Putting talent at the top of the CEO agenda

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Executives serious about delivering value need to spend more time identifying their organizations' top performers and most critical roles.

In this episode of the *McKinsey Podcast*, McKinsey global managing partner Dominic Barton speaks with Simon London about how CEOs and boards can get strategic in managing human capital.

Podcast transcript

Simon London: Hello and welcome to this edition of the *McKinsey Podcast* with me, Simon London. Today we have a very special guest, McKinsey's worldwide managing partner, Dominic Barton. Earlier this year, Dominic published a new book titled *Talent Wins: The New Playbook for Putting People First*, with coauthors Ram Charan and Dennis Carey. The book argues that CEOs and boards don't spend nearly enough time on people, particularly the people who occupy those pivotal roles that make the difference between success and failure, growth and stagnation. As you'll hear, these aren't necessarily the most senior people by any means. They can be found up and down the organization. I caught up with Dominic in London to talk about why in a world awash with capital and turned upside down by technology, he believes that talent wins.

Dom, thank you for being here today.

Dominic Barton: Thank you for having me.

Simon London: Why don't we start with the question of, why talent as a topic? You're jetting around the world; you're meeting interesting people. There must be any number of topics that you could have put time and energy against. Why talent?

Dominic Barton: I have this rule of meeting two CEOs or government leaders or social-sector leaders a day, which I've done for the last nine years. One of the questions I ask, particularly CEOs, is, "If there are three things that you could teach your younger self, what would they be?" What I've found consistently across countries and sectors is that CEOs say, "I would have spent more time on people. I would have removed people faster. I would have pulled people up faster. And I would have spent more time with people." It was consistent. The most scarce resource is talent. We are awash in capital. It's talent that you need to drive it.

The book *The War for Talent,* which came out probably 17 years ago, is a really important piece of thinking and work.

Simon London: I was going to ask you about *The War for Talent* because that was quite a significant book at the time. It argued that hiring and retaining extraordinary talent was going to be like the next frontier of competitive advantage. So, here we are, pushing 20 years on. What's changed? What's different, if anything?

Dominic Barton: I think they were right. I think they were ahead of their time, if you will. There are a couple of things that make it particularly apropos now. One, as I said, is I think we have a huge amount of capital in search of people and ideas for people.

Simon London: Financial capital?

Dominic Barton: Yes, financial capital. It's talent that people are looking for. I think the other big shift that has occurred, and it makes this very different than what we saw nearly 20 years ago, is the analytics that we can now do on the talent side.

The amount of money that's gone into digital analytics on talent has just exploded in the last five years. I think we can now use that. We can use it to ensure that we're recruiting the right people. We have a better sense of predicting who will leave. We've got a better sense of who creates value within organizations. We can be much more granular about that. The whole analytics around people has changed.

I would argue it's very similar to what we saw for CFOs 50 years ago. A big reason we went from accounting personnel to CFOs is because of tools like Lotus 1-2-3 and Excel spreadsheets. You could do scenarios with the financial capital, with expenses, to see what might happen. This, I think, elevated the role [of finance] and required a CFO because you could do those sort of things. We now can do that increasingly with talent.

There always will be a need, by the way, for the intuitive, the gut. I don't think one can ever eliminate it. There was a rumor that we [McKinsey] were hiring people without interviewing anyone. We are using artificial intelligence to help us screen résumés, but we're going to, at least for quite some time, want to see people and interact with them.

Even so, there's a big shift that we can do a lot more with the analytics to be able to pinpoint and find people we wouldn't otherwise be able to find and help people progress faster than they otherwise would.

Simon London: One of the recommendations in the book is the "G3"—this idea that, at the top of companies, there should be a group of three executives: the chief executive, the CFO, and the chief human-resources officer [CHRO]. Can you talk a little bit more about why that's important and how it works?

Dominic Barton: Sure. Our Strategy Practice has found that organizations that reallocate capital more than the average—which means you're taking capital away from a business unit, which is a very difficult thing to do—outperform organizations that just look at last year's budgets and add several percentage points, which is what most organizations do. It's the same for people. You can't separate the capital or expenses from people. People go with that capital. Too often, we're thinking about people as an afterthought: "Well, let's make this investment; let's make this bet; let's shift our business towards this area." And then as an afterthought, we think about the people. You can't do that. The type of people you have [within the organization] may affect how much of a shift you want to make. It can't be a derivative; it has to be part of coming up with the answer.

There's no business plan without a talent plan. I've stolen that [phrase] from Steve Schwarzman at The Blackstone Group. He introduced it into the organization when he hired Sandy Ogg, who was CHRO at Unilever, as an operating partner to come in and help think about the financial plan for a company that they bought.

You have to have the people plan go with the financial plan or it doesn't work. And be explicit about it.

Simon London: I was going to ask, "Where's the voice of the customer in the G3?" but it sounds like there's nothing religious about the G3 [as a prescription].

Dominic Barton: It's not religious. What's important is to have what I would call the core of the infrastructure [represented]. You have to have the capital represented, and you have to have the people side represented. You can build whatever else you need around it, but, at least, get that.

Simon London: Where does the board play in all of this?

Dominic Barton: The board, I think, should play a very important role. But what we found is it doesn't typically. We found, through some of the research we looked at, that many S&P 500 boards spend less than 5 percent of their time on talent. You can understand it at one level because of all the fiduciary-risk regulatory issues that are on the table for boards. But it was surprising to us how little time was spent on talent.

Most boards have some sort of succession-planning process. But even when you look at what some boards do on that front, it's very perfunctory. You compare that to organizations like ING, where there is not only a significant amount of time spent on talent, but it's a very regular process. The board of BlackRock, the largest institutional investor in the world, spends a lot of time on people and talent. Board members get to see the talent. It's a regular part of the process.

Among the companies we looked at that do believe talent wins, boards spend a lot of time on talent—and not just the top 150 roles in the organization. In the book, we write about the 2 percent of employees who actually drive a lot of value but may not be at the top.

Also, we can measure culture now. Culture was a very amorphous thing to talk about 20 years ago. Today there are various indicators. We at McKinsey have the Organizational Health Index. Gallup has got some very good measures.

Simon London: And, as you say, you can now have a fact-based conversation about it. It's not just arm-waving and assertions, which must make it a lot more compelling for boards to want to spend time on it. Let's segue there. You mentioned the 2 percent. Talk a little bit about this 2 percent who drive a lot of the value at most companies. Who are they? Where do you find them? And why focus on such a narrow slice?

Dominic Barton: This came from working sessions we had with the coauthors, just looking at what drives performance in an organization and how concentrated is it. And we had this very big debate, "Is it 5 percent? Or 2 percent?"

There's no regression analysis or analytics behind it, but we had a strong view that it's a very small proportion of people who drive a lot of value, because of technology that enables outstanding talent to deliver performance way in excess of average performers.

One of the places this came from was private equity. We have a number of examples in the book. One is a private-equity firm that bought a 12,000-person organization, a machine-tool company. The investment view was, "We're going to improve the EBITDA [earnings before interest, taxes, depreciation, and amortization], the profitability, from $600 million to $1 billion. So it's going to be an uplift of $400 million EBITDA. When we take it back into the market, taking it private, we're going to improve the price–earnings multiple a little bit, but the core is this $400 million delta." What they did is break that down into its component pieces—$60 million comes from procurement; $70 million comes from some distribution changes. What they found is you could then translate that $400 million into 37 specific positions that were going to drive it.

This doesn't mean, by the way, that the 98 percent don't matter. They do. You don't ignore them. You have to engage with them. But, for God's sake, spend time on the 2 percent who are going to really drive it.

What we found is those 2 percent are not typically the top of the organization. Many organizations have the top 100, top 150, top 200. We're not talking about that. We're talking about 2 percent of people, some of whom are buried in their work, who drive a lot.

Simon London: Give an example.

Dominic Barton: One example is the chief procurement officer in this machine-tool company—it's a big deal what this person does. When you look at this particular company, the person [in the role] had basically 18 months experience. They'd been a line operator in China, which was great, but compare them to someone who's world-class in procurement, and the difference in [skills and experience] is just night and day. That makes a big difference. Most people wouldn't be thinking of procurement as a big lever. In this case, it was.

Another example is an Italian bank at which the value-creating roles were district managers, people overseeing 20 or so branches. The performance difference in those district managers and what they can do is phenomenal, in terms of improving everything from financial performance to customer satisfaction to loan-loss rates. It also was one of the main roles for identifying future leaders because it was the first time someone could manage a whole bunch of different areas.

So depending on the sector—or the type of company and where it is in its cycle—the value-creating roles will differ. But what we found, in these examples, is the CEOs actually know who these people are because they don't want to lose them. You don't want your competitors to think about nabbing some of those people.

Simon London: You mentioned the role of technology in creating this delta—this ability for high performers to substantially outperform less-high-performing individuals. Just say a little bit more about that. Is that because high performers have access to more data? Or is it because you can just launch businesses so much faster today?

Dominic Barton: I think that part of it is that high performers can have a much wider influence than before. Your scalability [as an individual] has gone up dramatically. One individual can affect many, many more customers or many, many more people within your organization, or many, many more potential recruits.

The other thing is that companies today can make changes faster. With the clock speed that's going up in the world, the ability to pick up a trend, issue, or topic and move on it can make a substantial difference.

Simon London: I'm running a big oil-and-gas major, I'm making multibillion-dollar, decades-long investments, choosing to go here versus there. Or I'm running a car company using something like the Toyota Production System, a method of operating that seems much more democratic, for good reasons, because it's about consistency at scale across mass production. Does this notion of the 2 percent really apply to me—to all companies equally?

Dominic Barton: I think it does. Let's take mining. You're building these mammoth projects. You're doing a big copper mine in Chile, for example. You're tunneling down 5,000 meters. You're going to want to have outstanding people [on the project] because the cost overruns, capital overruns, could be 30 or 40 percent. The time overruns can make or break a company. A lot of investors are terrified of these organizations doing huge capital projects.

So the questions are, "How do we know we've got the right person leading it? How do we know we've got the right team? How do we know they're learning? And how do we know we're developing the people for these roles?" I would argue there's a small proportion of roles that can drive a lot of the value.

Simon London: Let's move on to organizational agility, which is mentioned in the book as something that's important to unleash talent. What do we mean when we talk about agility?

Dominic Barton: Agility is a bit of a buzzword. Everyone talks about being agile. And maybe we don't know what it means. I think for us, in the book, what we felt is there's a number of components to agility.

One is speed. With the world moving faster, you've got to be able to reallocate the capital and the people more quickly. If you look at a lot of start-ups, not start-ups with two or three people but start-ups with 50 to 100 people, you notice some very different things. They're not on a one-year planning cycle but an eight-week planning cycle. At first you think, "Well, what's all that about?" That's not how I was taught at McKinsey coming in. There's a one-year plan, a three-year plan. Well, maybe there's an eight-week plan to move resources around.

So part of agility is clock speed, speed of making decisions, which, by definition, means you have to be flatter because hierarchy takes a lot of time. In a hierarchy, you have to work decisions up the chain and down the chain. You may have missed the opportunity.

A second element is that in a hierarchical organization, the people who are presumed to know the most are the most senior. I don't believe that's true. Maybe it never was. It certainly is less true now than it was. People with the right information are down in the organization. So decentralizing—flattening, allowing smaller groups of people to be able to make decisions faster—is an element of agility.

Then there is the cross-functional element: the idea that you need multiple skills to be able to solve a problem or get something done in an organization. Whether you are creating a new customer-service program or building out a new set of businesses in Asia or another part of the world, you need to have a cross-functional group of people work together.

When you bundle just those elements together, you get the core elements of agility—smaller teams that are cross-functional, with some serious decision rights, and that may pack up and go and do something different every few weeks.

One example we talk about in the book is Haier, which is the white-goods manufacturer. They've taken agility to a whole different realm.

Simon London: Yes, they are truly radical, aren't they?

Dominic Barton: They're truly radical. Truth be told, they're not a client of McKinsey. If they were, we probably would have told them not to do what they did. But taking an 80,000-person hierarchical structure and flattening it is unbelievable. The performance of the organization went up significantly.

It was really driven by the chairman saying, "We've got to have more people making decisions closer to the customer interfaces, feeling the pressures." It was very thoughtful, the process they went through to try and get the right pressures, if you will, and incentives. Clock speed, again, was the core element of it.

They saw performance improvement and, shortly thereafter, bought GE's white-goods business as they went through it. That's like neutron bombing an organization. You have to have a lot of guts to do that.

Simon London: And that was going to be my follow-up: as you say, if you look at a start-up, even a moderately sized start-up, they have this agility. But how do you scale it at an incumbent organization?

Dominic Barton: It's relatively new, but more people are doing it, on what I might call on a project basis. ING, the bank based out of Amsterdam, is a tremendous example of how they've been able to put in an agile organization with performance that they're proud of.

And people like working in that type of an organization. You feel more ownership. You feel you get more decision rights. You grow faster. But you have to do it properly, obviously. We're seeing more and more of that. Sberbank, the Russian bank, is doing this. There are now concrete examples, such as an energy company in Australia that's going agile.

It's not taking out the old people and putting in young people; it's people that are 52 years old learning to operate at a different speed, working in digital sprints, to try and figure out, "What are our new products? What sort of service capability do we want to be able to have? How are we going to work in a different way with people?"

Simon London: I think it's fair to say that this is an emerging practice, right?

Dominic Barton: It is.

Simon London: If you look at "agile with a capital 'A'," the Agile Manifesto in software development, that's pretty well established. But how you take that kind of philosophy and scale it across big organizations? This is kind of leading-edge stuff.

Dominic Barton: I would agree.

Simon London: An interesting question you alluded to earlier is, what does all this mean for the role of HR?

Dominic Barton: We think the role of HR needs to be elevated significantly. Too often, it's being too thought of as a derivative. "Once you've figured everything out, then go talk to HR." Going back to the G3 notion, HR is a fundamental partner. It's human capital. Maybe we need to change the name. HR just has all sorts of baggage, such as administration and benefits, with it. Frankly, I'd give that to the CFO. This is people strategy. It's people allocation.

Simon London: It reminds me of what you said about boards. One of the reasons boards have struggled to be strategic about people is they've got so many other things on their plates.

And poor old HR, they'd love to be more strategic, but they've got all the transactional stuff, the administration and compensation. There's so much transactional work. How do you create the space for a strategic HR?

Dominic Barton: That's a good way of putting it, is that it's moving away from the transactional to the strategic. Obviously, the transactional stuff has to be done. The compensation has to be looked at. It's critical. But I think there is a people strategy that is required. That's what's going to drive organizations over time. HR has to be at the table. And so, again, boards need to be thinking about this. It's a CEO agenda item. It's not the HR person's agenda.

We had a lot of debate when we were writing the book. "Are we writing this book for the HR person? Or are we writing the book for a CEO?" We had a very strong point of view: "We're writing this for CEOs." CEOs have to believe this and drive it. And then, by definition, if they do believe and drive it, they're going to hire and put the right person in place to be the HR leader.

There are many very highly qualified HR leaders. But there are also many unqualified, because the nature of the role is different, with the analytics that goes with it. It's a business-leadership role. We also think more line people need to spend time in HR.

Simon London: Yes, I thought it was a really interesting point in the book, this idea that every CEO going forward should have some serious HR chops.

Dominic Barton: We see a lot of CEOs coming from the CFO role. The preponderance of them come from that background. And that's understandable. You've got to be able to talk to investors. You've got to understand the financials and the performance and so forth.

But you also need to understand the talent side and the people side. It's not gut. There's analytics. There's an approach to developing leaders. We don't have, in my view, enough, although we're seeing examples. Mary Barra has come from the HR side of General Motors. Also, you look at a guy like Tom Linebarger, who's at Cummins. I did an interview with him recently. He spent 60 percent of his time on leadership. This is a very performance-driven person, a lot of technology change going on in his industry. He's focused on people. I was teasing him. I said, "Well, who runs the company?" He said, "That is running the company, you idiot! What do you think?" I think we're going to have to see more of that, and people circulating through that department through that construct.

Simon London: Well, Dominic Barton, thank you very much.

Dominic Barton: Thank you so much. □

Dominic Barton is McKinsey's global managing partner, and **Simon London** is a member of McKinsey Publishing and is based in the Silicon Valley office.

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