War for talent,
part two

An update of McKinsey's 1997 survey on the war for talent found that it is escalating—despite the current economic slowdown and the end of the dot-com boom.

The war for management talent is intensifying dramatically. Last year, McKinsey updated a 1997 study in which researchers surveyed 6,900 managers (including 4,500 senior managers and corporate officers) at 56 large and midsize US companies. The update found that 89 percent of those surveyed thought it is more difficult to attract talented people now than it was three years ago, and 90 percent thought it is now more difficult to retain them. Just 7 percent of the survey's respondents strongly agreed that their companies had enough talented managers to pursue all or most promising business opportunities.

Demographic and social changes have played a growing role in this trend. In the United States and most other developed nations, the supply of 35- to 44-year-olds is shrinking. And many of the best-trained people entering the workforce are not bound for large traditional companies: last year, a full 30 percent of MBAs in the United States preferred to work for a start-up or a small business.[1] And the proportion of computer science and electrical-engineering graduates who went to smaller companies rather than more established ones has risen to 37 percent, from 22 percent in the 1980s.[2]

The update also found that the companies doing the best job of managing their talent deliver far better results for shareholders. Companies scoring in the top quintile of talent-management practices outperform their industry's mean return to shareholders by a remarkable 22 percentage points. Talent management isn't the only driver of such performance, but it is clearly a powerful one.

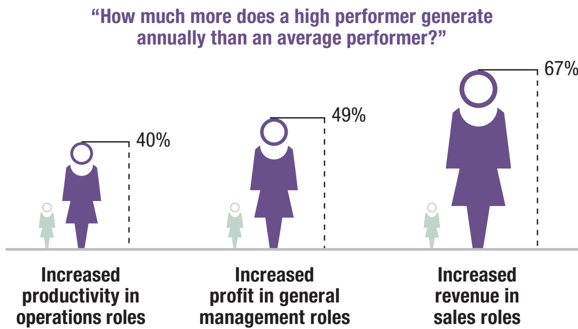
Senior managers report that "A players"—the best 20 percent or so of managers—raise operational productivity, profit, and sales revenue much more than average performers do (Exhibit 1, on the next page). In one manufacturing company, the best plant managers increased profits by 130 percent; in an industrial-services firm, the best operations managers achieved increases of 80 percent. (The worst managers in both companies brought

[1] *The Universum Graduate Survey 2000—American MBA Edition*, Stockholm: Universum.
[2] McKinsey career progression survey.

EXHIBIT 1

Good people are great for business

Mean of responses from 410 corporate officers



Source: McKinsey's War for Talent 2000 survey of 410 corporate officers at 35 large US companies

no improvement.) The senior executives in the year 2000 survey thought top performers deserve pay 42 percent higher than that of average performers—a far greater spread than most companies have but a solid investment nonetheless. The researchers found that paying an additional 40 percent to hire an A player could yield an overall return of 100 percent or more in a single year.

Despite the potential impact of top performers, both the 1997 study and the year 2000 update revealed a gap between awareness of the talent issue and an effective response to it. Only 14 percent of the managers in last year's survey (as opposed to 23 percent in 1997) strongly agreed that their companies attract highly talented people. Only 3 percent of the respondents to both surveys strongly agreed that their companies develop talent quickly and effectively.

At a time of greater awareness of the shortage of talent and increased competition for it, the imperative to manage it effectively is more urgent than ever. Leaders must make talent a priority at all levels of their organizations, create reasons for top talent to choose their companies, rebuild their recruiting strategies, create plenty of opportunities for development, and learn to identify their A (as well as their less capable) performers and invest in them appropriately.

To accomplish these goals, organizations will have to pay greater attention to measuring performance and to feedback. In 1997, for instance, 71 percent of the respondents said that candid feedback on their performance was essential or very important to their development, but only 32 percent said that their companies provided such feedback effectively. Last year, an even greater proportion of the respondents—89 percent—said that candid feedback is important, but just 39 percent said they had received it.

Companies that neglect these imperatives pay the price. Tolerating underperformers—especially underperforming bosses—carries the highest price of all. Subpar managers drive talent from companies and preempt positions

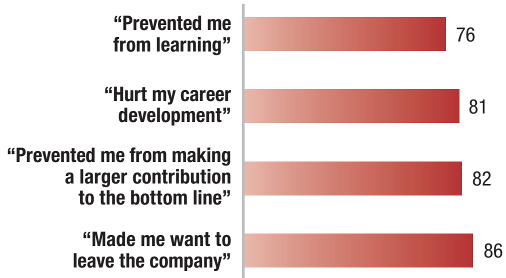
that could have been used as development opportunities (Exhibit 2). Last year, nearly 60 percent of the respondents strongly agreed that they would be delighted if their companies were quicker to dismiss underperformers or to move them into less critical roles.

EXHIBIT 2

The cost of a bad boss

Percent who "somewhat agree" or "strongly agree"

58% of senior and midlevel managers reported that they have worked for an underperformer. How did this affect them?



Source: McKinsey's War for Talent 2000 survey of 6,500 senior and midlevel managers at 35 large US companies

Organizations that take talent seriously can deliver greater shareholder value and start to realize the promise of competitive advantage through better talent. But the implementation of that strategy must start at the top: in the highest-ranked companies we studied, improving the strength of the talent pool is among the top three priorities of senior leaders.

—Elizabeth L. Axelrod, Helen Handfield-Jones, and Timothy A. Welsh

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