Confronting overconfidence in talent strategy, management, and development

Best practices are well understood. But are companies following them as closely as their leaders claim?

by Tera Allas, Louis Chambers, and Tom Welchman

Many leaders we encounter insist that their talent- and people-development strategies are sound—and that their organizations are good at implementing them. Is this confidence warranted, and are companies living up to their leaders' assertions? Could these leaders be succumbing to the same optimism bias that motivates three out of four people to imagine that they are above-average drivers? The answers to these questions matter: companies with very effective talent management enjoy higher total returns to shareholders than less effective competitors do.[1]

The findings of a recent survey of 500 managers in the United Kingdom, part of a research project we conducted in collaboration with the Confederation of British Industry (CBI),[2] suggest that CEOs and HR leaders in particular may be taking a rose-tinted view. Asked to evaluate 21 generally accepted talent practices—in areas ranging from recruitment, employee engagement, and talent strategy to talent development and team efficiency—56 percent of survey respondents said that their organizations have

adopted no fewer than 16 good practices. More than one-quarter said their companies have adopted all 21. (For more, see sidebar, "Twenty-one best practices.")

When we looked at the responses by role, we noticed that CEOs and HR leaders appeared more bullish than the other managers: 64 percent of both HR leaders and CEOs said their companies were high adopters (deploying 16 or more of the practices), but only 42 percent of all other respondents in our survey agreed. Similarly, CEOs and HR leaders were less likely than the others to say their companies were low adopters (Exhibit 1).

Corporate leaders also appeared optimistic about specific talent practices. CEOs, for example, were two times more likely than other respondents to say their companies excelled at "know[ing] who the best people are and put[ting] them to work on the most important business priorities." And they were also nearly twice as likely as others to say that managers and leaders at their companies "are evaluated against their people performance, not just their business performance."
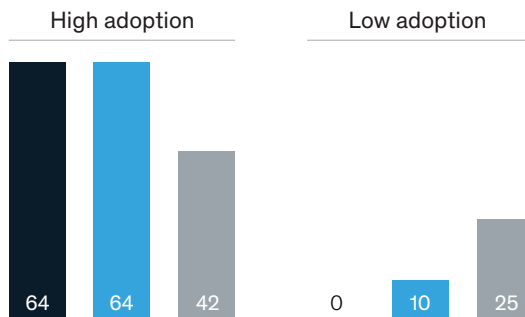
Exhibit 1

CEOs and HR leaders are more upbeat than others in assessing the adoption of talent best practices.

% of respondents

Organization's adoption of talent best practices[1]   ■ CEOs[2] ■ HR leaders ■ Other managers

	High adoption			Low adoption		
CEOs	64			0		
HR leaders		64			10	
Other managers			42			25

[1]High adopters deploy 16 or more of 21 generally accepted talent practices; low adopters deploy 5 or fewer.
[2]N = 28. While the sample size in this survey was small, a similar mismatch between senior leaders' and other managers' views of organizational performance has been recorded in many other studies.
Source: Confederation of British Industry (CBI)—McKinsey survey of 501 UK managers, 2018

[1] See "Winning with your talent-management strategy," August 2018, McKinsey.com.

[2] See "Great job: Solving the productivity puzzle through the power of people," Confederation of British Industry, May 2019, cbi.org.uk.

Twenty-one best practices

Our survey looked at 21 practices spanning a range of areas from recruitment, employee engagement, and talent strategy to talent development, work efficiency, and ways of working.

Talent strategy

We know who the best people are and put them to work on the most important business priorities.

We drive people strategy from the top: a chief talent officer (or the equivalent) is accountable for people management, with CEO support when necessary.

We set and communicate realistic targets on diversity and inclusion initiatives.

We know and broadcast our employee value proposition—in other words, why people should want to work for us.

Recruitment

We hire the right talent: we know which skills we are looking for and recruit people who have them.

When we hire people, we assess them against a set of capabilities rather than using informal life-history interviews.

We are actively changing our recruitment practices to improve diversity in the workplace.

Engagement

We have a culture of feedback: all employees, managers, and leaders give and receive it.

Managers and leaders are evaluated by their people performance, not just their business performance.

Leaders communicate clearly—and in a way that's meaningful to employees— what the business wants to achieve.

We use recognition awards and nonfinancial incentives to highlight and inspire individual performance.

We have a respectful and inclusive workplace environment.

Development

Employees and their managers know which skills they require and their responsibilities in their roles.

Training helps employees develop the skills required for their roles.

On-the-job support and coaching help employees develop the skills required for their roles.

Our performance in management processes is fair to employees.

We use internal rotations to help employees develop their careers and to retrain.

Ways of working

We are open to flexible-working models, such as remote working and job sharing, and this is the default for most jobs.

We use clear structures, roles, and responsibilities to streamline work.

We have collaborative ways of working within and across different parts of the business.

We help and reward those who deliver continuous improvement.

Source: McKinsey Organizational Health Index (OHI); McKinsey analysis
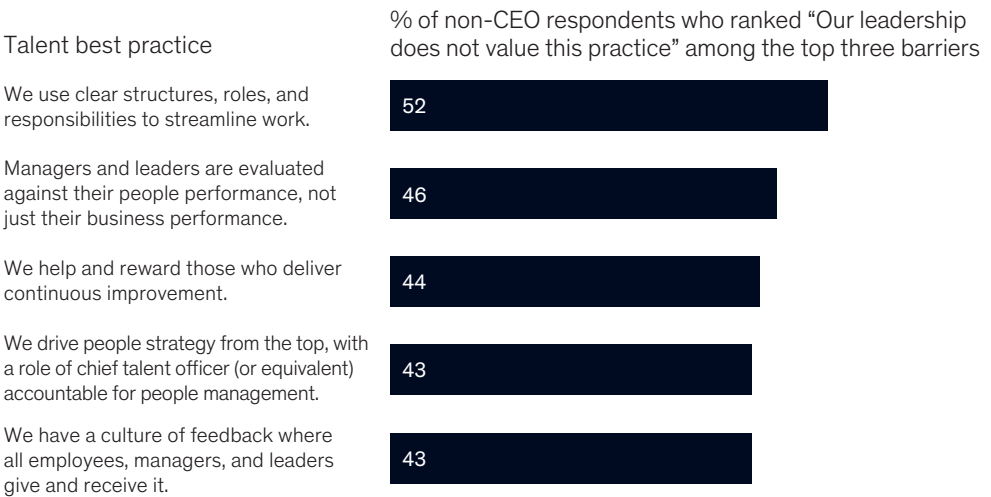
Leaders: The limiting link?

When survey respondents admitted that their companies had difficulty implementing some of the practices, they tended to identify company leaders and management as the biggest impediments. "Our leadership does not value this practice," for example, was cited by one-third of the non-CEOs—more than any other barrier—as a top-three reason various talent practices hadn't been embraced (16 percent of CEOs also cited this barrier).

The talent practices where non-CEO respondents felt leaders' lack of support was most consequential were related to ways of working, talent engagement, and talent strategy (Exhibit 2). For example, 52 percent of non-CEO respondents said that the company leadership didn't value the use of "clear structures, roles, and responsibilities to streamline work," while an additional 46 percent said that the company leadership didn't see the value of performance evaluations that judged managers—and senior leaders—on their people-management skills as opposed to just business performance. About the same proportion said leadership didn't value "help[ing] and reward[ing] those who deliver continuous improvement."

Exhibit 2

Company leadership is one of the biggest impediments to adopting talent best practices.

Talent best practice

% of non-CEO respondents who ranked "Our leadership does not value this practice" among the top three barriers

Talent best practice	%
We use clear structures, roles, and responsibilities to streamline work.	52
Managers and leaders are evaluated against their people performance, not just their business performance.	46
We help and reward those who deliver continuous improvement.	44
We drive people strategy from the top, with a role of chief talent officer (or equivalent) accountable for people management.	43
We have a culture of feedback where all employees, managers, and leaders give and receive it.	43

Source: Confederation of British Industry (CBI)—McKinsey survey of 501 UK managers, 2018

Idea in action

To encourage new behavior, one UK-based multinational made 20 percent of every manager's annual bonus contingent on scores from direct reports on a variety of leadership practices. As the quality of leadership improved, the company noticed a secondary benefit: encouraging line employees to give upward feedback made them more fluent in the practices and improved their own leadership skills, as well.

Short-term views

A closer look at the survey evidence highlights signs of short-termism in vital areas such as talent strategy, talent development, and recruitment.

For instance, when we asked respondents what prevented their companies from identifying the best people and putting them to work on the most important business priorities, 37 percent said that "this practice does not fit our culture" and one-third that "we have more important things to worry about." This is despite evidence suggesting that when companies regularly reallocate talent to match strategic priorities they are more than twice as likely to outperform their competitors.[3]

Respondents also cited "more important things to worry about" as the principal reason their companies didn't adopt more skills-based training (41 percent), followed closely by perceptions that training was too expensive. These views are notable given the looming skill gaps expected to arise from disruptive technologies and the fact that many senior executives say their organizations are unprepared to address the skill gaps they anticipate.[4]

Other preoccupations seem to take priority over good recruitment practices, too: 37 percent of the respondents said they have more important things to worry about than changing recruitment processes to improve workplace diversity—despite a growing body of evidence linking gender, ethnic, and cultural diversity to positive business outcomes.

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[3] See Mike Barriere, Miriam Owens, and Sarah Pobereskin, "Linking talent to value," *McKinsey Quarterly*, April 2018, McKinsey.com.

[4] See Megan McConnell and Bill Schaninger, "Are we long— or short—on talent?," *McKinsey Quarterly*, January 2019, McKinsey.com.

Idea in action

To encourage long-term thinking, the UK-based multinational adopted a rule requiring all senior leaders to spend three years in their roles before becoming eligible for promotions that would take them to another part of the business. This rule ensures that leaders are aware of—and own—the consequences of their decisions.

When respondents admitted to difficulty in implementing some of the practices, they tended to identify company leaders as the biggest impediment.

Take stock, make changes

Taken together, our findings suggest that many companies in the United Kingdom (and beyond) should take a close look at their talent practices, particularly as the more demanding and diverse millennial generation comes of age. Workers are paying attention: a 2018 survey found that poor management was the top reason UK employees weren't happy in their current roles.[5] And British workers are hardly alone: comparable studies in the United States suggest that employee dissatisfaction with the company's leadership is commonplace.[6]

The path to improvement for companies anywhere, we find, starts with soul-searching, as well as recognizing that the view from the middle of an organization may be less sanguine than the view from the top. Leaders must be prepared to deal with what they learn from employee surveys or external benchmarking exercises. A real commitment to talent can't be built through half measures or, worse, faked. As one survey respondent put it, if verbal messages are "not backed up by [leadership] actions . . . then you can't expect HR to think it's a priority. In order for a good practice to be implemented . . . the senior leadership team have to genuinely want it to succeed."

Elevating people leadership on the management agenda often requires elevating the chief human-resources officer (CHRO) or the most senior person in charge of talent if the role goes by another name. At a minimum, the person who holds it should report to the CEO and be accountable for organization-wide talent priorities linked to tangible business objectives. The board, which often becomes

If companies in the UK moved up just one decile in people performance relative to their peers, the resulting boost in labor productivity would be worth £110 billion.

Idea in action

To keep people development top of mind, the executive committee of the UK-based multinational spends four to six hours a quarter examining the development of the company's top 150 leaders, stress-testing roles and geographic priorities and benchmarking the company's talent against the market. Because the process is "bottom up," with discussions from the business informing the executive-committee debate, it helps build coalitions that support talent development more broadly, while signaling to employees that the company takes the issue seriously. Even when faced with a highly challenging external environment, described as a "crisis" by one senior leader, the company demonstrated resolve by maintaining the process throughout, when it might have felt tempting to deprioritize it.

involved in succession planning, can also do much more to review and advise on the organization's talent performance.

As our colleague Dominic Barton and his coauthors noted in Talent Wins,[7] CEOs in some talent-oriented organizations insist that the CHRO and CFO be part of a core strategic inner circle that drives people strategy. Our research, highlighting a disconnect between the organization as a whole and the perceptions of CEOs and HR leaders, suggests that moving to such a model also will require a mind-set shift.

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McKinsey has long emphasized the positive relationship between a company's organizational health—including people practices—and its performance. The upside potential is considerable. For the United Kingdom, our research found that if companies moved up just one decile in people performance relative to their peers, the resulting boost in labor productivity would be worth £110 billion, or 9 percent of the UK's nonfinancial business economy. At the very least, as the UK-based multinational has found, better practices improve employee engagement and boost productivity in a tangible way. Q

Tera Allas is a director of research and economics at McKinsey and is based in McKinsey's London office, where **Louis Chambers** is a consultant and **Tom Welchman** is an associate partner.

[5] *Job exodus trends—2018 employee sentiment poll,* Investors in People, January 2019, investorsinpeople.com.

[6] For example, Gallup's *State of the American Workplace* (2017) finds that just one-third of US workers feel engaged at work and that only about one in five strongly believes that performance is managed in ways that motivate people to do outstanding work.

[7] For more about how leading companies approach people management, including how CEOs can energize their boards to help improve talent management and strategy, see Dominic Barton, Dennis Carey, and Ram Charan: Talent Wins: The New Playbook for Putting People First, Boston, MA: Harvard Business Review Press, 2018.