McKinsey&Company

Winning with your talent-management strategy

Three best practices for managing and allocating talent support better business performance, according to a new survey.

AUGUST 2018 • ORGANIZATION

Jean-François Martin

The allocation of financial capital has long been recognized as a critical driver of an organization's performance. The value of managing and allocating human capital, however, is less widely known. But the results from a new McKinsey Global Survey confirm the positive effects of talent management on business outcomes.[1] According to respondents, organizations with effective talent-management programs[2] have a better chance than other companies of outperforming competitors and, among publicly owned companies, are likelier to outpace their peers' returns to shareholders.

The survey also sought to uncover the specific practices that are most predictive of successful talent-management strategy. While there is no one-size-fits-all approach to the effective management of human capital, the survey results reveal three common practices that have an outsize impact on the overall effectiveness of talent management as well as organizational performance: rapid allocation of talent, the HR function's involvement in fostering a positive employee experience, and a strategically minded HR team. The survey results also point to underlying actions that organizations of all stripes can take to cultivate these practices and thereby improve their talent-management strategy and organizational performance.

Why effective talent management matters

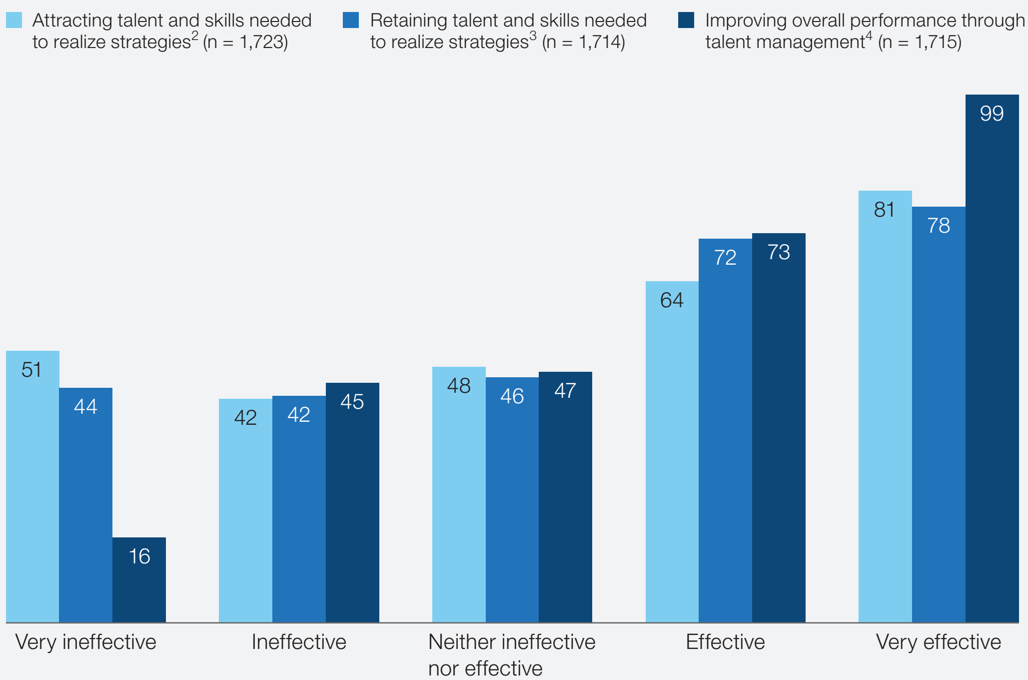
According to the survey responses, there is a significant relationship between talent management—when done well—and organizational performance. Only 5 percent of respondents say their organizations' talent management has been very effective at improving company performance. But those that do are much more likely to say they outperform their competitors: 99 percent of respondents reporting very effective talent management say so, compared with 56 percent of all other respondents.[3]

Only 5 percent of respondents say their organizations' talent management has been very effective at improving company performance.

Exhibit 1

The abilities to attract and retain talent, in addition to having an effective talent-management program, support organizational outperformance.

Respondents whose organizations have performed somewhat or much better than competitors over past 3 years,[1] based on effectiveness of talent-management practices, % of respondents



[1] Figures were calculated after removing respondents who said "don't know."
[2] Respondents were asked how successful their organizations are, compared with competitors, at attracting talent and skills needed to realize their strategies.
[3] Respondents were asked how successful their organizations are, compared with competitors, at retaining talent and skills needed to realize their strategies.
[4] When asked how effective their organizations' talent management has been at improving overall performance, 4% of respondents said "very ineffective," 19% said "ineffective," 35% said "neither ineffective nor effective," 38% said "effective," and 5% said "very effective."

What is more, the effects of successful talent management seem to be cumulative. Like an overall effective talent-management program, the abilities to attract and retain talent appear to support outperformance (Exhibit 1). Among public companies, we see a similar effect on total returns to shareholders (TRS). At companies with very effective talent management, respondents are six times more likely than those with very ineffective talent management to report higher TRS than competitors.

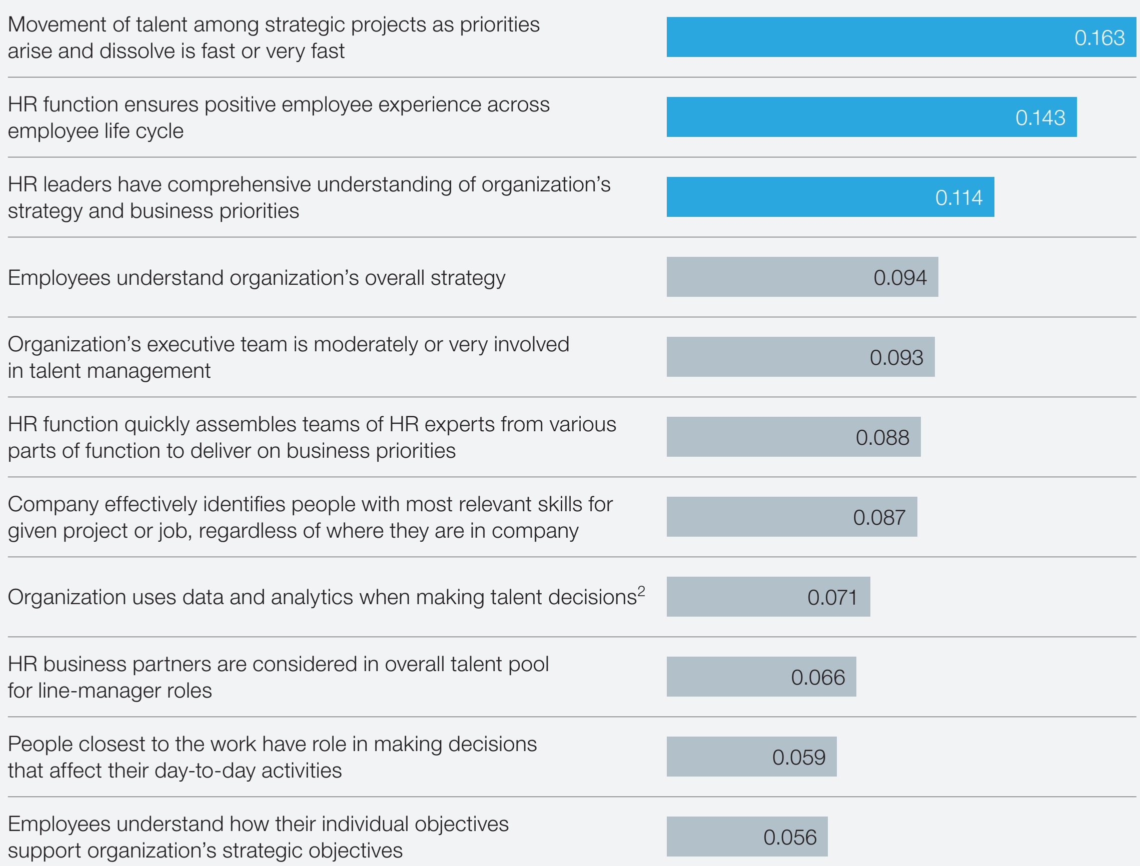
Three drivers of successful talent-management strategy

To support these outcomes, the results suggest three practices that most closely link with effective talent management: rapid allocation of talent,[4] HR's involvement in employee experience, and a strategically minded HR team (Exhibit 2).

Exhibit 2

Talent-management effectiveness is linked most closely with rapid talent allocation, employee experience, and strategically minded HR leaders.

Relationship between talent-management practices[1] and overall effectiveness of talent-management program, standardized regression coefficients



[1] Out of 20 practices tested in survey. 11 shown have strongest statistical relationships with talent-management effectiveness.
[2] Such as talent sourcing, selection, assessment, people performance, and people development.

Exhibit 3

The three key practices for effective talent management also support organizational outperformance relative to peers.

Relationship between talent-management practices and outcomes, standardized regression coefficient[1]

[1] When coefficients were calculated, regression analysis only included 3 practices shown to have strongest statistical relationships with talent-management effectiveness.

Respondents who say all three practices are in place—just 17 percent—are significantly more likely than their peers to rate their organizations' overall performance, as well as TRS, as better than competitors' (Exhibit 3). They are also 2.5 times more likely than others to rate their organizations' overall talent-management efforts as effective.

Rapid allocation of talent

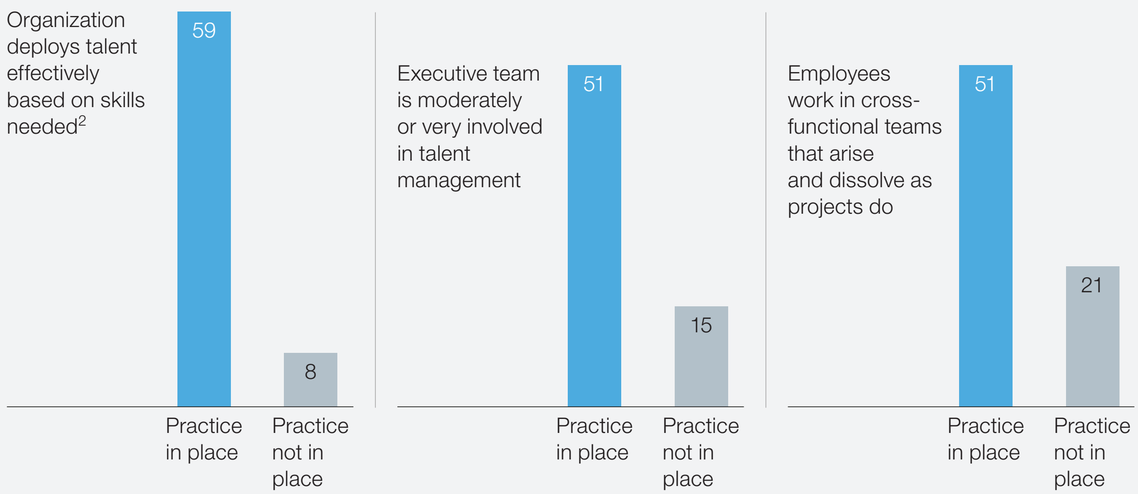
Only 39 percent of respondents say their organizations are fast or very fast at reallocating talent as strategic priorities arise and dissolve—a practice that leads to a 1.4-times-greater likelihood of outperformance.[5] And while it is well established that companies with rapid capital allocation are likely to see higher TRS,[6] our findings show that the same holds true for talent allocation. At public companies that quickly allocate talent, respondents are 1.5 times more likely than the slower allocators to report better TRS than competitors.[7] The link between rapid allocation and effective talent management is also strong: nearly two-thirds of the fast allocators say their talent-management efforts have improved overall performance, compared with just 29 percent of their slower-moving peers.

To allocate talent more quickly, the survey results point to three specific actions that meaningfully correlate with the practice (Exhibit 4). The first of these is the effective deployment of talent based on the skills needed, which has a direct impact on the speed of allocation. Respondents are 7.4 times more likely to report rapid talent allocation when their organizations effectively assign talent to a given role based on the skills needed.

Exhibit 4

Rapid talent allocation is most likely when skills-based deployment, executive involvement, and cross-functional teams are in place.

Likelihood of rapid talent allocation at organizations, by practice,[1]
% of respondents

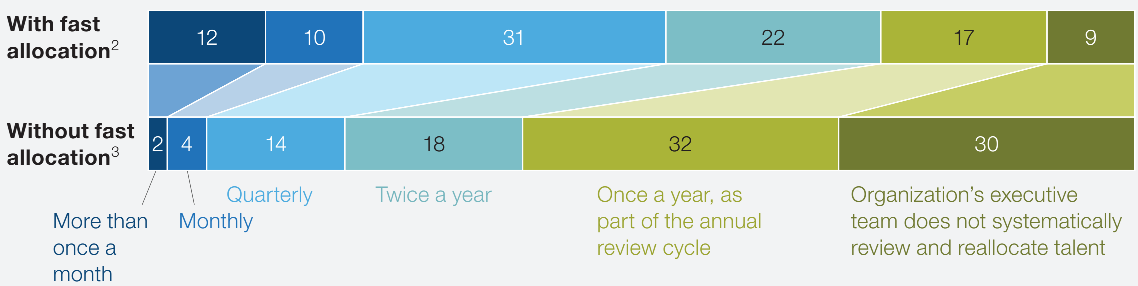


[1] Out of 16 practices asked about in survey. Respondents who say their organizations are fast or very fast at moving talent among strategic projects as priorities arise and dissolve; n = 665.
[2] Only asked of respondents in vice president and C-level roles.

Exhibit 5

At a majority of organizations that quickly reallocate talent, executive teams review talent allocation at least quarterly.

Frequency at which executive teams review talent allocation across organizations,[1]
% of respondents



[1] Only asked of respondents in vice president and C-level roles. Figures may not sum to 100%, because of rounding.
[2] Respondents who say their organizations are fast or very fast at moving talent among strategic projects as priorities arise and dissolve; n = 407.
[3] Respondents who say their organizations are slow, very slow, or neither fast nor slow at moving talent among strategic projects as priorities arise and dissolve; n = 592.

Second is executive-team involvement in talent management. Respondents who say their leaders are involved in talent management are 3.4 times more likely to report rapid talent allocation at their organizations. The frequency of leaders' involvement also makes a difference. At organizations that quickly reallocate talent, executive teams usually review talent allocation at least once per quarter (Exhibit 5). Finally, the results suggest that organizations where employees work in small, cross-functional teams are more likely than others to allocate talent quickly.

HR's involvement in employee experience

A second driver of effective talent management relates to employee experience—specifically, the HR function's role in ensuring a positive experience across the employee life cycle.[8] Only 37 percent of respondents say that their organizations' HR functions facilitate a positive employee experience. But those who do are 1.3 times more likely than other respondents to report organizational outperformance and 2.7 times more likely to report effective talent management, though our experience suggests that the HR function's role is just one of the critical factors that support great employee experience.[9]

A couple of key actions underlie the HR function's ability to ensure better employee experiences. One is quickly assembling teams of HR experts from various parts of the function to address business priorities. Just 24 percent of respondents say their organizations employ this characteristic of an agile HR operating model,[10] and they are three times likelier than other respondents to report a positive employee experience. Second is deploying talent and skills in a way that supports the organization's overall strategy. One-third of all respondents say their organizations' HR business partners are effective at linking talent with strategy in this way, and those who do are over three times more likely than other respondents to say the HR team facilitates positive employee experiences.

Strategic HR teams

The third practice of effective talent management is an HR team with a comprehensive understanding of the organization's strategy and business priorities. When respondents say their organizations have a strategy-minded HR team, they are 1.4 times more likely to report outperforming competitors and 2.5 times more likely to report the effective management of talent.

The factor that most supports this practice, according to the results, is cross-functional experience. When HR leaders have experience in other functions—including experience as line managers—they are 1.8 times more likely to have a comprehensive understanding of strategy and business priorities. Also important is close collaboration among the organization's chief HR officer, CEO, and CFO.[11] Fewer than half of all respondents say those executives work together very closely at their organizations,[12] but those who do are 1.7 times likelier to report a strategy-minded HR function. The findings also point to the importance of transparency with all employees about strategy and business objectives. Respondents who say their organizations' employees understand the overall strategy are twice as likely to say their HR team has a comprehensive understanding of the strategy.

■ ■ ■

In summary, effective talent management—and the practices that best support it—contributes to a company's financial performance. No one approach works for every company, but the survey results confirm that rapid allocation of talent, the HR function's involvement in fostering positive employee experience, and a strategic HR function have the greatest impact on a talent-management program's effectiveness. ■

---

1 The online survey was in the field from November 14, 2017, to November 28, 2017, and garnered responses from 1,820 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

2 We define an effective talent-management program as one that, according to respondents, has "effectively" or "very effectively" improved the organization's overall performance.

3 Figures were calculated after removing the 3 percent of respondents who answered "don't know" when asked how their organizations' performance over the past three years compared with competitors' performance.

4 We define rapid allocation of talent as the fast or very fast movement of talent among strategic projects as priorities arise and dissolve.

5 For more on adaptive and fast-moving organizations, see Aaron De Smet and Chris Gagnon, "Organizing for the age of urgency," *McKinsey Quarterly*, January 2018, McKinsey.com.

6 Yuval Atsmon, "How nimble resource allocation can double your company's value," August 2016, McKinsey.com.

7 Respondents who say their organizations have rapid talent reallocation are 2.2 times more likely than those who say their organizations have slow or very slow talent reallocation to report better TRS than competitors, as noted in Mike Barriere, Miriam Owens, and Sarah Pobereskin, "Linking talent to value," *McKinsey Quarterly*, April 2018, McKinsey.com.

8 *Leadership & Organization Blog*, "Employee experience: Essential to compete," blog entry by Naina Dhingra, Jonathan Emmett, and Mahin Samadani, March 12, 2018, McKinsey.com.

9 *Leadership & Organization Blog*, "Time for an EX intervention?," blog entry by Naina Dhingra, Jonathan Emmett, and Mahin Samadani, April 2, 2018, McKinsey.com.

[10] For more on agile HR operating models, see Frank Bafaro, Diana Ellsworth, and Neel Gandhi, “The CEO’s guide to competing through HR,” *McKinsey Quarterly*, July 2017, McKinsey.com.

[11] Dominic Barton, Dennis Carey, and Ram Charan, “People before strategy: A new role for the CHRO,” *Harvard Business Review*, July–August 2015, pp. 62–71, hbr.org.

[12] The question “How closely, if at all, does your organization’s chief HR officer work with your CEO and CFO?” was asked only of respondents in vice president and C-level roles.

The contributors to the development and analysis of this survey include **Svetlana Andrianova**, a specialist in McKinsey’s Charlotte office; **Dana Maor**, a senior partner in the Tel Aviv office; and **Bill Schaninger**, a senior partner in the Philadelphia office.

They wish to thank Laura Lee, David Mendelsohn, and Trevor Young for their contributions to this work.