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Linking talent to value

Getting the best people into the most important roles does not happen by chance; it requires a disciplined look at where the organization really creates value and how top talent contributes.

by Mike Barriere, Miriam Owens, and Sarah Pobereskin

To understand how difficult it is for senior leaders to link their companies' business and talent priorities, consider the blind spot of a CEO we know. When asked to identify the critical roles in his company, the CEO neglected to mention the account manager for a key customer, in part because the position was not prominent in any organization chart. By just about any other criterion, though, this was one of the most important roles in the company, critical to current performance and future growth. The role demanded a high degree of responsibility, a complex set of interpersonal and technical skills, and an ability to respond deftly to the client's rapidly changing needs.

Yet the CEO was not carefully tracking the position. The company was unaware of the incumbent's growing dissatisfaction with her job. And there was no succession plan in place for the role. When the incumbent account manager, a very high performer, suddenly took a job at another company, the move stunned her superiors. As performance suffered, they scrambled to cover temporarily, and then to fill, a mission-critical role.

Disconnects such as this between talent and value are risky business—and regrettably common. Gaining a true understanding of who your top talent is and what your most critical roles are is a challenging task. Executives often use hierarchy, relationships, or intuition to make these determinations. They assume (incorrectly, as we will explain) that the most critical roles are always within the "top team" rather than three, or even four, layers below the top.

In fact, critical positions and critical people can be found throughout an organization (Exhibit 1).

Fortunately, there is a better way. Companies can more closely connect their talent and their opportunities to create value by using quantifiable measures to investigate their organizations' nooks and crannies to find the most critical roles, whether they lie in design, manufacturing, HR, procurement, or any other discipline. They can define those jobs with clarity to ensure that top performers with the appropriate skills fill the roles. And they can put succession plans in place for each one.

The leaders at such companies understand that reallocating talent to the highest-value initiatives is as important as reallocating capital. This is not an annual exercise: it is a never-ending, highest-priority discipline. In a survey of more than 600 respondents, we found the talent-related practice most predictive of winning against competitors was frequent reallocation of high performers to the most critical strategic priorities. In fact, "fast" talent reallocators were 2.2 times more likely to outperform their competitors on total returns to shareholders (TRS) than were slow talent reallocators.[1]

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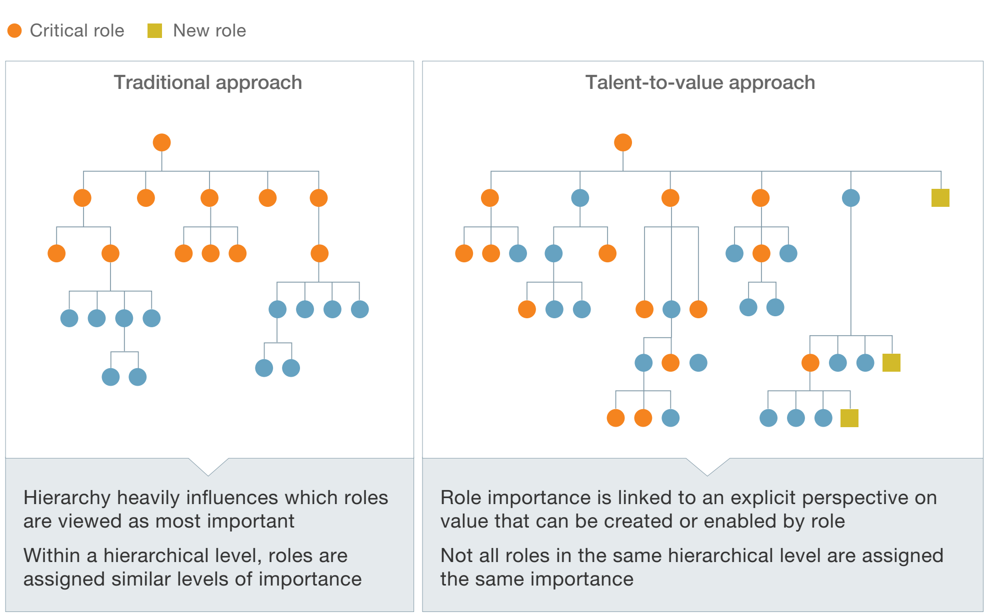
[1] From November 14 to November 28, 2017, we surveyed 1,820 participants on their companies' talent-management practices. Of those respondents, 628 were from public companies and were asked to describe their companies' current TRS relative to their competitors.

Exhibit 1

Roles that drive or enable value can be found across an organization.



Those results are consistent with the experience of Sandy Ogg, founder of CEOworks, former chief HR officer (CHRO) at Unilever, and former operating partner at the Blackstone Group. While in the latter role, Ogg began paying attention to which Blackstone investments made moves to match the right talent to the important roles from the start. He observed that 80 percent of those talent-centric portfolio companies hit all their first-year targets and went on to achieve 2.5 times the return on initial investment. Ogg also noted that the 22 most successful portfolio companies out of the 180 he evaluated managed their talent decisions with an eye toward linking critical leadership roles to the value they needed to generate. He recalled using similar value-centric talent-management approaches in his previous roles at Motorola, Unilever, and Blackstone, and he now had even clearer evidence of their impact. In partnership with McKinsey, he set out to codify this approach for linking talent to value.

Real-world examples best describe our learnings. In this article, we describe the journey of a CEO of a consumer-products company, "Company X," who recently found herself reflecting on how to achieve dramatic revenue growth. The effort would demand reimagining how Company X generated value and then redefining critical roles and the people who filled them.

DEFINE THE VALUE AGENDA

The first step in linking talent to value is to get under the hood of a company's ambitions and targets. It is not enough just to know the overall numbers—the aspiration should be clearly attributable to specific territories, product areas, and business units. Company X already understood its overriding goal: to grow revenue by 150 percent within the next five years in its highly disrupted industry. When taking a more detailed look, however, the CEO and her team found that some small business units were likely to grow out of proportion to their size, making the value at stake in these businesses greater than in the larger ones. Design and manufacturing innovation would clearly have a positive impact on all business units, but if the two largest ones were to grow, they would also have to take advantage of international opportunities and digitally deliver their products and services.

Disaggregating value in this granular fashion set the table for a strategic discussion about which roles mattered most and about the skills and attributes needed by the talent who would fill those roles and drive future growth. Even at this early stage of the process, it was clear that the company's future leaders would need to be comfortable in an international environment, leading teams with a high degree of cultural diversity; have experience in cutting-edge design and manufacturing processes; and possess digital fluency. The leaders would also have to be flexible and comfortable adapting to unforeseen disruptions.

Unfortunately, these character traits were not common across Company X's cadre of leaders at the time. The CEO now understood the serious issue she had to confront—the profiles of Company X's current top talent did not necessarily match the ideal profiles of its future top talent.

IDENTIFY AND CLARIFY CRITICAL ROLES

Identifying and quantifying the value of the most important roles in an organization is a central step in matching talent to value. These critical roles generally fall into two categories: value creators and enablers. Value creators directly generate revenue, lower operating costs, and increase capital efficiency. Value enablers, such as leaders of support functions like cybersecurity or risk management, perform indispensable work that enables the creators. These roles are often in counterintuitive places within the organization. Typically, companies that consciously set out to pinpoint them find about 60 percent are two layers below the CEO, and 30 percent are three layers or more below the CEO.

The ability to achieve true role clarity is closely tied to overall organizational performance and health, according to McKinsey research.[2] In the pursuit of such clarity, it is critical to think first about roles rather than people. The initial goal is assessment of where the greatest potential value is and what skills will be necessary to realize that value—not identification of the top performers. This approach allows leaders to think more strategically about matching talent and value rather than merely focusing on an individual's capabilities.

Each of Company X's business-unit leaders had defined their value agenda; now they needed to map, in collaboration with their HR teams, the most critical roles. In each unit, leaders addressed the following series of questions:

- Where did the value for this unit come from?
- Which roles have been most critical?
- Would the new strategy entail new roles?
- What big disruptions might change role responsibilities?

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[2] See Aaron De Smet, Bill Schaninger, and Matthew Smith, "The hidden value of organizational health—and how to capture it," *McKinsey Quarterly*, April 2014, McKinsey.com.

Then they went into even more detail. They mapped potential financial value to each role using the metric of projected five-year operating margin. Value creators were assigned the full economic value of their business's operating margin. Value enablers were assigned a percentage of value based on human judgment of their relative contribution to the relevant operating margin combined with an analytic perspective on which value levers those functions influenced.

Through this fact-based process, leaders identified more than 100 critical roles across all business units and corporate functions. In line with our experience, 20 percent were three layers or more below the CEO, often in counterintuitive places. More than 10 percent of the critical roles focused on digital priorities, advanced analytics, and other capabilities in very short supply in the current organization. About 5 percent focused on cross-functional integration. And at least 20 percent were entirely new or greatly evolved in scope.

The CEO, CHRO, and CFO sifted through the list to identify the 50 highest-value roles (for more on collaboration opportunities for these three executives, see "An agenda for the talent-first CEO," on McKinsey.com). The choice of 50 was not because it is a nice, round number. It is hard for a CEO to have clear visibility into more than about 50 roles. Also, in our experience, the top 25 to 50 roles can typically orchestrate the bulk of a company's potential value. The hiring, retention, performance management, and succession planning in these critical roles should all be of personal interest to the CEO.

The company's top managers then worked with business-unit leaders to create unique "role cards" for these top positions. Each card specified the role's mission; a list of jobs to be done, with a checklist of what was needed to capture the role's outsized share of value; and key performance indicators (KPIs). The KPIs were quite detailed. For instance, the KPIs assigned to the role of the general manager for one site were percent of on-time delivery, product- and account-specific earnings, percent share of spot volume, and share of volume from new customers. Creating such specific KPIs allowed leaders to articulate objectively the role's requirements, such as extensive sales and negotiation experience, demonstrated financial acumen, proven results as a strong team leader, experience in a corporate staff function, and a history of profit-and-loss ownership in a manufacturing setting. This objective articulation of requirements enabled both a fact-based assessment of incumbents in the role and a clear set of criteria against which to select new general managers.

Role identification and clarification is a process that works with any kind of organizational structure, including those based on agile principles. In fact, the potential rewards of value-based role clarity might even be greater in agile organizations, because flatter organizations build themselves around the principle that empowered talent in the right roles is the key to unlocking value. Pinpointing where a critical role sits in an organization chart is not important. What matters is knowing the potential outcomes of any given role, anywhere in the organization.

MATCH TALENT TO ROLES

Business leaders at Company X next turned to the job of finding the right people for the more clearly defined critical roles. Their search process was more efficient and effective than those associated with traditional "high potential" talent reviews thanks to two types of benefits that generally emerge from taking a more rigorous approach.

First, the articulation of value and roles for Company X allowed for objective comparisons between candidates across a variety of specific dimensions rather than relying on subjective hunches or a perfunctory succession plan. When a company uses such an approach, the talent-selection process becomes an evaluation of specific evidence. The CFO of a business unit that aims to increase value through a strategy of acquisitions, for example, should have a different background and experience base from the CFO of an organization that aims to increase value through aggressive cost reduction.

Second, the specificity of role requirements for Company X encouraged a more objective view of incumbent managers. Rigorously assessing incumbents against value-linked role requirements typically leads a company to realize that 20 to 30 percent of those in critical roles are not well matched. The data-driven process makes it hard to ignore the uncomfortable realizations that some incumbents might not be up to the future demands of the job and that leaving them in place would put a significant amount of value at risk.

Over time, some organizations come up against a happy problem: unexpected value that was not part of the strategic plan starts emerging. For instance, a product might enjoy a serendipitous viral uptake or a new service might enable the delivery of breakthrough customer experiences that shake up the competitive balance. Fortuitous, big moves such as these, which both reflect and necessitate strategic flexibility, also reinforce the power of linking talent to value (for more on what it takes to make breakout moves, see "Eight shifts that will take your strategy into high gear," forthcoming on McKinsey.com).

How so? For starters, once a new source of value becomes clear, the company's understanding of its value agenda can shift to mine the potential of this new source—a move accompanied by a corresponding shift in the company's talent priorities. For example, a senior vice president of supply chain might have been reliable for years, but can he or she quickly activate the new set of reliable suppliers needed to get that unexpectedly hot product from R&D into the market as soon as possible? The discipline of understanding the requirements of key roles throughout a company helps give the CEO the agility to respond to such questions with alacrity.

The concept of matching talent to value is often a precursor to breakthroughs. These innovations commonly occur in contexts deliberately set up to enable them. Consider Tesla's effort to create a culture of fast-moving innovation, Apple's obsessive user-experience focus, and Corning's goal of easing "barriers to creativity and serendipitous advances."[3] These cultural priorities are at the core of these companies' value agendas. The roles created to turn such priorities into value are often related to R&D (such as the chief technical officer, chief design officer, and chief technologist) and filled with talented, creative people, such as Apple's Jony Ive, who thrive in the freedom of those particular roles.

The linking-talent-to-value process at Company X did more than just put the best people in critical roles. As the CEO tried to match the company's existing talent to these roles, she and other leaders realized that the company needed to retool its leadership development. Future leaders would have to develop the expertise (such as global line management or cross-functional collaboration) that would be high priorities in the new roles. Furthermore, these new leaders would need the mind-set and determination to accelerate breakthrough innovation. As often happens, the rigorous effort to match talent to value led the company's top executives to a deeper understanding of their business.

OPERATIONALIZE AND MOBILIZE

Linking talent to value is not a process that stops when roles are identified and matched to the appropriate top talent. To garner the expected value, leaders must manage these roles as assiduously as they do capital investments and use real-time critical metrics. An HR-leadership team might meet monthly to identify trends across business units—for example, the lag of certain role-specific KPIs, such as digital fluency. Working

[3] See Dr. Waguih Ishak, "Creating an innovation culture," *McKinsey Quarterly*, September 2017, McKinsey.com.

alongside business leaders, the team might also assess changes in the performance of individuals in critical roles, asking questions such as, “Is this individual delivering the value expected? What interventions (for instance, coaching or better-aligned incentives) can support this individual?” The leadership team might even meet daily or weekly to manage real-time talent crises, such as a moment when people-analytics software identifies an immediate risk of attrition in a critical role.

Companies must also examine whether the HR team is up to the task of managing talent as rigorously as the finance team deploys financial capital. The following questions can help make this determination:

- Does the HR group have sufficient analytics capability?
- Can the department mine data to hire, develop, and retain the best employees more effectively?
- Do the HR team’s business partners consider themselves internal service providers, or are they value coaches ensuring a high return on human-capital investment and driving outcomes for the external customer?

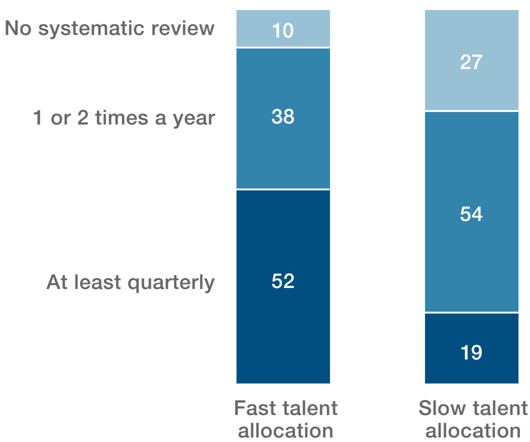
At one company that exemplifies the necessary rigor for matching talent to value, the HR team plans to develop semiautomated data dashboards that track the most important metrics for critical roles. Each critical role will have a customized dashboard to trace progress on relevant operational and financial KPIs (for example, segmented earnings before interest, taxes, depreciation, and amortization) against development activities (for instance, an instructional course). The metrics will tie to back-end organizational data, resulting in a mixture of automated and manual updating. The HR leadership team is learning how to use these dashboards to engage business leaders in regular talent reviews. Such a data-driven and technologically enabled review should ensure that the HR group provides targeted support through value-centered talent management.

Company X’s CEO knows that her job is not complete. Talent and overall strategic planning must have a tighter link. Talent evaluation must be constant rather than sporadic. Her organization must learn to flex its new muscle linking talent to value continuously. At her company and every company, the set of critical roles is dynamic rather than a “one and done” process—it must be reevaluated each time strategic imperatives change. Talent management must become a frequent, agile process in which the CEO and executive-leadership team participate as actively as they do in

Exhibit 2

About half of the companies identified as fast talent allocators review talent placement at least quarterly.

Frequency of talent-allocation review,
% of respondents (n = 628)



Source: 2017 McKinsey Global Survey on companies' talent-management practices

financial-investment decisions. In the survey mentioned earlier of more than 600 respondents, we found that in a majority of companies identified as fast talent allocators, top business leaders met at least quarterly to review talent placement (Exhibit 2).

Even though its talent-to-value effort is a work in progress, Company X is better positioned than ever to achieve aggressive growth aspirations. Its ambitious plans have a much better chance of succeeding now that the company's leaders have done the difficult work of identifying where future value is at risk and mitigating that risk through more value-centric talent management. They are augmenting their strategic vision with a clear understanding of the kinds of leaders they will need to meet their goals. This kind of proactive linkage of talent to value must be the new normal for business leaders. Q

Mike Barriere is a partner in McKinsey's New York office, **Miriam Owens** is a consultant in the Chicago office, and **Sarah Pobereskin** is an associate partner in the London office.

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