

The War for Talent

Organization and Leadership Practice
McKinsey & Company

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The War for Talent

In 1997, McKinsey & Company coined the term “the war for talent” as the name for our original research on talent management practices and beliefs. We soon realized we had named a phenomenon that many people had been experiencing, but that had not really been captured before. This phrase has reverberated throughout the business world ever since. In 2000, we completed a second round of surveys and case-based research to update our initial findings. In total, we have now surveyed 13,000 managers at 112 large U.S. companies.

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Having great managerial talent has always been important, but now it is critical. In today’s competitive knowledge-based world, the caliber of a company’s talent increasingly determines success in the marketplace. At the same time, attracting and retaining great talent is becoming more difficult, as demand for highly skilled people outstrips supply.

The war for talent will persist for at least the next two decades. The forces that are causing it are deep and powerful. The war for talent is a business reality.

A few companies are realizing this and are revolutionizing their approach to talent management. Most aren’t yet out of the starting blocks. We hope our findings will help spur them to action.

The Stakes are High

We have progressed from the Industrial age to the Information age. The value of hard assets has declined relative to the value of a company’s intangible assets – assets such as proprietary intellectual capital, winning brands, and innovative ideas. Underpinning all of these intangibles is *talent*.

And *better talent* is what will separate the winning companies from the rest. We have found repeatedly that having strong talent in key positions creates huge improvements in performance. For instance, in a manufacturing company, we found that the best plant managers grew profits 130% while the lowest performing managers achieved no improvement. In an industrial services company, the best center managers grew profits 80% while the lowest performers achieved no improvement. And our study of portfolio managers in a financial services institution showed that top performers grew revenues by nearly 50% while average performers’ portfolios remained flat.

The potential for value creation extends beyond the level of individual performance differentials. Companies that recognize the strategic importance of talent and manage their businesses accordingly stand to reap very large rewards. The companies in our survey that excel in talent management achieved total returns to shareholders that were 22 percentage points better than the average

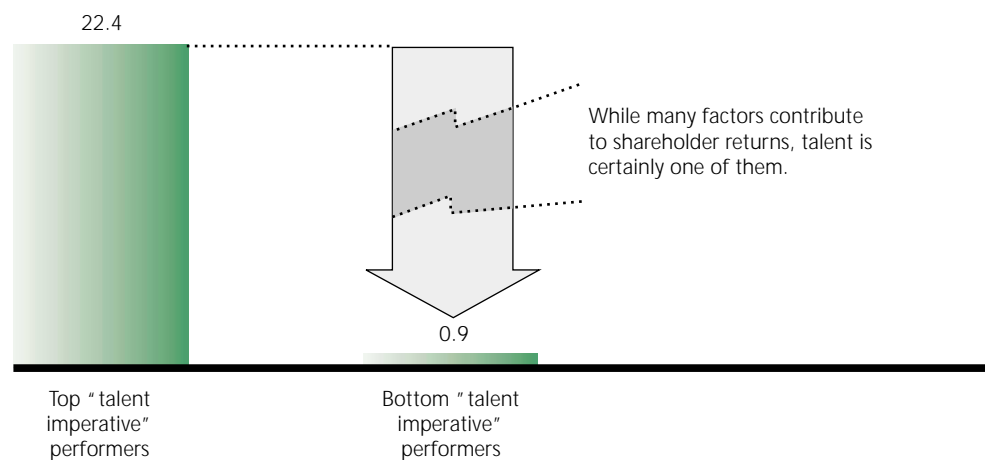
in their industry. Not 22 percent better, 22 *percentage points* better. Compounded over several years, the difference in wealth creation is huge indeed. While many factors drive returns to shareholders, these data provide compelling evidence that better talent management causes better performance.

The War for Talent Will Persist, and Companies Are Not Prepared

At the same time, the market for talent is the most competitive it's been in decades. Demand for business leaders and other highly skilled workers is growing rapidly in response to the unprecedented opportunities – and challenges –

Figure 1 **Better Execution on Talent Imperatives Is a Major Driver of Value Creation**

Percent total return to shareholders over and above peer group average



Source: McKinsey & Company's War for Talent 2000 Survey

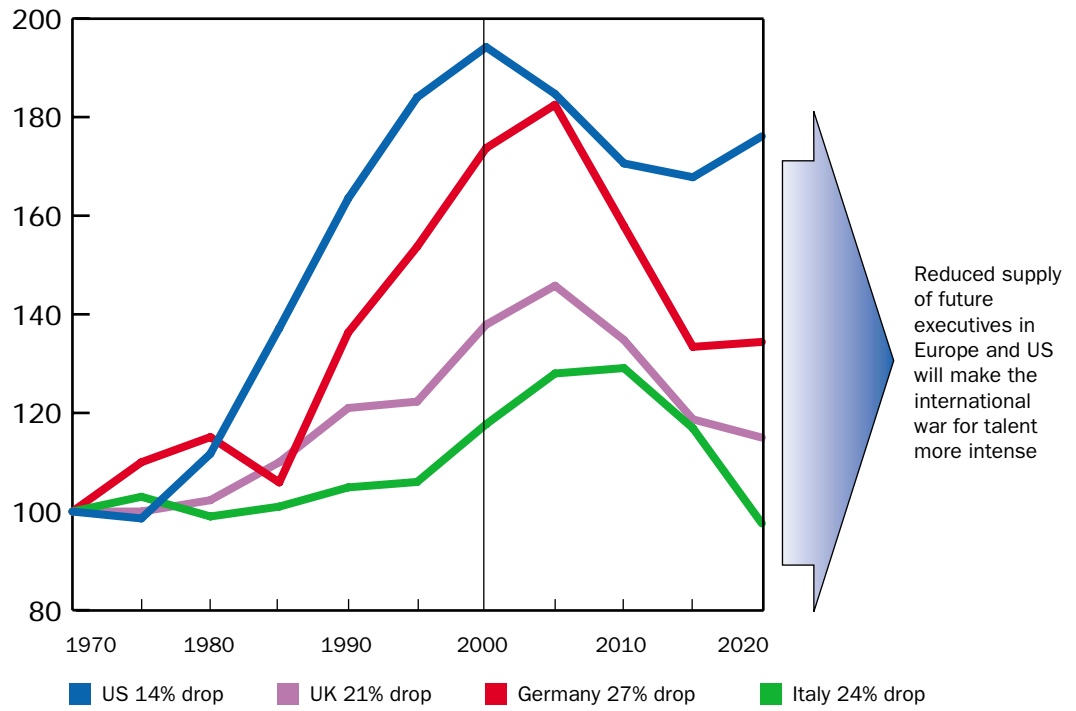
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to be addressed in the knowledge-based economy. We acknowledge that the demand for managerial talent will ebb and flow with the economy, but the long-term trends indicate continued high demand. Despite the slowing of the economy in 2000 and early 2001, several executive search firms report the demand for *top* managerial talent is continuing to grow, albeit at a slower rate than before.

At the same time, the supply of talent is constrained. The number of workers in the U.S. who are 35-44 years old – the people entering the executive ranks – will decline by 14% over the next 15 years (the situation is worse in Europe). For a few more years companies can fill their executive ranks with the increasing number of older baby boomers, but when those boomers retire, companies will find their management ranks very thin.

Figure 2 **Demographic Data, 1970 – 2020**

Number of 35 – 44 year olds, index 1970 = 100



Footnote: Percentage drop is peak to trough decrease over the period 2000-2020
 Source: U.S. Bureau of the Census, International Data Base

Furthermore, individuals’ expectations of the developmental, financial, and psychological rewards they’ll get from their work are way up. And switching jobs has little, if any, stigma associated with it – it’s easier to do than ever before, thanks to the transparency offered by the Internet and the headhunter industry.

What is troubling is that most companies are ill-prepared to meet these challenges. Regardless of size or industry, most companies have yet to pinpoint the formula that will make their organization more attractive to talented people. High performers are likely to leave companies where they feel underdeveloped, undervalued, and underpaid. While 72% of all managers surveyed say that winning the war for talent is critical to their companies’ success, only 9% are confident that their current actions will lead to a stronger talent pool in the next three years. The encouraging news is that the war for talent is far from decided. Even high performing companies have considerable room to improve their talent management practices. Although transforming the way a company manages talent requires enormous effort and a great deal of behavioral change, those executives with the courage to act can expect substantial impact within one year.

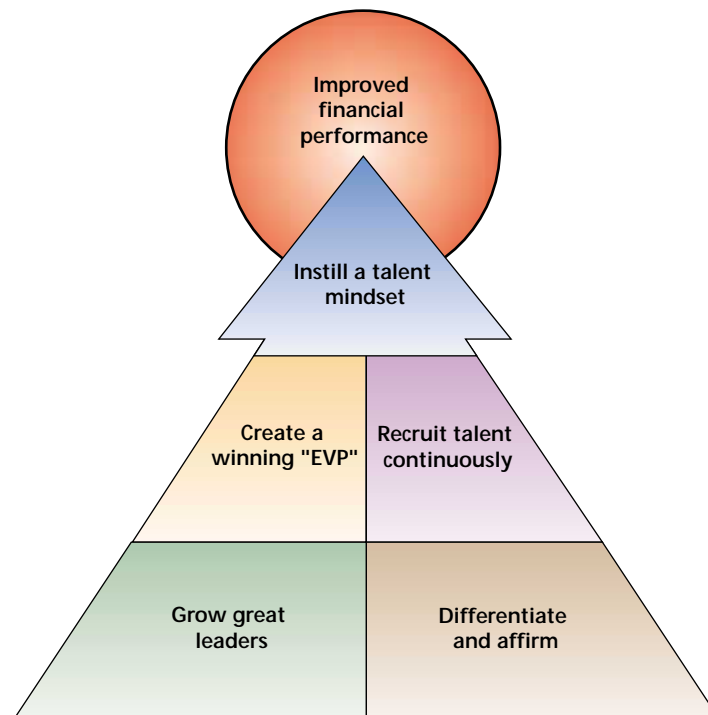
What Companies Should Do

Leaders with a talent mindset roll up their sleeves and make talent their job

The forces of the war for talent add up to a fundamental shift in the business environment, requiring companies to radically adjust the way they manage people. Companies that are leading the way execute against five talent management imperatives. They:

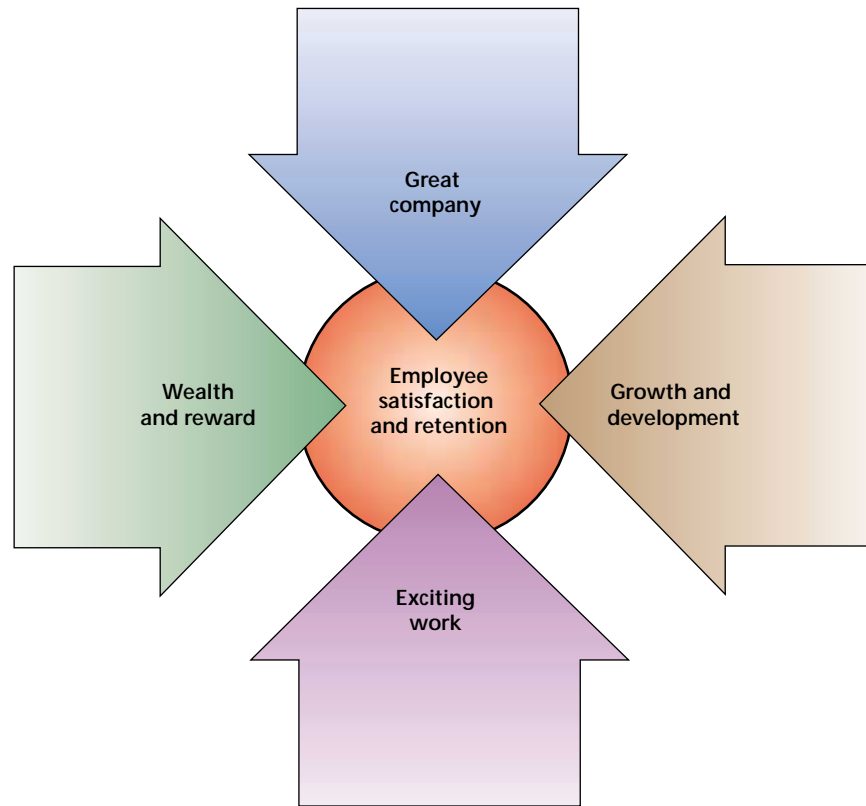
1. Instill a talent mindset at all levels of the organization beginning with senior management – A talent mindset is the deeply held belief that building a strong management talent pool is critical to achieving the aspirations of the company. Leaders with a talent mindset roll up their sleeves and make talent their job; they continuously create, champion, and drive new ways to bolster talent. They ensure that the link between business strategy and talent requirements is forged. They hold themselves and leaders at all levels of the organization accountable for the strength of the talent pool.

Figure 3 **Five Elements of a Successful Talent Formula**



2. Create a winning Employee Value Proposition (EVP) that brings scarce talent through the doors, and keeps them there – Just as a company carefully shapes its value proposition to customers, it should also deliberately craft the value proposition to its people. The EVP answers the question, “Why would a talented person want to work here?” Although winning EVPs are designed to appeal to the needs of specific talent segments, they share the following elements:

Figure 4 **EVP Components That Drive Satisfaction**



“The deepest principle in human nature is the craving to be appreciated.”
– William James, philosopher and psychologist

- *Exciting work* – quite simply, people want interesting, challenging jobs and they want to feel passionate about their work. A great job is demanding and stretching and full of requirements that the individual finds interesting and worthwhile.
- *Great company* – managers want to work for companies that are well-managed, that have admirable corporate cultures and values, and great leaders. Two aspects of culture are critical: a strong emphasis on performance and an environment that is open and trusting.
- *Wealth and reward* – people want to make money that is commensurate with the value they create and with their other options. This is about more than the tangible value of the money; people want to feel recognized and valued for their individual contributions.
- *Growth and development* – managers want the company to help them develop their skills. This is particularly important today, when people realize that their only real security in the job market is the collection of skills they possess.

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3. Recruit great talent continuously – Companies must always be on the prowl for top talent. They need to have a keen sense of who they are looking for, and do their looking in new ways and in new places. They must bring in talent at all levels of the organization, even at senior levels. Successful companies understand that in today's economy, recruiting must be approached more like marketing and sales than purchasing; the recruit is the customer and the company must sell its jobs in an increasingly competitive marketplace. And these companies measure their recruiting success with the same rigor that they apply to growth targets or market share.

4. Grow great leaders – Most companies leave a tremendous amount of human potential unrealized because their people are inadequately developed. Talented people crave the opportunity to grow, and without it they'll leave. Growing great leaders means deliberately giving them job challenges that push the bounds of what they thought themselves capable of. At the same time, it means providing the life preservers for succeeding at "stretch" opportunities. It means giving people the candid feedback they need to grow, without the sweaty palms that often characterize these infrequent exchanges. It means weaving mentoring into the fabric of the organization – so that it is *in* the institution, not an appendage.

5. Differentiate and affirm – Companies too often give in to the temptation to treat all their people the same. The leading companies conduct clear-eyed assessments of their talent; they differentiate in how they invest in their top performers and low performers. They shower top performers with job opportunities that excite and challenge them, and pay them for the value they create. Furthermore, they recognize that poor performers are not only failing in their own jobs, but are also bringing down everyone around them. These companies realize that moving on under-performers, whether to a different position or out of the company, is both a difficult task and an obligation of leaders. At the same time, they do not overlook the development of the large number of solid performers throughout the organization who are neither superstars nor blockers. They raise the performance and job satisfaction of these people to a higher level through development and affirmation, improving the odds that these workers feel vital to the future of the business.

On paper these imperatives may sound simple, even simplistic. But in companies that put them to practice, they fundamentally shift the way that people think about talent management.

Figure 5 **Thinking About Talent Management**

	The old way	The new way
Talent mindset	Having good people is one of many important performance levers	Having the right talent throughout the organization is a critical source of competitive advantage
	HR is responsible for people management including recruiting, compensation, performance reviews, and succession planning	Every manager – starting with the CEO – is responsible for attracting, developing, exciting, and retaining talented people; indeed every manager is explicitly accountable for the strength of the talent pool he/she builds
Employee Value Proposition	We expect people to pay their dues and work their way up the line before they get the top jobs and big bucks	We think of our people as volunteers and know we have to try to deliver on their dreams now if we are to keep them
	We have a strong value proposition that attracts customers	We also have a distinctive employee value proposition that attracts and retains talented people
Recruiting	Recruiting is like purchasing; it's about picking the best from a long line of candidates	Recruiting is more like marketing and selling; it's a key responsibility of all managers
	We hire at entry levels only, primarily from the same 6 or 7 schools	We hire at all levels – entry, mid, and top – and look for talent in every conceivable field
Growing leaders	Development is training	Development happens through a series of challenging job experiences and candid, helpful coaching
	Development happens when you are fortunate enough to get a really good boss	Development is crucial to performance and retention...and it can be institutionalized
Differentiation	Differentiation undermines teamwork	We shower our top performers with opportunities and recognition. We develop and nurture mid-performers. We help our lower performers raise their game or we move them out or aside

Do You Need to Act, and Act Now?

How well are you and your company prepared? Ask yourself the following questions:

Get started, expect huge impact in the first year – and fundamentally change how you attract, develop, and retain talent

1. Do you believe that the single most important way to win in the future is by having superior talent at all levels in your organization? Is it given the same amount of attention as budgeting or operations issues?
2. Are you spending 30-40% of your time – or more – strengthening your talent pool by bringing the talent lens to every aspect of how you run the business? Have you made talent *your* job?
3. Are you and all your key people explicitly held accountable for strengthening your respective talent pools?
4. Do you have a winning employee value proposition that attracts talented people to your organization?
5. Does your organization have a culture of candid feedback and helpful coaching?
6. Are you aggressively recruiting for “new faces in new places” at all levels (including senior levels) in your organization?
7. Do you regularly shower your top performers with highly developmental job experiences, significantly differentiated compensation, and real mentoring? Are you thinking about how to develop the broad swath of core performers as well?
8. Does your organization have a talent review process – with the importance and intensity of the budget process – that cascades throughout your organization?
9. Are people discussions followed by concrete actions, including promotions for top performers and forced attrition for chronic underperformers?
10. Do you believe you can achieve huge impact in a year by strengthening your talent pool, and are you taking courageous actions to do so?

Affirmative responses are indicative of a talent mindset and practices that will win the war for talent. Each time you answer “no” you have uncovered a vulnerability in your talent-building efforts. Fortunately, there is no reason to remain vulnerable. McKinsey & Company can help you bolster your efforts along any of the 5 imperatives, and can also help your company strengthen the link between talent management and business strategy.

Please see the accompanying insert, “Helping Clients Win the War for Talent,” to learn more about our talent management work, and the ways we have helped clients make talent management a true competitive advantage.