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Brexit: The Bigger Picture

# Rethinking talent for the long term

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**Brexit has disrupted both supply of and demand for talent in the United Kingdom. In the context of such a major shift, it is essential that companies revise their long-term approach to talent.**

— by Natalia Ferens, Kimchi Hoang, James McLetchie, and Portia Walker

Just as British employment levels have reached record highs, the indicators show that the prospect of Brexit has been stemming the flow of foreign talent from the European Union into the United Kingdom – and has prompted many EU nationals already there to look elsewhere for career opportunities. For companies operating in the United Kingdom, that has made an already challenging talent market tougher.<sup>1</sup>

In this environment, CEOs and human-resource leaders must rethink their approach to retaining, attracting, and engaging talent. Many firms have already made good progress in mitigating the immediate talent risks caused by Brexit-related uncertainty, but most still have work to do in shaping post-Brexit talent strategies. For this series of articles, we have interviewed dozens of leaders in major firms operating in the United Kingdom. Not a

single one of the surveyed companies had revised its long-term talent strategy as part of its preparations for Brexit, instead focusing on short-term measures. Since then, few have prioritised talent as part of their overall business agenda.

In this article, we shine a spotlight on Brexit's changing impact on the UK talent pool and suggest that companies must take action on both short-term talent planning and long-term talent strategy. We then identify some of the core elements of such a strategy. These include understanding the roles that are critical to an organisation's agenda for creating and protecting value, preparing for the next wave of hires, and investing in digitisation and automation. These strategic steps are essential for the long-term success of companies in an increasingly complex and competitive global talent market.

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<sup>1</sup> See, for example, "Mothers and over-50s push UK employment to record high," Financial Times, April 16 2019, [ft.com](https://www.ft.com).

# Action needed on both short- and long-term talent approaches in light of Brexit

The data show that Brexit has already affected the UK talent pool, not least by shifting migration patterns. Net migration from the European Union to the United Kingdom is at the lowest level since 2013, driven by declining long-term immigration for work. Non-EU migration has risen, but at a slower rate.<sup>2</sup> Companies find it more difficult to recruit top talent: UK firms report record numbers of vacancies, including open scientific and digital positions, as well as increased concerns over competition from other international hubs.<sup>3</sup>

In recent interviews with leaders at 50 large companies operating in the United Kingdom, many expressed real concern about increased turnover in the workforce and the challenges of accessing talent. However, their actions to address those concerns were focused firmly on the short term. Nearly all the companies interviewed had already assessed the immediate Brexit-related risks to their talent. About a half had also mitigated the risks to their European employees working in the United Kingdom; for example, they had stepped up communication and provided

employees with assistance with the relevant immigration-status applications. But few companies had changed their workforce planning, and none said they had reviewed their longer-term talent strategy (Exhibit 1).

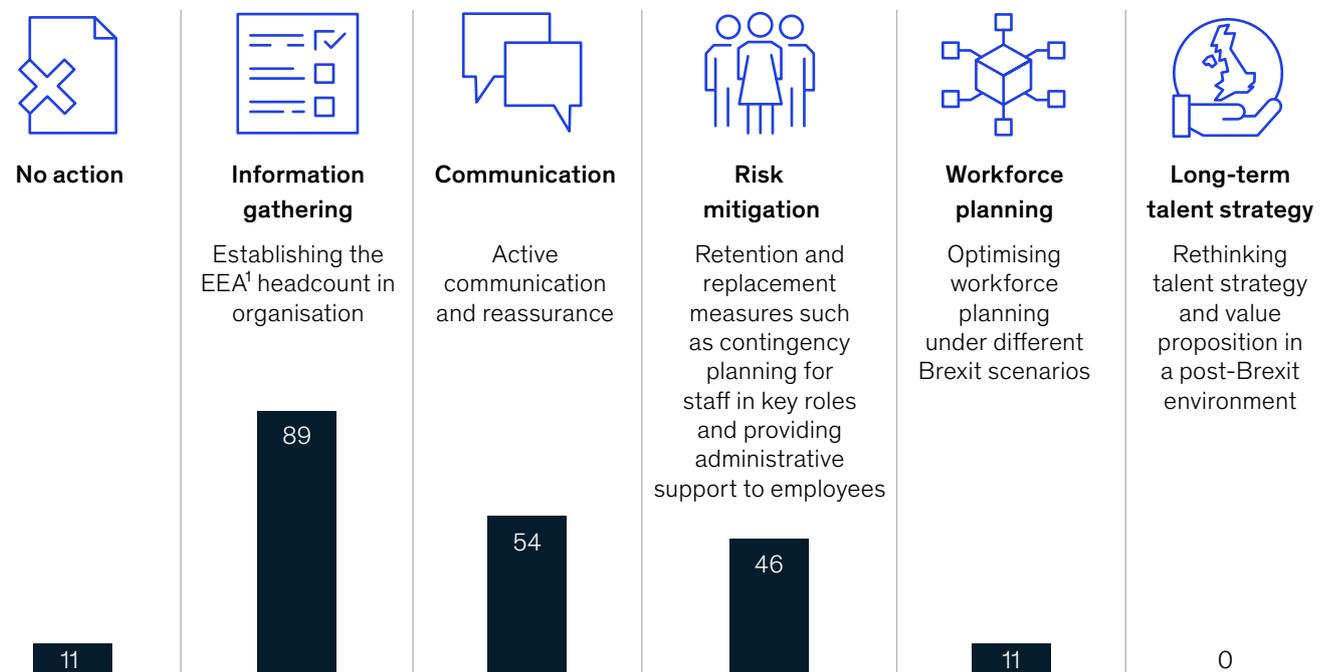
We believe these findings point to an imperative for businesses operating in the United Kingdom: to take a deeper look at the future talent landscape and approach their talent strategy with just as much rigour as their business strategy. That means answering several big questions. What are the critical

Exhibit 1

## None of the companies surveyed have revised their long-term talent strategies in light of Brexit.

### Level of strategic response completed as part of Brexit preparations,

% of interviewed companies that completed the step



<sup>1</sup> European Economic Area.

Source: McKinsey Brexit-preparedness interviews

<sup>2</sup> The Office for National Statistics has recently downgraded the reliability of its migration statistics, which are currently under revision. The latest published data indicated a 69% decrease in net migration from the EU since the 2016 referendum. See "Migration statistics quarterly report: August 2019", Office for National Statistics, 22 August 2019, [www.ons.gov.uk](http://www.ons.gov.uk).

<sup>3</sup> There were an estimated 870,000 job vacancies for November 2018 to January 2019, the highest estimate since comparable records began in 2001. See "UK labour market: February 2019", 19 February 2019, [www.ons.gov.uk](http://www.ons.gov.uk). The Association of the British Pharmaceutical Industry warns that the United Kingdom must fill an increasing number of science skills gaps. See Selina McKee, "ABPI warns over skills shortages," *Pharma Times online*, January 30, 2019, [pharmatimes.com](http://pharmatimes.com). For the number of tech vacancies, see "Fuelling fintech: Attracting the UK's future tech talent into financial services," TheCityUK, March 2019, [thecityuk.com](http://thecityuk.com).

roles that will disproportionately drive value for your business in the medium term? Do the right employees hold these roles? How will you retain the talent in those roles – while preparing their potential successors? And how will you retain talent in the at-scale roles needed to deliver on your strategy – and attract the next wave of new hires?

In answering such questions, companies will gain a keener understanding of the risks they face from both their EU talent and their UK talent. That, in turn, will enable them to bring greater insight to their long-term talent strategies.

## A human lens on the talent challenge

The United Kingdom's talent-pool landscape is shifting. Take a moment to consider the example of Dieter, a pharma research and development (R&D) specialist from Germany who has lived in the United Kingdom for the past five years. (Dieter is a fictional person, but the circumstances described are real.)

Dieter is a team leader working on a flagship R&D project, so he is in a role which is critical to the company's success in the medium term. But his incentives have shifted. The value of the pound remains uncertain, and therefore the appeal of earning a salary paid in euros or dollars is now greater. Also, Dieter has been dealing with high staff turnover in his unit and finds it harder to recruit new specialists for his team. Recently he received a competitive offer from another company. He is seriously considering accepting it and moving away from the United Kingdom. His wife, also an EU citizen, has found attractive job opportunities in that country as well.

In the R&D pipeline of Dieter's employer, just five key projects will generate 70 percent of the value during the next five years. Looking more closely and analysing the roles critical to delivering that value, we find that Dieter holds one of the company's 20 most important roles – which include therapeutic-area heads, asset-programme leads, research leads, expert researchers and people in UK in regional regulatory roles.

Let us now take a look at the example of Evelyn (also a fictional character), the head of operations at a chain of retail stores in the

United Kingdom. She is struggling to fill vacancies in a broad set of roles in the company's retail outlets, including customer-facing ones and those throughout the supply chain (for example, warehousing and logistics).

Evelyn has tried to manage the situation by increasing the efficiency of people and processes, optimising head counts across locations, adjusting the length and timing of shifts, offering employees opportunities to reskill, and adopting new processes. Her company has considered investing in automation throughout its operations but decided to hold off implementing its plans because of continuing uncertainty about the future. Currently, about 15 percent of the company's employees are EU citizens. The company has worked hard to reassure them about their security and provide administrative support. But will this be enough?

In her retail organisation, Evelyn has to understand both the company's existing roles and how they are likely to evolve over time. Since the retail industry is under pressure from large online retailers, its success will lie in increasing digitisation, creating automated retail operations and supply chains, and introducing new roles to provide those capabilities. These roles will include managers with digital expertise; operations experts, including engineers and designers; and area managers who may be responsible for a greater number of stores. Fewer customer-facing employees will be needed and their roles will change to deliver a more innovative customer experience.

# Analysing critical and at-scale roles – and shaping a response tailored to the employees who fill them

To take a longer-term strategic approach to talent, the first step companies need to take is to understand the critical strategic roles that will disproportionately drive value for their business in the future – whatever the eventual impact of Brexit.<sup>4</sup> In a large company, there are typically between 25 and 50 such roles distributed throughout the organisation – and they are not necessarily the most senior roles in the hierarchy. A strategic talent review would include a thorough analysis of such roles and what makes people successful in them – including their qualifications, knowledge, skills, attributes, and experience.

Companies also need to consider how the changing business and regulatory environment – including the impact of Brexit – might affect their broader workforce, including the at-scale roles needed to deliver on their value-creation strategy. They will need to rethink their approach to retaining and attracting employees as the UK talent pool changes. For both critical and broader at-scale roles, they will need to create a tailored response based on the needs of the organisation and the profile of the workforce.

In pharmaceuticals, for example, critical roles will be held by professional talent with several key characteristics, including a specialised skill set specific to the industry, international career mobility, expectations of competitive salaries, and a desire for a prominent brand name on their CVs. Companies

can also provide such employees with administrative and legal support tailored to their personal circumstances, including help with relocation, housing, schooling, and obtaining visas or appropriate legal status in the United Kingdom for the employees and their families. In addition, employers need to make sure that they have clear succession plans for these roles. Companies in this industry can also review and revise their employee value propositions for strategic roles – for instance, by redefining the scope of job roles and ensuring that salaries are internationally competitive.

In the retail sector, companies can act to reassure employees in a broader set of roles of their longer-term employment prospects and support them to secure settled status or a visa if that is needed in the long term. Retailers might adjust their employee value propositions for key managerial and technical roles. Retailing is an industry in transition to a new operating model, but it is likely to retain a significant share of international workers, including people from the European Union, in frontline roles and throughout the supply chain. Such employees will also require an offer tailored to their needs – which are likely to include job security, regular wages that take advantage of the exchange rate relative to their home-country currencies, maintenance of their current living standards in the United Kingdom, and a company culture that reinforces a sense of appreciation.

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<sup>4</sup> Mike Barriere, Miriam Owens, and Sarah Pobereskin, "Linking talent to value", The McKinsey Quarterly, April 2018.

# Preparing for the next wave of hires

As part of any strategic review, businesses should look ahead and consider where the next wave of hires will come from. Companies can identify which talent pools are at risk, which specific capabilities are needed in those talent pools, and (of those) which will be most susceptible to changes generated by Brexit.

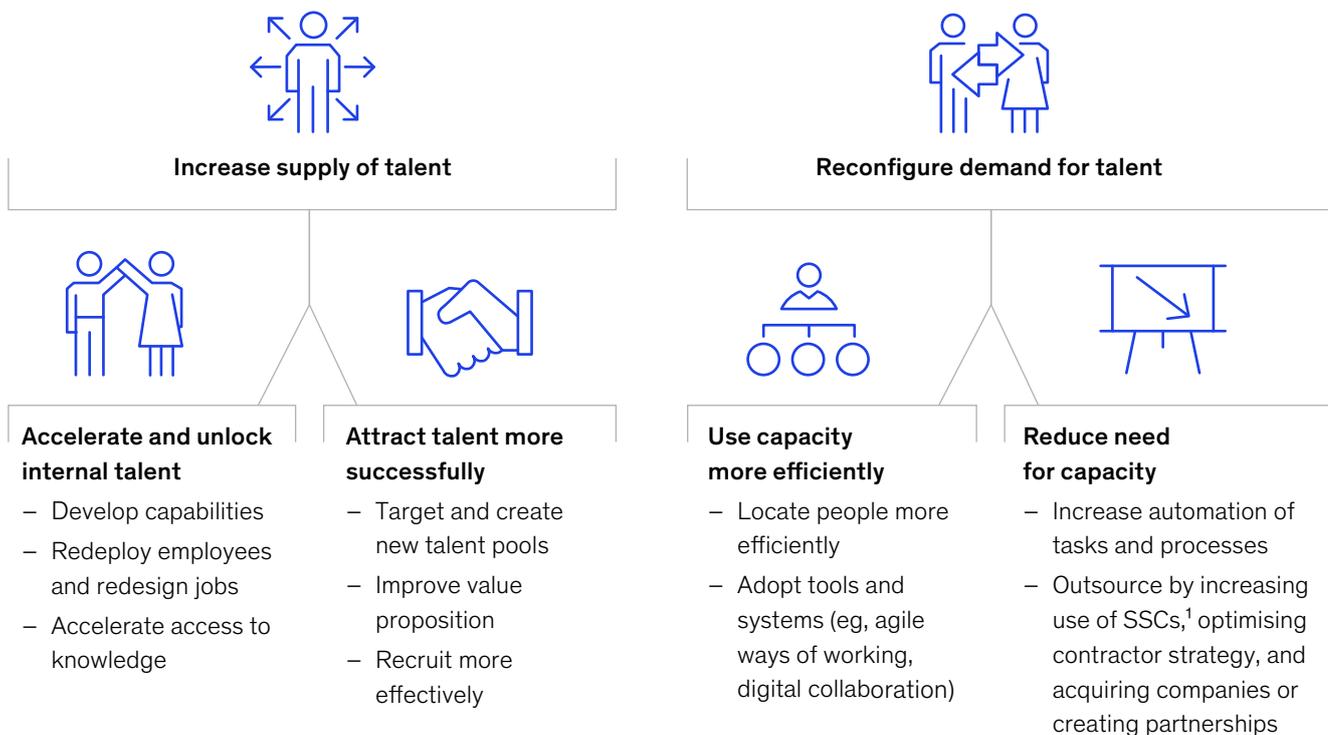
targeting new talent pools and recruiting more effectively. For some specific capabilities, companies can build talent into their mergers and acquisitions programmes by undertaking “acqui-hires” – acquisitions with a primary objective of acquiring talent.

For areas where companies face talent gaps, they can design a portfolio of targeted supply- and demand-side initiatives with a focus on building skills (Exhibit 2).<sup>5</sup> These might include the following:

- **Increasing supply.** Companies can unlock internal talent by reskilling workers and by redesigning jobs. They can also attract talent more aggressively – for example, by
- **Reconfiguring demand.** Companies can take steps to use existing capacity better – for example, by locating candidates more efficiently and adopting new tools and systems. Through automation and offshoring, they can also reduce the need for local capacity. Companies should estimate the costs of these actions and, at all times, prioritise roles that have a disproportionate impact on the value agenda.

Exhibit 2

## Companies can design a portfolio of targeted initiatives to close the talent gap and shift the skill mix.



<sup>1</sup> Shared service centers.

<sup>5</sup> For an overview of talent supply and demand levers, see “Are we long—or short—on talent?” The McKinsey Quarterly, January 2019.

# Investing in digitisation and automation

Returning to the example of the pharmaceutical industry, to fill gaps in talent capabilities, employers will have to understand the full range of levers, which might include digitising key processes and changing operating models. For example, the wider use of agile teams, which are more flexible than traditional units, means that certain employees would no longer need to be co-located, so some roles could be virtualised.

In pharma, companies can also take several steps – such as partnering with universities, increasing the global rotation of talent, and contracting out to research organisations or vendors – to reconfigure their demand for talent. Companies can also reconsider the footprint of particular functions or new projects in the pipeline. For example, a company might need to base decisions about where to locate potential new digital facilities on where it could best attract world-leading, highly demanded talent.

For retailers, the next steps might include investing in automation and digitisation, tapping into new talent pools, and making additional investments in people. To address uncertainty over the supply of talent, retailers would do well to consider ways to unlock greater productivity. Those moves might include upskilling employees to new roles, redesigning jobs to reduce specialisation or introduce new services, and shifting employees toward customer-facing roles to improve the customer experience. Retailers can also sharpen their approach to attracting talent – for example, by targeting new employee profiles, such as apprentices.

Last but not least, companies should embrace the potential of digitisation, automation, artificial intelligence and advanced analytics to drive growth. But that will require them to improve the efficiency and effectiveness of their organisational models and their approach to talent in the long term.

A focus on accelerating the pace of digital adoption and on investment in automation could significantly improve UK productivity growth.<sup>6</sup> As research by the McKinsey Global Institute has shown, the rise of automation will change the skills required from the workforce in the future: demand for technological skills in the United Kingdom will rise by 52 percent by 2030.<sup>7</sup> In pharmaceuticals, for example, advanced analytics is becoming a crucial capability driving major improvements in business performance.<sup>8</sup> In the retail sector, future jobs will be concentrated in customer service, management, and the deployment and maintenance of technology.

## Conclusion

Brexit is dominating the business agenda. It is also disrupting the UK talent pool as changes in migration patterns are compounding the challenges faced by employers in recruiting and retaining talent. As companies prepare to create and protect value in a post-Brexit world, they should think as rigorously about talent strategy as they do about business strategy. Key steps include

As they digitise their operations, employers will therefore have to deploy the supply- and demand-side levers discussed above in order to shift the skills mix in their organisations. As skills such as analytics and technology deployment become more important, companies will need to accelerate efforts to reskill and redeploy talent. New technologies will also transform organisations and the way people work.<sup>9</sup> There will be a strong shift toward cross-functional and team-based work, and toward more agile ways of working. Furthermore, reallocation of activities across roles will become more common, enabling companies to make the most effective use of different qualification levels in their workforce.

As talent grows in importance, the human-resources function will become a strategic enabler for any business. Forging a long-term talent strategy requires a close partnership between human-resources and executive leadership.

understanding which roles will drive the lion's share of value in the organisation and identifying which skills are in short supply or oversupply. Companies also have an opportunity to improve their value propositions to attract and retain the best people – and to identify bold steps to build skills required in the era of digitisation and automation. Now is the time to move to action on long-term talent strategies.

<sup>6</sup> Solving the United Kingdom's productivity puzzle in a digital age, McKinsey Global Institute, September 2018.

<sup>7</sup> Skill shift: Automation and the future of the workforce, McKinsey Global Institute, May 2018.

<sup>8</sup> How pharma can accelerate business impact from advanced analytics, McKinsey & Company, January 2018.

<sup>9</sup> Skill shift: Automation and the future of the workforce, McKinsey Global Institute, May 2018.

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