

McKinsey Explainers

What is talent management?

Put simply, talent management includes all the ways that an organization brings employees on board, keeps them happy and productive, and helps them continue to develop their skills over time. Often handled by human resources, or HR, putting people first is crucial to effective talent management.



In good times, it can be easy to take your company's talent for granted. But do so at your peril—investing in talent management, or the way that your organization attracts, retains, and develops its employees (sometimes referred to as “talent” or “human capital”) can give your company an edge. Look no further than the much-discussed “Great Resignation,” also called the “Great Attrition” or “Big Quit,” of 2021 and its impact. Putting people first is vital to building a healthy workforce.

It's important to manage talent and deploy it well, and leaders need to know how to rise to the occasion. To help shape workforces that have the skills to achieve, leaders can establish a talent-first culture. Too many organizations don't consider the talent required to implement different ideas. By putting talent first, companies can improve organizational performance and potentially gain a competitive advantage.

Why is talent management important?

Analysis shows there is a significant relationship between effective talent management and an organization's overall performance. In fact, in a 2018 McKinsey survey, 99 percent of respondents who reported their company's talent management was very effective said they outperform their competitors, compared with 56 percent of all other respondents. And the effects may be cumulative, given that abilities to attract and retain talent seem to support outperformance as well.

What actions are linked to good talent management?

Survey findings indicate three practices that are most closely linked with effective talent management:

- rapid allocation of talent—that is, being able to move people among strategic projects quickly as priorities emerge and fade
- HR's involvement in creating a positive employee experience
- a strategically minded HR team

According to the research, organizations with all three practices in place (only 17 percent of the sample) are vastly more likely than their peers to say that overall performance, plus total shareholder returns, has an edge on their competition.

What's involved in talent management?

Five areas of talent management are particularly important to the chief human resource officer's (CHRO) playbook:

- finding and hiring the right people
- learning and growing
- managing and rewarding performance
- tailoring the employee experience
- optimizing workforce planning and strategy

A more in-depth look at these topics can offer insights.

How do I find and hire the right people or attract and retain talent?

High-performing employees are up to eight times more productive than others. To quote the late Steve Jobs, the iconic leader of Apple, talent matters: “Go after the cream of the cream. A small team of A-plus players can run circles around a giant team of B and C players.”

That may be easier said than done. But there are still several principles to consider if you want to hire the best people and keep them at your organization:

- *Focus on the 5 percent of employees who deliver 95 percent of the value.* Certain employees have a disproportionate impact on creating or protecting value, and it's not always obvious who they are. Focus efforts on the few critical areas where the best people have the biggest impact. To do so, start by looking at roles, not processes or specific people.

- *Make your offer magnetic, and ensure that you deliver on its promise.* You might have heard of an “employee value proposition,” which is another way of saying what employees get (for example, monetary rewards, work experience) for what they give (for example, time, effort, ideas). Your company’s employee value proposition should be distinctive, targeted, and real.
- *Technology is a game changer.* Data and analytics are already being used in recruiting and hiring, as well as in retaining top talent. Apply people analytics to bring rigor to these efforts.

In the era of the Great Resignation, many organizations are grappling with the prospect (or reality) of talented employees quitting their jobs. Companies should take a step back and make sure they understand why their employees are leaving in the first place—since it could help inform what might bring them back. What drove the historic wave of voluntary departures in the early 2020s? Several big reasons stand out: the cost of switching jobs went down significantly; employees were turned off by uncaring leaders, unrealistic performance expectations, and a limited ability to advance their careers; and many workers were exhausted and dealing with burnout, stress, caregiving demands, and more.

To repair relationships with employees amid the Great Resignation, a few core principles may be meaningful:

- Money matters, even if it’s not a panacea; companies can revise compensation and benefits in ways that will attract and retain disillusioned employees.
- “Sticky” workplaces can make a difference—listen to employees, anticipate and address their concerns, foster psychological safety and community, and measure outcomes.
- Expand your talent pool by thinking more creatively about candidates. That includes considering nontraditional workers (such as students or people currently doing contract

work), latent workers, or people who aren’t in the workforce or actively seeking a traditional job.

How can organizations help talent learn and grow?

Companies preparing for the future of work can take a variety of steps to help employees build skills and continue learning and growing—this is vital, especially considering that hiring new workers can be twice as expensive as upskilling or reskilling existing employees.

Building workforce skills, via training and reskilling or upskilling, will be essential to support new ways of working and new business priorities. And focusing on skills—particularly social and emotional skills (sometimes called soft skills), including empathy, leadership, and adaptability—can help close existing skill gaps.

You might be wondering about the difference in hard skills versus soft skills. Hard skills are learned abilities that are easy to measure. Soft skills, on the other hand, are nontechnical skills and abilities, such as personality traits and behaviors, that often relate to how a person interacts with others. For example, consider what might help an administrative assistant succeed: hard skills that might be useful include calendar management, proofreading, and competency with spreadsheet software, whereas soft skills might include phone etiquette, conflict-resolution abilities, and discretion.

When it comes to a broad skill transformation, nine key practices in three overarching areas can be applied.

Scout: Conduct workforce planning to assess potential skill gaps

- assess demand and/or the need for specific skills in the future
- determine the current supply of specific skills
- analyze gaps (and develop a business case to close them)

Embracing continuous learning can help drive your business forward, and employees that develop a lifelong learning mindset may find that it keeps them relevant and in demand.

Shape: Develop a skill strategy to ensure that the workforce is future-ready

- design a portfolio of initiatives to close skill gaps
- design tailored learning journeys and delivery plans for specific roles and/or groups of employees
- decide on learning infrastructure and enablers

Shift: Reimagine infrastructure for skilling at scale

- launch a “skilling hub” or other organizational structure dedicated to learning
- deliver a skill transformation at scale across the organization via comprehensive capability-building programs that address the most critical skill needs
- implement dynamic tracking of workforce and impact (for example, return on investment, impact on business outcomes)

Organizations that have implemented all nine practices report a nearly 100 percent chance of having a successful skill transformation. It's also important to note that a mix of learning formats, beyond digital learning, can improve the odds of success.

Transforming the learning and development function may also be necessary. While good learning programs are a must, their utility will be limited if they don't begin with an intimate understanding of what the organization needs—today and in the future.

Within the learning space, intentional learning can yield a career advantage. And if you want to get intentional when it comes to your own learning, the 3x3x3 approach can help. Here's what it entails:

- Define three development goals (for example, improve time management, expand professional network, and hone presentation skills).
- Aim to achieve them in a three-month period.
- Engage three other people to support you and hold you accountable to them.

Embracing continuous learning can help drive your business forward, and employees that develop a lifelong learning mindset may find that it keeps them relevant and in demand in the eyes of employers. Developing a growth mindset and setting goals that are a stretch can be part of that journey.

Some companies are also exploring apprenticeship programs to unlock continuous skill development. Modern apprenticeship is a model for learning that is driven by relationships and based on real day-to-day work, thus allowing novices to gain hands-on experience from experts to acquire skills and act more independently.

How can I improve performance management?

At a high level, strong performance management relies on the guiding principle that what gets measured gets done. Ideally, an organization would

create a cascade of metrics and targets, starting with top strategic objectives and continuing down to frontline employees' daily activities. Managers keep tabs on these metrics and meet regularly with teams to discuss progress. In the end, good performance is rewarded, and poor performance leads to actions that address the problem.

A few key principles are essential in managing employee performance more successfully:

- ***Coach employees, and do it regularly.*** There's no substitute for direct feedback and direct coaching that happens day in and day out rather than just annually.
- ***Make sure the process is seen as fair.*** What's crucial here is emphasizing how employees' work fits into the organization's bigger picture and ensuring that these conversations are ongoing.
- ***Put data and analytics to use.*** Data and analytics can support performance reviews by giving managers objective feedback about whether employees are performing well or not.
- ***Empower managers to give better feedback.*** Make sure built-in touchpoints are in managers' schedules and that managers are clear about their roles. Train them to give constructive, strengths-based feedback while encouraging discussions that make their colleagues feel valued.
- ***Grasp the power of differentiation.*** Rewards should link clearly to talent ratings. Focus on rewarding clear overperformers while also developing others—instead of trying to differentiate the broad middle.
- ***Encourage peer-based feedback.*** Employees naturally work with more people as organizations become flatter. Gathering peer-based feedback from a large sample can help eliminate biases and provide a more accurate, comprehensive perspective on performance.

The way organizations manage and reward performance shifted somewhat in the wake of the COVID-19 pandemic. This was because the crisis had a big impact on goals and performance plans, and remote workers also grew more reliant on performance management as a source of feedback.

CHROs who want to help their organizations improve performance management in the postpandemic era can consider linking employee goals to business priorities. At the same time, they will want to keep some flexibility, invest in managers' coaching skills, and celebrate the broad range of good performance while maintaining ratings for the very highest, and lowest, performers.

What about employee experience?

Companies have long considered customer experience, or CX, but there is rising interest in paying just as much attention to your workers' experience. Tailoring the employee experience is more important than ever, especially in the wake of the COVID-19 pandemic, which blurred the line between work and life amid remote and hybrid setups. These days, instilling trust, building social cohesion, and leading with purpose are critical. And it can make a big impact: according to a 2020 McKinsey survey, people who report having a positive employee experience have 16 times the engagement level of those with a negative experience. They are also eight times more likely to want to stay at a company.

Nine elements, grouped into three overarching areas, can help make sure you're asking the right questions to get employee experience right:

Social

- ***People and relationships.*** Am I seen and treated by my leaders as a significant contributor to the organization?
- ***Teamwork.*** Do the people I work with every day trust and care for one another enough to create a collaborative and innovative environment?

- *Social climate.* Am I welcome in this community, and do I feel like I belong?

Work

- *Work organization.* Do I have clear responsibilities, interesting work, and the resources I need to succeed in my role?
- *Work control and flexibility.* Do I complete my work efficiently, with flexibility and positive integration in my life?
- *Growth and rewards.* Am I given incentives and opportunities that help me learn, grow, and provide for myself and my family?

Organization

- *Purpose.* Does my company have a purpose that aligns with mine, as well as a process to which I can contribute?
- *Technology.* Does my company's technology enable me to work efficiently and without friction?
- *Physical environment.* Are my surroundings safe, comfortable, and human centered?

If your employee experience isn't what it should be, your organization can take a systematic approach, grounded in design thinking, to improve it. Three

steps can help you on your way: first, establish a baseline for employee experience and build on it; second, identify and transform employee journeys; third, equip the full organization for transforming employee experience.

The idea of finding purpose at work has also risen in importance in the past few years. As the COVID-19 pandemic spread, employees found themselves questioning business as usual. "We had this unbelievable smashing together of two worlds: the home world and the work world," says McKinsey senior partner Bill Schaninger in an episode of *The McKinsey Podcast* on the search for purpose at work. "I think it's really brought to the fore 'What exactly does work mean to me? What do I have to get out of it? Is it merely a check that facilitates the rest of my life, or is it something more purposeful?'"

Research indicates that about 70 percent of people say they define their purpose through work—which raises the stakes for ensuring that individuals can easily connect what they do in the day to day with meaning. Only 15 percent of frontline managers and frontline employees say they're currently living their purpose when on the job.

Individuals themselves can take action. And if you're short on inspiration, you can explore an interactive that unpacks nine universal values (such as

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enjoyment, stability, and caring) that relate to purpose. Organizations, too, have a role to play in helping people connect their work to their life's purpose. Here are two places to begin:

- **Start the conversation on purpose sooner rather than later.** People need empathetic, caring leaders to help process their work experiences. Indeed, talking openly about pressures your employees face can go a long way. Consider periodic, guided conversations with direct reports a regular part of your leadership practice—think of these as empathetic check-ins.
- **Make personal reflection a business priority.** Create the time and space for transparent, honest discussion of purpose—with managers and direct reports alike—to explore what matters. If you need help getting started, a simple icebreaker question such as “When do you feel most alive?” can yield surprisingly rich conversation.
- **Help people take action.** Generate opportunities for people to live their purpose by tailoring projects, support, communication, and coaching to suit each individual's unique circumstances.

How do I optimize workforce planning and strategy?

Workforce planning and strategy generally include three important components:

- **Critical roles.** A small number of roles—fewer than 50—have an outsize impact on business value. You'll need to look at the core jobs to be done, the qualities leaders need, and ensure that the roles are set up for success.
- **Skill pools.** Looking beyond individual roles to larger pools, such as digital coders, can also help in developing an understanding of the skills required for the future and whether your organization is prepared.

- **Talent systems.** Tools for workforce planning can help in a variety of ways. For instance, AI-enabled tools can be used in assessing people's skills, and performance-management systems can help track skills alongside performance.

One way to gauge whether your company is long or short on talent is to embrace a view of talent supply that is expansive as well as dynamic. Companies that start by looking at skills, including which ones they need and already have, and how those could change over time, could find good ways to address mismatches.

Analysis of your workforce could show either a shortage or a surplus of skills. The five methods here, with samples of concrete actions to take, could be considered to address challenges:

1. **Build:** reskill, upskill, or retrain workers; increase deployable hours; reshape jobs or projects. One global manufacturer spotted opportunities to build data science talent ahead of a looming shortage, and it started by planning more meritocratic career paths and redesigning leadership tracks to help employees stay engaged and happy.
2. **Redeploy:** loan workers; shift unneeded skill sets. Deutsche Post, for instance, teamed up with an elder-care provider to test a program that used postal employees as a means of offering one city's pensioners support and referral services.
3. **Acquire:** hire individuals; create and recruit from new talent pools. In 2011, Walmart acquired digital skills en masse when it bought a social-media company that ultimately formed the nucleus of the retailer's digital-technology unit.
4. **Release:** encourage voluntary attrition; divest business units; create options to end contracts. Some companies have experimented with offering voluntary severance packages. These may help organizations strengthen the workforce by allowing less committed workers to exit

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voluntarily, while at the same time improving retention of other employees.

5. **Rent:** for strategic partnerships, outsource functions, activate the gig economy. For instance, in 2015, Mercy Health partnered with community colleges in the US state of Michigan to create a paid apprenticeship program for medical assistants.

If your organization is short on talent, your organization may need to build, acquire, or rent. And if it's long on talent, redeploying or releasing employees may be the right path.

Longer term, employing a flow-to-work operating model for dynamic talent allocation may help match scarce skills to high-priority work, improve the way organizations develop their people, and increase business responsiveness. Companies that rapidly allocate talent to opportunities are up to twice as likely as those that don't to perform strongly; they also deliver better results for every dollar spent.

For more in-depth exploration of these topics, see McKinsey's Insights on People & Organizational Performance. Learn more about McKinsey's Talent service line—and check out talent-related job opportunities if you're interested in working at McKinsey.

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