strategy. But our experience during the past decade shows that companies must do much more to ensure their access to a sufficient supply of talented people. Demographics, globalization, and the characteristics of knowledge work present long-term challenges that reinforce the argument for putting workforce planning and talent management at the heart of business strategy and for giving those issues a bigger share of senior management's time. We've extended our War for Talent thinking in three important areas in which we believe that talent strategies can have a greater impact.

Target talent at all levels

A decade ago, the War for Talent work made a strong case for emphasizing the recruitment and retention of a company's A players—the top-performing 20 percent or so of managers. Our research at the time showed that these high performers were twice as likely as average ones to improve operational productivity and to raise sales and profits. Consequently, we argued, top performers deserved up to 40 percent higher compensation than their average counterparts received.

The impact of top talent on corporate performance hasn't diminished, but what's much clearer today—not least, as a result of the expansion of knowledge work—is that organizations can't afford to neglect the contributions of other employees (Exhibit 4). Several authors in recent years have rightly emphasized the valuable contributions of B players: capable, steady performers who make up the majority of any workforce.[8] The insurer Aviva, with its strategy of managing "the vital many" rather than risk alienating the bulk of its workforce by focusing exclusively on highfliers, is one company that makes this commitment explicit. Research on social capital has also highlighted the importance of inclusiveness: top talent is more effective when it operates in vibrant internal networks with a range of employees.[9] Performance suffers when such social networks are absent or withdrawn.[10] Our experience has even shown that strong networks help retain fickle young Gen Y professionals.

Companies must therefore address the needs of talent at all levels of the organization. Unsung segments—frontline staff, technical specialists, even the indirect workforce, such as people who work for suppliers, contractors, and joint-venture partners—are often as critical to overall success as A players. Experience suggests that an exclusive focus on top players can damage the morale of the rest of the organization and, as a result, overall performance.

A more inclusive approach involves thinking of the workforce as a collection of talent segments that actively create or apply knowledge. One company we know offers employees of the local joint-venture partners it relies on to run its operations the same training and development programs it provides to its own employees. In this way, the company helps to ensure that the performance of its entire workforce meets expectations.

Develop a number of value propositions

Ten years ago, we stressed the importance of defining and communicating a powerful employee value proposition, which is senior management's explanation of why a smart, energetic, and ambitious person might want to work for one company as opposed to another. While many organizations now use such a proposition, most have only one—an approach that's increasingly outmoded. With demographic and other trends in mind, successful businesses are adapting their employer brands to target segments with different values, ambitions, and expectations: for example, generations X[11] and Y, middle-aged women, older workers, and people from specific cultural backgrounds. Sometimes the segmentation must be finer still; Gen Y's lifestyle goals, for instance, may be similar in Europe and North America but not in Asia or South America.

UK retailers are among the most enlightened employers in attracting young and old alike. Tesco explicitly divides its potential frontline recruits into those joining the workforce straight from school, students looking for part-time work, and graduates. The company devotes a separate section of its careers Web site to each of these groups and addresses each of them with recruiting materials whose design and language are tailored to that group. Tesco's competitor ASDA is the country's biggest employer of over-50s—a population segment the company equates with better customer service, improved team morale, and reduced labor turnover. Recruitment teams target social groups, bingo halls, places where people collect their pensions, and other locales where seniors congregate. Flyers explain benefits such as leave for grandparents and caregivers (up to three months' unpaid leave regardless of job, hours, or length of employment).

In China, multinational companies such as Citigroup, GE, and HSBC, which must compete fiercely against local businesses for talent, tailor their employee value propositions to highlight opportunities for real decision making, career development, housing, and educational benefits and learning. Autonomy and development paths are not only persuasive in recruiting but also, for many people, reasons to stay with a company.

More targeted career tracks can pay off in the quest for new talent, too. The oil services group Schlumberger, for example, introduced a path that proved to be a strong motivator in the technical community: recruits were promised promotions, status, and compensation comparable to what senior managers enjoy, as well as opportunities to shape research and product-development agendas. Senior technical peers rather than line managers review the performance of these specialists. Furthermore, Schlumberger has become one of the exploration and production industry's leading recruiters of women engineers by introducing flexible work practices to accommodate mobility and other life cycle needs.

Bolster HR

Ten years ago, HR specialists were preoccupied largely with formulating and managing standard processes—notably, recruitment, training, compensation, and performance management. We believed then, as we do now, that human resources should assert its influence over business strategy and provide credible and proactive counsel and support for the chiefs and line managers of individual business units. Only HR can translate a business strategy into a detailed talent strategy: for instance, how many people does the company need in order to execute its business strategy, where does it need them, and what skills should they have?

Unfortunately, the credibility and influence of HR executives have declined over the past decade, and the function has failed to develop many critical capabilities. According to our research, 58 percent of all line managers believe that the HR function lacks the wherewithal to develop talent strategies in line with a company's business objectives, though only 25 percent of the HR professionals in our interviews agreed.

HR leaders need to widen their focus beyond senior management and better address the needs of the front line. "HR serves only the top layers," complained one global HR director recently. "My head of HR in North America works only with the CEO—nobody knows her, and she doesn't know where the talent lies in the business."

In the same spirit, HR departments need to get a better feel for segmentation and internal marketing in order to create and define a number of different employee value propositions. HR managers at Southwest Airlines, for example, use such skills to treat its frontline contact employees as internal customers by researching their needs and preferences as energetically as the company's marketers investigate those of its external customers.

Finally, HR directors should acquire deeper business knowledge. At Procter & Gamble, for instance, an aspiring HR manager is expected either to take a job in a plant or to work alongside a key-account executive to learn about a business unit and win the confidence of its managers. Coca-Cola Enterprises rotates top-performing line managers into HR positions for two or three years to build the business skills of its HR professionals and to make the function more credible to the business units.

McKinsey's War for Talent research emphasized the importance of instilling a deep commitment to talent throughout the organization, starting at the top and cascading through the ranks. Our most recent work emphasizes our belief in the importance of getting this "soft side" right; otherwise, we often observe, managers easily succumb to short-term pressures and fail to embed a talent strategy in the overall strategy of the business.

What's needed is a deep-rooted conviction, among business unit heads and line leaders, that people really matter—that leaders must develop the capabilities of employees, nurture their careers, and manage the performance of individuals and teams. HR professionals, meanwhile, need to improve their ability to translate business needs into talent strategies. We consistently see that top-performing companies instill the mind-set and culture needed to manage talent effectively. A strong people culture actually reinforces a key part of a company's employee value propositions.

Now that intensifying demographic, macroeconomic, and technological changes are adding to the pressure, companies need to view talent management as a business priority, and senior executives must invest significant amounts of time in creating strategies that attract, motivate, and retain talent. Such a strategy will be successful when it nurtures talent at all levels, develops a number of employee value propositions to attract and retain different kinds of workers, and boosts HR's role and capabilities.

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Notes

[1]The original yearlong study, entitled "The War for Talent," was conducted in 1997. Its authors later published a book of the same name, which was based on updated research conducted during 2000. See Ed Michaels, Helen Handfield-Jones, and Beth Axelrod, *The War for Talent*, Boston: Harvard Business School Press, 2001.

[2]More than 10,000 respondents completed the 2006 survey. The 2007 survey on organization (see "The organizational challenges of global trends: A McKinsey Global Survey," mckinseyquarterly.com, December 2007), was completed by more than 1,300 executives.

[3]Lowell L. Bryan, "Making a market in knowledge," *The McKinsey Quarterly*, 2004 Number 3, pp. 100–11.

[4]Lowell L. Bryan, "The new metrics of corporate performance: Profit per employee," mckinseyquarterly.com, February 2007.

[5]Covers the period from 2003 to 2006.

[6]*US Human Capital Effectiveness Report 2005–06*, Saratoga Institute.

[7]Chartered Management Institute's *2005 National Management Salary Survey*, based on responses from almost 21,000 UK managers.

[8] Thomas J. DeLong and Vineeta Vijayaraghavan, "Let's hear it for B players," *Harvard Business Review*, June 2003, Volume 81, Number 6, pp. 96–101.

[9] Mohan Subramaniam and Mark A. Youndt, "The influence of social capital on the types of innovative capabilities," *Academy of Management Journal*, 2005, Volume 48, Number 3, pp. 450–63.

[10] Boris Groysberg, Ashish Nanda, and Nitin Nohria, "The risky business of hiring stars," *Harvard Business Review*, May 2004, Volume 82, Number 5, pp. 93–100.

[11] Generation X consists of people born from 1965 to 1980. The lives of its members have been shaped by forces such as the Internet, growing workplace diversity, the end of "jobs for life," and higher rates of parental divorce.