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People and Organizational Performance Practice

From the great attrition to the great adaptation

To keep top talent in the fold, managers must actively change their leadership styles—focusing less on controls and more on culture and connections.

by Aaron De Smet and Bill Schaninger

In this episode of *The McKinsey Podcast*, McKinsey experts in talent and organizational health Aaron De Smet and Bill Schaninger join executive editor Roberta Fusaro to discuss how those in charge must adopt new ways of leading to keep the employees they have. An edited version of their conversation follows.

Why people are quitting

Roberta Fusaro: In our recent research, you found that employers think employees are leaving the workforce or are dissatisfied due to a bunch of different reasons—compensation, work–life balance, poor physical and emotional health. What's interesting is the findings showed that while these issues mattered, there were other issues playing a significant role in driving this employee exodus that we're seeing. What were some of those issues you found in the survey?

Aaron De Smet: "Do I feel valued by my organization? Do I feel valued and acknowledged by my manager? Do I feel a sense of belonging with my organization and my part of a high-performing, trusting, open, caring team, with teammates that I like to work with? Do I have potential for meaningful advancement in my career? Can I have flexibility and autonomy in my workspace?"

A lot of employers don't pay nearly enough attention to those things. They're paying more attention to things like, "Am I paying people enough?" "Is this the best comp and benefits we can offer relative to competitors?" Employees say those are important, just not as important.

Many people are leaving the job they're in without another job in hand; they are just leaving. They're burned out, and they're looking for inspiration, social connection, belonging. When they don't find this, they're just quitting.

Roberta Fusaro: On the flip side of the survey findings, we also see that about 60 percent of

respondents say they aren't likely to quit. But, you guys say business leaders and managers should not take comfort in this. Why is that?

Bill Schaninger: Many of the people in charge can't conceive of a situation where people would leave without another job in hand, but the workforce is saying, "Oh, no, I'll leave." I think we're just not tuned in to the dynamic going on for current employees. Parent, teacher, partner, caregiver—all those worlds have been smashed together.

People have had this intense time at home, and they're waking up and questioning why they need to resume business as normal, particularly if it comes from the top without asking. That just feels like a violation. So I think the dynamic here is wonderful, in that employers are being forced to reckon with what employees have just experienced.

The leadership assumes there's a return to the office, and I think they've been repudiated quite a bit. So now's the time for a little bit of a "let's hit pause and restart about how we're going to reengage the workforce."

Aaron De Smet: If you create the right thing, you can keep the people you have because they're there. Many of them are running away. They're, like, "I'm feeling burned out. I'm feeling stressed. I'm feeling anxious." There's just more and more change and uncertainty. They want flexibility and autonomy and connection and belonging. And a lot of these people are saying, "I want to connect in person with colleagues. I just don't want my boss to tell me my schedule is Monday, Wednesday, and Friday from 8 a.m. to 6 p.m. That's not working. I have a life at home that I'm very invested in." They also have a different lifestyle and they're looking for something more from their employers. And when they're not getting it, they just need a break. But when people step out of the workforce and take a break, it adds to a labor shortage more broadly.

If you have 40 percent attrition, that is phenomenally high. If even half of those people don't take another,

similar job, you're going to find massive labor shortages across industries in those types of jobs. Just paying people more, while it might be table stakes, is by itself not sufficient.

Bill Schaninger: It's so much easier to blame the employees than for their employers to take responsibility for their leaving.

What employees want

Aaron De Smet: Another thing employers get wrong: employers think that employees want the ability to work remotely and that there's some magic number of days per month or days per week that employees are looking for.

If you ask employees what they want, they say, "No, actually I'm OK with you saying I need to be in the office however many days a week, as long as there's some logic. But I want flexibility to decide which days in which hours I come in." And, again, this goes back to the conditions we've created. Understanding what is important to employees means you can turn it around and create a more desirable environment, not only to keep the ones you have, but also to start attracting other employees from other places, who are also leaving their jobs, in many cases, without another job in hand. In fact, some employees are starting up side gigs as a "passion project."

Bill Schaninger: Record number of small-business starts last year.

Aaron De Smet: Exactly. And they're saying, "I can be my own boss. Now, if I could find this at an employer, I would do that." And this is, again, where there's this huge opportunity to shift from the great attrition to the greater attraction.

Roberta Fusaro: How can business leaders make the environment that much more inviting and help people want to come back?

Bill Schaninger: The opening salvo, and the communications for much of the return to work, started with some presumption that the employer could dictate the terms. That was absurd. You just spent 15, 18 months having people work from their kitchen tables, work from their bedrooms, while their kids are trying to do some schoolwork. I mean, talk about a basic violation. When the people feel they're not being treated like a person, it starts feeling transactional.

You know, if the work dictates an intense amount of collaboration up front, it should be OK to be up front about the need to work together, in person, for several days in a row. I think people would accept that. I think you have to figure out the unit of work. Is it individual contributor? Is it small team or is it department? What's the fighting force, if you will, and solve for that.

There's a give and a get to this, at its core. It's an exchange. And, you know, it's a relationship. Employers would have done better to come out with some understanding that it is still a little crazy. You know, so long as you have employees who have kids, who need to go to day care, go to school, or elder care that needs to be sorted out—if there's even a sniff that those things might close up again? They've got to know it's OK to call "time" and go back to doing what they're doing. Anything that comes out like a monolith and goes "thou shalt," they're gonna walk away from it.

Roberta Fusaro: How does geography play a part in job satisfaction or in this whole notion of the great attrition?

Aaron De Smet: Even as people are coming into the workforce and saying, "I'm likely to work for more employers over the course of my career," they're also saying, "I'm likely to move from one city to the next for an employer less often."

So what does that tell you? That tells you that people are picking where they want to live, the communities they want to live in, where they have friends, where

they want to raise a family. And they're saying, "I'm going to live here. And if my employer doesn't let me live where I want to live, I will find a new employer." That was prepandemic.

Now, with the pandemic, you have people showing they can work remotely and be reasonably productive. You have teams that have formed that are much more agnostic of geography, without any clear expectation of travel.

The leadership pivot

Roberta Fusaro: Does this moment in time require a new set of leadership competencies to create more empathy or create more of this relational environment for employees?

Aaron De Smet: If we try to manage output or activity, is it better to write 20 emails or ten? Well, 20 is twice as much as ten. If you're creating a presentation, 20 slides is twice as much as ten slides. I think all of us would say, if you can get higher-quality information with fewer words and less output, that's better.

What we care about is what functionality is delivered, what better user experience is delivered, what results are delivered in the code you write. And if you can deliver the same user experience and functionality and features and results with half the amount of code, that's better. But the only way to do that is to shift your mindset to "I need to manage results."

We need to manage for impact, outcomes, and results—not activities. What if they're goofing off? Well, if you really manage for outcomes and impacts and results, you don't care how they spend their time. You want to see the results, and you don't need to look over their shoulders and see that they're typing.

Bill Schaninger: Just on this thing around the leader behavior. I don't think it's particularly new.

I mean, don't be a jerk. Don't think that you get to impose your will because you're afraid to actually treat people like equal humans, not as subordinates.

Aaron De Smet: Leaders are also humans, and they also are going through anxiety, uncertainty, grief, fatigue, burnout. They are likely to have fared better than most. They will have the agency, the autonomy, and the financial resources to be less burned out than most. So the first thing is to be aware of that.

For a lot of people in your organization, it's harder. It's likely that if you're not careful, you will default to using the tactics that have served you in the past, even if they no longer serve you in the world of a pandemic. Are you trying to exert your control and get back into your comfort zone? In fact, that is exactly the wrong thing.

Bill Schaninger: We have a generation of leaders in the last gasp of that form of control. They're largely folks who were raised by boomers, mostly men, with someone to take care of their children. They've been allowed to work, and work is a disproportionate amount of their identity. We've seen that happen as organized marriage has gone down, as well as participation in civic organizations and organized religion. Their identity is tied up with work.

Now, they have this little inconvenient problem of their employees not playing ball. Leaders might want to reconsider the actual nature of their relationship with those employees. They're not servants. They're not there to do your whim. They're there because they have a purpose. They have an identity. We're not saying it's not hierarchical for work allocation, but it certainly is egalitarian when it comes to being human. We've just had an experiment that said you can relax controls, such as when you show up, so long as the work and the outcomes are getting done.

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We're stuck in an Industrial Revolution mindset

Aaron De Smet: Let me put the current inflection point into a historical perspective. If you roll the clock back several centuries, work was largely agrarian. It was artisans and farmers, and it was the Industrial Revolution that changed everything about how work gets done. What happened in the 1700s is that people went from the fields to the factories. A lot of this was ushered in by a book published in the 1770s called *The Wealth of Nations*, by Adam Smith, who talked about standardization of work and division of labor.

The Industrial Revolution created enormous wealth and unheard-of productivity improvements. It was determined that to collaborate at that scale, they needed someone to lower the transaction cost of collaboration by essentially taking on

leadership and saying, "I will pay you a salary, and you will do what you're told. That's the deal. We are going to enter into a contract, a legal employment contract, where I pay you and give you benefits and assure some level of safe work environment. And you as the worker then do as you are told." By the way, that created an enormous middle class that didn't exist before.

But working conditions at some point had people working seven days a week, 140 hours a week. And people said, "Ah, that's not productive." Actually, there's a production decline. There are safety issues. Labor organized. Even industrialists and big companies said this isn't helpful. That's where we get the five-day, 40- to 48-hour work week. It came from the Industrial Revolution—perfecting a model that is now antiquated.

Bill Schaninger: It's also born from an economist's view of the employee, which was, by and large, the economic exchange. "Do what you're told because I pay you." It's not until you started having people asking for things like loyalty, contribution, you know, the extra above and beyond kind of stuff. But it's useful to point out that you had two centuries of "Do what you're told"—not to mention, "Our mental

model for you employees is you as a cognitive machine and homogenous. It's plug and play. You are one of many." It's no wonder you had the rise of labor as a disintermediator because it was faceless versus those with power. The essence, the bedrock, of our system is economic exchange.

Aaron De Smet: But now we're in a world where we've hit a tipping point. The tipping point is transaction costs are now low enough that you can have a gig economy. We can create technology-enabled platforms that allow us to have collaboration at scale through nonemployees or quasi employees.

Now there were some economists who said that when transaction costs fall enough, the large employed workforces will go away. That was the prediction. I never agreed with it, because another reason why people work for a company is the relationships. It's because of the sense of belonging. It's because of culture, what the company stands for, and a sense of shared identity.

What's a leader to do?

Roberta Fusaro: So as we return to the office, return to work, how do business leaders create that sense of identity? What are some tactical steps that they can take?

Aaron De Smet: You still have to have a competitive salary. But it's not enough. Now, employees are saying, "I want to know what you stand for. I want to know who you are. I want to know what the culture's like. I want to know what the people are like. I want to like the people I spend time working with. I want to still have a life at home. And I want to know that you support that."

I think it's time for companies to start questioning why don't we have more flexible work options? Why can't somebody work four days a week? If employees are able to deliver the same output and outcomes and results and impact in four days a week, what does it matter if it's three days a week?

Why don't we have job sharing? Why don't we have halftime employment options? "Yes, you can work two to three days a week, because you want to spend more time on whatever else you're doing." Why isn't that an option?

Roberta Fusaro: So in this world of flexible work schedules, how can companies run productive meetings?

Aaron De Smet: Some of my clients have tried out different methods. They've said, "We're going to have a meeting, and it's important for everyone to be in person." Or "We're going to say it's not important for everyone to be in a room together. In that case, we're going to have everyone dial in or everyone be by Zoom." Some people will argue that if half the employees are all in the same office together, why not go to a conference room? But, no, even though many employees are in offices next door to each other, if not everyone is present in person, everyone should go by Zoom.

So far, most of the companies I've talked to that have tried this have liked it. Some of them have adopted a principle of being thoughtful and intentional about choosing between a videoconference, phone, or in-person meeting. They avoid a situation of a few individuals trying to dial in remotely when everybody else is in person.

Roberta Fusaro: How important is it to have a test-and-learn culture?

Aaron De Smet: I think it's very important because there's too much we don't know about the future.

Roberta Fusaro: Are there specific tactics?

Aaron De Smet: I think number one is to encourage people to explore and try things out and not be afraid that it won't work perfectly. The other is to track and measure what's working. A lot of companies have really good, interesting data, and some just don't have any data. You also want to

create an environment where it's OK to share lessons about what's not working.

Roberta Fusaro: So failure is an option.

Aaron De Smet: Well, I mean, sometimes we hear this thing about "embrace failure. Failure is good." Actually, it's not that failure is good. I, at least, don't like failure. I like working with people who don't like failure. But there's a difference between not liking failure and having failure be taboo and not discussed or shared or learned from. If you never fail, you probably aren't being bold enough.

You know, one of the articles I wrote recently with [Harvard Business School professor] Amy Edmondson was about psychological safety.[1] So I was chatting with her and I'm, like, "How did you ever come up with that?" She had a theory that more effective healthcare teams would have better patient outcomes, but one measure of team effectiveness was the error rates of the team. She found an inverse correlation: the teams that were reporting more errors had better patient outcomes. OK. Now, notice what I said, though. The teams that were *reporting* more errors were having better patient outcomes. It turns out, the reason for that was the other teams were having just as many errors; they just weren't reporting them and learning from them. Thus the notion of psychological safety was born.

You know, Google had this big, huge project about what's the strongest predictor of team performance. And the number-one, strongest predictor of team performance was psychological safety. So if you want a test-and-learn environment, you have to make it OK to share failure, so that not only can I learn from failure but others can learn from my failure, and they don't have to make the same mistakes I made.

Roberta Fusaro: What are the more successful companies doing to create a sense of belonging for employees?

Aaron De Smet: They've moved from emphasizing their mission, which is what do we do in the world, to their purpose, which is why we do it. So engagement is not enough anymore. It used to be. I would argue that now, the companies that do this well look at a much more robust, multifaceted view of the employee experience that goes beyond satisfaction.

Bill Schaninger: For sure. Through most of the last three and a half, four decades, we've changed our approach to developmental experiences throughout childhood. In large part, it was to reward kids for their participation in order to avoid the disappointment of perceived failure. My point is we've raised two generations of folks who believe that participation and the collective is the end result. I think we're seeing things in the workforce for people who value the collective way more than the people running the place do. People are asking questions like "Should our mission just be about killing the sneaker company that's bigger than us?" or "Should our mission just be defeating the big, bad software company?" We should not be surprised. They're saying, "Your ideas and your identity around winning just aren't enough for me."

We may end up being the better for it. We've clearly hit a bump in the road where the people running the place are so materially missing the points. I mean, I thought the data in this article[2] was just remarkable. How far off the mark leadership is, and either how little they thought of their employees or how little they understood their employees by thinking everything was transactional.

Roberta Fusaro: Some organizations are sending out surveys. They're doing pulse checks to see how their employees are feeling. Are these interventions useful in making the work environment feel less transactional?

Bill Schaninger: When people claim they have survey fatigue, they're not tired of you asking them. They're upset about you not doing anything with it.

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[1] See "Psychological safety, emotional intelligence, and leadership in a time of influx," *McKinsey Quarterly*, July 2, 2020. McKinsey.com.
[2] Aaron De Smet, Bonnie Dowling, Marino Mugayar-Baldocchi, and Bill Schaninger, "'Great Attrition' or 'Great Attraction'? The choice is yours," *McKinsey Quarterly*, September 8, 2021, McKinsey.com.

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—Aaron De Smet

There's people tailoring things to us in all parts of our lives. Mass customization is real, and the data's all there. We used to joke that Facebook knew you were having an affair before you did—you know, whose page you're going to, who you're liking, et cetera. Your music-streaming service can see your mood based on the music you're choosing. We have all of that data about employees. We just have to care enough to do something with it.

Aaron De Smet: And then tailor the experience. They want more community. They want more connection. They want more flexibility. What we found is teams with psychological safety and a supportive work environment actually benefit from being edgy and pushing to do better. But you put that same edge, that same kind of push, on a team that doesn't have psychological safety or an open and supportive work environment, and it has the opposite effect. It actually makes the team go into a sort of anxiety attack.

Roberta Fusaro: Is there any way that we go back to some prepandemic period, or is this just the way it is?

Aaron De Smet: We're not going back. A lot of these trends were already in place. I heard an executive say, "Why can't we just go back to 100 percent every day in the office?" And I said, "You mean seven days a week?" "Well, no, obviously not seven days a week, only five days a week." "Well, which days?" "Monday through Friday, obviously." "Why Monday through

Friday?" "Well, that's just how it is." I'm, like, "But that's a social construct that didn't get codified until the late 1800s, as a result of the Industrial Revolution. We are living in a completely different economy. Why would we default to a 40- to 48-hour, five-day-a-week work week that was built in the 1700s and 1800s? Why is that the obvious answer other than that's what you're comfortable with, because that's what you grew up with?"

And the executives said, "Isn't that just how it should be?" I'm, like, "I don't know. But I do know that all those norms have been broken. They probably have persisted a lot beyond their usefulness, just because everybody was used to them, and they kept passing on from generation to generation."

Bill Schaninger: Some companies are going to hear these messages, and they will be determined to do this anyway. They will find their labor costs rising, their attrition increasing, their employer brand plummeting, and they will pay more and more for people who care less and less about them and what they do. They will have a completely mercenary workforce. And that will all be because they've had a death grip on what they thought control was. It's not going to work. It's done.

Aaron De Smet: All these people are looking for something different, and if you offer that, you will attract talent like you won't believe.

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