

Technology, Media & Telecommunications

How tech, media, and telecom winners use talent to stay ahead

Certain capabilities matter more for performance than others, particularly when combined in the right way.

By Alexander DiLeonardo, Julie Goran, Ran Li Phelps, and Matt Thomas



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In the technology, media, and telecom (TMT) sector the performance of the core product platform often differentiates leaders from followers, so CEOs depend on abundant access to financial capital. Yet, another vital form of capital that is equally critical to driving company performance—talent, or human capital—has become a far more difficult resource to acquire and retain.

This is particularly troublesome in TMT, where companies are competing with every other industry for scarce top digital talent, and the effects of the COVID-19 pandemic on talent acquisition are still developing. The need for data scientists, for instance, greatly outstrips supply, according to our research. The problem is especially acute for telecom companies, where as much as 88 percent

of digital talent who switch companies decide to leave the subsector altogether.¹

Finding enough talent is only part of the problem. The bigger challenge is knowing which specific skills matter most to driving performance. To help answer that question, we analyzed the talent and capabilities of companies using publicly available data.² Twelve skill groups stood out in our analysis as the most powerful differentiators (Exhibit 1). Further, combining these talent pools in three different ways that align with a company's strategy appears to correlate with increased performance outcomes: companies that align with one of these combinations of capabilities generate 1.8 times the total return to shareholders (TRS) than their peers.

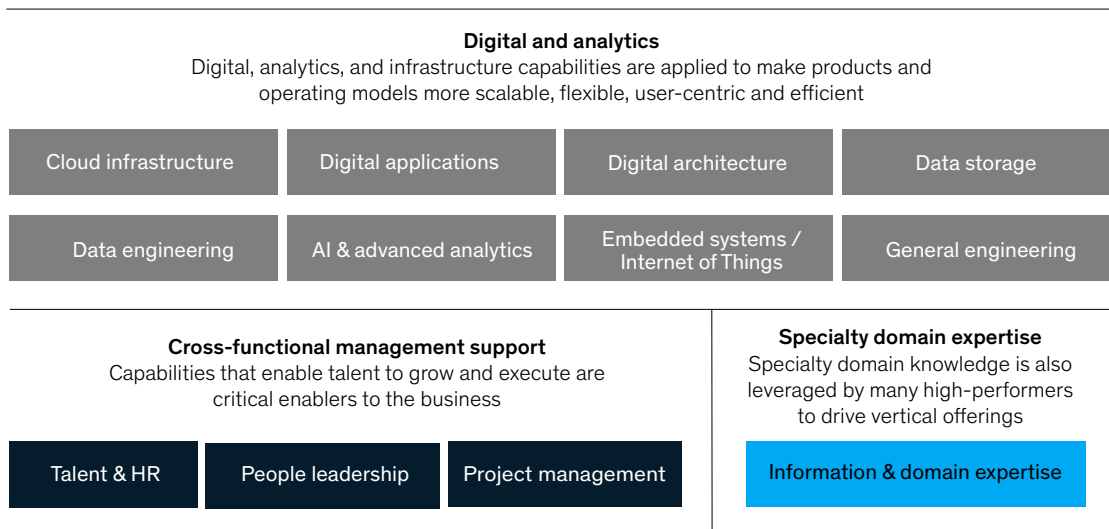
¹ McKinsey People Analytics

² Using public data on employee roles and skills, we analyzed talent at 120 technology, media, and telecommunications companies in the United States and Europe, and identified 27 overall capabilities. We measured the percentage of employees with each capability, and how overindexed or underindexed each capability was relative to its subsector peers within telecom, media, enterprise tech, and consumer tech. As measured by total return to shareholders, the top third of eligible public companies in each TMT subsector was combined with other organizations that are seen as leading players to create a set of 40 high performers. "Power capabilities" were identified based on which capabilities high performers most overindexed on in their current workforce, and which new capabilities were demanded. Talent combinations were identified based on a clustering model that grouped high-performing organizations with similar distribution of capabilities.

Exhibit 1

Twelve priority capabilities along three themes differentiate high performers across TMT.

Companies that lead in 6 or more have 1.8x higher TRS than those that lead in 1 to 5 of these capabilities, and 5.6x higher TRS than companies that don't lead in any capability.



Source: McKinsey analysis

Which kinds of talent matter most?

Of the dozen top capabilities we identified that correlate to increased performance, two-thirds relate to digital and analytics, as one would expect for the TMT sector. In addition to these vital technical skills, domain expertise also plays a role in high-performing companies' superior results. Such specialized knowledge appears to help enrich companies' industry-specific core content and product offerings, which can then be tailored for different subsets of users or customers within a specific industry vertical.

Our research also shows that several of the most important capabilities deal with the management of human capital itself—the basics of building and managing leaders, and of attracting, retaining, and developing talent. These areas cover both the effectiveness and efficiency of HR operations in the organization as well as the quality of leadership.

We also found that leading companies double down on certain of these top 12 capabilities. By looking at the rate of change in job posting data, we were able to isolate three skill groups that showed the strongest growth and potential trajectory for further disruption in the future: digital architecture,

embedded systems and internet of things (IoT), and advanced analytics and AI (Exhibit 2). These underlying technical disciplines appear to be more dynamic, and may shift with market and technology trends. By contrast, the industry expertise and functional skills such as HR capabilities seem to be more stable and here to stay as differentiators.

Notably, the capabilities that did not emerge in the top 12 include digital marketing and sales. Our findings indicate that digital marketing skills are not enough on their own—high performers distinguish themselves by using data analytics to enable next-level marketing approaches and strategies. Similarly, traditional sales skills alone are not enough to give companies an edge—high performers depend on new tools and innovative approaches to give salespeople broader reach and impact. This finding has been reinforced during the pandemic when the need to embrace digital and new ways of working has been higher than ever.

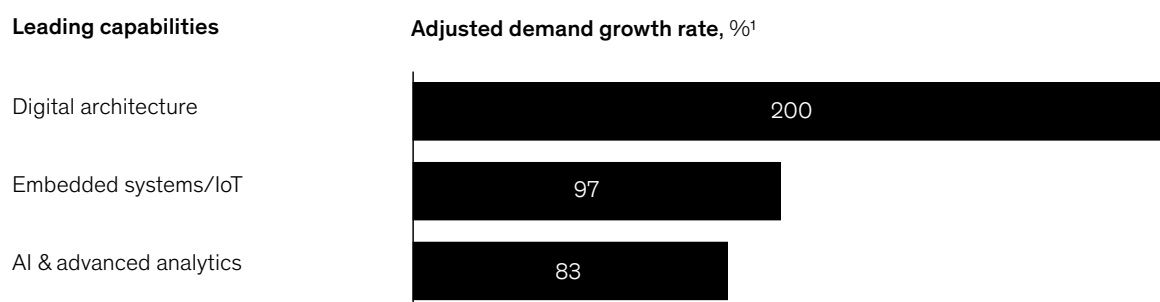
Potent capability combinations

For TMT players, investing in certain capabilities can pay off. Like powerful ingredients that catalyze each other, however, the way these capabilities are

Exhibit 2

Outperformers double down on certain capabilities.

Rate of change in job posting data shows three skill groups with strong growth and potential trajectory



¹Adjusted demand growth rate calculated by measuring the % increase in capabilities demanded in job postings between 2017 and 2019, adjusted downward by overall TMT industry job posting growth during the same period of 34%. Source: McKinsey analysis

combined greatly affects the ability to tap their full potential. Companies that do this well have talent strategies that look like business plans—they align with and support the larger organization’s agenda. These companies also have higher total return to shareholders.

To identify these combinations, we looked at companies across TMT irrespective of subsector that tended to put together certain capabilities in similar ways. We saw that these companies thought comprehensively about which capabilities complement each other, and how, as a result, they can integrate with and drive strategic objectives (Exhibit 3.) From this, we identified three potent combinations:

Digital innovators. Companies that use this mix of capabilities build scalable and secure digital infrastructure to deliver innovative digital products and services to customers. They prioritize cloud

infrastructure, digital applications, advanced analytics, information security, and embedded systems or IoT. Digital innovators win in the marketplace because they can launch new services and optimize current ones faster, and ward off competitive threats from start-ups and scale-ups. Companies in this category include Microsoft, Alphabet, Deutsche Telekom, Pure Storage, and VMware.

Execution and knowledge leaders. These companies combine functional excellence, domain expertise, and analytics to continuously improve operations, products, and services. They prioritize these along with core business processes such as finance, strategy, execution, and talent. Execution and knowledge leaders win on the strength of their management discipline—they tend to focus rigorously. Companies that fall into this bucket include Telstra, PayPal, S&P, Amazon, and DXC.

Exhibit 3

Outperforming companies combine specific talent capabilities to help achieve their strategic goals.

Companies that use certain combinations¹ of capabilities have generated 1.8x higher TRS than their peers.

Digital innovator



1. Data/cloud infrastructure
2. Digital applications
3. Information security
4. Embedded systems/Internet of Things
5. Digital architecture
6. Professional/consulting services
7. Data storage
8. Talent & HR
9. AI and advanced analytics
10. Creative multimedia

Execution and knowledge leader



1. Finance & accounting
2. Project management
3. Strategy
4. People leadership
5. Talent & HR
6. Information/domain expertise
7. Data storage
8. Government relations
9. Data engineering
10. Basic data analysis
11. Digital applications
12. Account/customer services
13. AI and advanced analytics
14. Digital architecture

Customer engagement engine



1. Digital marketing & personalization
2. Communication and public relations
3. Traditional marketing
4. Creative multimedia
5. Talent & HR
6. Information/domain expertise
7. Account/customer service
8. Marketing strategy & branding
9. Sales & sales ops
10. Digital architecture
11. Project management

¹Talent combinations were identified based on a clustering model that grouped high-performing organizations with similar distribution of capabilities. Three unique clusters were found. The list of capabilities in each are based on what high-performing companies overindex on compared to their sector-specific peers. Source: McKinsey analysis

Customer-engagement engines. Companies that use this combination of capabilities leverage digital and traditional marketing, sales, and branding to attract, retain, and fully own the customer relationship. Along with these capabilities, they also prioritize communications, account management, and creative multimedia. Customer engagement engines build such sticky customer relationships that competitors face headwinds when going up against them, even if the new product or service offers better quality. Companies that set the standard for this model are such stalwarts as Salesforce, Netflix, T-Mobile, and Sky.

Putting the leading capabilities to work

With so much at stake when it comes to human capital, leaders need a clear, repeatable approach to managing their talent and capabilities. We have seen that thriving organizations tend to pursue a number of actions on this front. They:

- Rigorously link their talent strategy to their business strategy.
- Prioritize key roles and capabilities that drive disproportionate value.
- Assess talent gaps through a rigorous, analytically-driven process.
- Fully explore the range of talent demand and supply levers available.
- Ensure they have the HR capabilities, such as business orientation and analytics to sustain change.

Here, we apply these principles to the specific skills and roles that our research identified as having value, and distilled them into five essential questions:

How frequently do your CFO and CHRO work to bring a joint perspective about where future value will be created and who is responsible for it? Getting the best people in the most important roles doesn't happen by chance; it requires first

and foremost top leaders to conduct a rigorous assessment of how the organization really creates value, and then a determination of where and how top talent contributes. As part of this process, the CFO and CHRO must allocate talent based on where value is created, which involves breaking down goals by territories, product areas, and business units. After disaggregating value in this granular fashion and hashing out potentially competing scenarios, the end result should be a value agenda summarized as a matrix attributing value by lever (growth and cost, intersected by business unit, or territory or product). This is laid out by our colleagues in their *McKinsey Quarterly* article "Linking talent to value" (April 2018).

When you do a talent review, do you only review your direct reports (and their directs) or the highest-value roles in the company? Assessing where the greatest potential value lies is only the start of this critical undertaking; deciding what specific roles and skills are necessary to realize that value is just as important. These roles are often in counterintuitive places within the organization, three or even more layers below the CEO, and pinpointing them means looking well beyond an org chart. A project manager or developer may not have direct reports, for instance, but they may play such a key role that overlooking them could be very costly.

Once leaders have identified the important roles, they need to do the hard work of figuring out who should fill them. Here, digital tools are critical to effectively assessing a wide breadth of internal candidates. At one telecom company, the application of this approach informed the reorganization and reassignment of responsibilities of the top team, including for a new chief data officer role. In addition, the company was able to dramatically increase objectivity in the succession-planning process.

Do you know the most critical capabilities you will need to drive your strategy, the gaps you will have in three years, and where that talent is working or being trained today? Beyond the most valuable roles, also determine the critical capabilities required to achieve the organization's vision and key

initiatives, and assess demand and supply of those capabilities. Think in terms of what you need, what you have, and what the gap is in between:

- *What you need.* Start with the list of 12 priority capabilities and the three successful combinations of them to see which, if any, closely fit your needs as well as what might be missing given your unique business strategy, and then prioritize which capabilities matter most. Focus on those that will help you build a sustainable competitive advantage. To forecast demand, determine the scale of each capability you need. Does 100 percent of your workforce need to be analytically savvy, or just 30 percent of your customer engagement and product operations teams, for example? Additionally, the most forward-looking organizations assess what capability demand might be satisfied by future automation potential, and where a 100 percent capability need today might eventually be satisfied by 50 percent given the automation investment. Be sure to engage business leaders and HR business partners in this process.
- *What you have.* Knowing where you are in relation to where you need to be is critical. The basic work to be done here is to take stock of the talent you have today and the talent you'll likely have in the future due to hiring, internal mobility, and attrition trends. Some organizations go deeper, to the skill level, scraping skill and job history data from internal sources such as résumés and external sources such as LinkedIn to develop searchable internal assessments tied to individual employees.
- *What the gap is.* Match demand and supply curves for priority job families and capabilities to determine where there is a shortage or surplus. Innovative leaders in this space use digital tools to interactively visualize gaps and plan out multiple scenarios. One media and information company followed this process to identify similarities in skill sets between roles and find opportunities to use overages from one role to fill shortages in another. From there the company took a closer look at the shortages in priority roles linked to jobs to be done and found

that many of the gaps could be filled with existing talent. This analysis helped unearth an opportunity to reskill approximately 1,500 employees, which resulted in a savings of about \$18 million.

Do you have a plan for the jobs that are changing and the jobs that will go away? As certain roles gain in importance and others fade, refining the talent mix also becomes more critical. Executives have many levers available for closing talent gaps, and they go beyond just hiring, firing, and automation. (For more on this, see our colleagues' McKinsey Quarterly article, "Are we long or short on talent?" January 2019) Companies have to determine which supply-side levers make sense for their particular circumstances: Should you build existing skills through upskilling and reskilling? Acquire talent one at a time, or all at once by buying a company? Or "rent" talent through contracting or gig workers? As the nature of work changes, skill shortages will arise that even the best upskilling or re-skilling programs cannot solve, and companies will have to choose how to redeploy workers or let them go thoughtfully. (For more, see the *McKinsey Quarterly* article, "Getting practical about the future of work," January 2020)

Do you have the critical enablers in place for this approach to talent strategy to succeed? Our finding that the cross-functional support skills of talent management and people leadership have higher value than others means that HR itself may well need to elevate and build its capabilities as strategic partners to the business. Depending on your HR function's maturity, you may need to develop more robust people analytics capabilities that use internal and external data to assess talent supply and demand, and build a strong learning and development engine to lead upskilling and reskilling. It is also critical that talent plans account for critical enablers such as change management and workplace cultural improvements that help attract and retain talent, including the equity and inclusion efforts that will enable them to attract a full range of candidates.

Technology, media, and telecommunications companies that are able to identify the right combinations of talent capabilities for their particular strategy stand to outperform their competitors and position themselves for the future landscape of human capital. Doing so requires a deep understanding of where future value is

created and which roles and capabilities are most critical to achieving it, along with a comprehensive plan for acquiring or developing the talent needed. Even with all of that in place, HR organizations themselves still need to hone and expand their own skills to be able to support and carry out such essential talent strategies.

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