

Organization Practice

# How to future-proof your organization

From project-based work to a lack of hierarchy, the way people work is changing fast. Organizations that plan for the postpandemic world are better able to deliver value—even amid uncertainty.



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**In this episode of *The McKinsey Podcast*,** Chris Gagnon and Elizabeth Mygatt talk about what it takes for companies to be “future ready” in the world after the COVID-19 pandemic. An edited version of the conversation follows.

**Diane Brady:** Hello and welcome to *The McKinsey Podcast*. I'm Diane Brady. While the future may be looking somewhat brighter as we emerge from the pandemic, it doesn't look a lot more predictable. So how does an organization prepare for that? How do we plan and organize for that? Joining me to discuss this are Chris Gagnon, a senior partner in Austin who leads McKinsey's global Organization Practice and Elizabeth Mygatt, an associate partner in Boston who advises companies across multiple sectors on organizational transformation. Welcome, Chris. Hi, Liz.

**Chris Gagnon:** Hi, Diane. It's great to be here.

**Elizabeth Mygatt:** Hi, Diane. Happy to be here today.

**Diane Brady:** Chris, when we talk about organizing for the future, which is a subject you've both been looking at quite a bit lately, can you tell me a little more about what we mean by that?

**Chris Gagnon:** Sure, I'd love to. And to do it, we'll take a little spin back in history. The most important thing McKinsey's ever written on organization was the 7-S framework. The article that first introduced the 7-S framework to the world was called “Structure is not organization.” It had a wonderful image of the Magritte painting of a pipe that said, “This is not a pipe.”

The point that Tom Peters and Bob Waterman [the article's authors] were making was that an org chart is a very, very incomplete description of how an organization works. An organization is a system. They had, at the time, seven things that each started with an S, and that remains a useful way to describe organizations.

But a lot has changed since the 1970s. We're seeing increasing experimentation and boldness in organizational models across the elements of the system. So we decided to take a new look at what are the elements of a system beyond its structure today.

## **COVID-19 and the acceleration of change**

**Diane Brady:** So Liz, when I think about the future, so much of what we write these days is cast in a prepandemic, postpandemic fashion. How much of your research is related to COVID-19 versus just the way the world's going?

**Elizabeth Mygatt:** A lot of this research we began well before COVID-19. But what we have seen is that COVID-19 has accelerated changes that were already under way. So for example, people were already seeking greater flexibility in their work. Automation and new technologies were already changing the way we worked and the skills we needed. We were stressed and overwhelmed to start with. And we were already experiencing meaningfully different shifts in millennials and Gen Zers. What we're seeing is four macrotrends that really inform how organizations have to evolve differently. They're around increasing connectivity, which is really undermining traditional power structures.

Certainly, COVID-19 forced a 100 percent operating-model environment and proved that remote- and hybrid-operating models could increase productivity—and indeed, could work better than anyone had ever anticipated. Meanwhile, you have lower transaction costs enabling people to collaborate better outside large organizations than within them, as well as unprecedented automation. In fact, COVID-19 really demonstrated that every business can now be a technology business, right? And then finally, we saw societal-expectation shifts, where the role of business in society is changing as a new generation rises. In fact, that new generation is also changing it.

They're expecting to be promoted more quickly to find purpose and meaning in their work, are willing to vote with their feet and shift organizations.

All of these things were evolving before the pandemic hit and were changing and informing how organizations had to respond. COVID-19 has accelerated and reinforced many of those.

**Chris Gagnon:** We're fortunate: we get to talk to organizations all over the world. This may be a slight exaggeration, but let me say, nobody really loves their operating model. People use different words. They describe it as too bureaucratic or too slow or too siloed. But it's hard to change. Inertia's an enormous force here.

While the pandemic accelerated experimentation, the underlying dynamic before COVID-19 is the important one; 30 years ago, if you looked around for bold org experiments, self-organizing teams, or open-book management, or whatever it is, you saw them in small companies. Today, you find them more often in the biggest winners in the world: the Amazons, the Facebooks, the Netfixes, the Bridgewater Associateses, the Haiers.

And it's really important to remember that we're in a winner-take-all world. It used to be that being kind of an average or above-average performer in most industries meant you got to make good money. Today, all the returns accrue to the top 20 percent or so of companies. So if that's what the top 20 percent of

companies are doing—if they're inventing a better way—and you want to be in that winners' group, this is the question that's got to be tackled.

## Competing in a winner-take-all world

**Diane Brady:** When you talk about that winner-take-all society that we're in right now, so much of it is anchored in technology and the advantages that they might have on data and with regard to AI. That's only one of the aspects you look at in terms of organizing for the future. Can you give me some sense as to what's important? If I'm a company that isn't Amazon or Google, can I even compete in this environment now?

**Chris Gagnon:** Of course you can. Listen, every company has to include technology. Technology is there to enable people. But I'll tell you, what's really important is people. An organization is designed to organize people and their work and their efforts. Almost all the things that we discuss as keys or imperatives can be enabled by technology, but they're designed to help people perform. At the heart of this thinking is humanism, not just technology.

**Elizabeth Mygatt:** As we get into the imperatives, you'll see most of them are about people: who we are, how we show up, how we see ourselves as part of a larger organization, how we collaborate. How we make decisions, how we show up as talent, and how we use the talent we have.

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What we're seeing is that the organizations that get this right are really experimenting and innovating boldly in how they set up people to be successful and to feel successful and empowered in their work and as part of the broader purpose. But then, in parallel, how do you think about technology and automation facilitating that and amplifying it?

So it's very much two sides of the same coin. And we certainly see many technology companies doing very, very well. But part of why they're doing well is because of the way they are deploying and organizing and delighting and inspiring the people in their organizations.

## Taking a stance on purpose

**Diane Brady:** Let's get into what we can learn from some of these successful companies, whether they're next-generation companies or companies that have just pivoted in this environment. The first imperative is one that I have heard a lot about—which seems logical but difficult to do—which is to take a stance on purpose. Who does that well and why?

**Elizabeth Mygatt:** I might actually pull us back one minute before we dive into purpose because we actually thought about the imperatives in three buckets or categories.

**Diane Brady:** Sure. Let's do that.

**Elizabeth Mygatt:** I think about addressing the first three as identity imperatives. Purpose is certainly at the core of that. It guides our decisions from the board room to the front line. We see over 80 percent of employees reporting it as important to have a purpose, but less than half report their company's purpose actually driving impact. So the essence of why we exist is really, really important. Increasingly, we're seeing that organizations need to take a resonant stance on purpose.

In addition to the why is a bit of the what and the how. When we think about how is value created, how is an organization's mission advanced? Really get clear on how you set up your organization around the

stuff you need to be really good at in a differentiated way so that your focused value agenda mobilizes resources to focus on matters with the capabilities and the talent required to actually be successful and outperform the competition. Value—and getting clear on your value agenda—is also a really key piece of this.

And then, finally, culture. How do you run the place? What is the secret sauce? Every organization has a culture. What we are seeing is that many of the leading organizations have a culture that's distinctly different. It's not for everyone. But it has distinctive elements that are going to draw the kind of talent and capabilities they need to advance what they're trying to do.

**Chris Gagnon:** On the subject of purpose, we heard very different things from leaders. There are some leaders who believe that they have a personal, social mission, and it becomes that of the organization. It's really parallel to shareholder value. That's actually a pretty small group. There's another group, though, that says, "Boy, if all we stand for is creating shareholder value, we won't get our fair share of talent." We need to be more explicit about what our objective functions are across those.

I find value, personally, one of the most fascinating things here. One of the great mysteries of the past 50 years has been the success of private equity. In fact, private equity regularly buys and sells companies to and from the public markets and outperforms with them. You try to figure out why. All the rationales break down. They don't necessarily invest more. They don't necessarily get executives with better resumes. The only thing that holds up is they are crystal clear about their value-creation plan.

I don't want to say something as high minded as "strategy." I want to be mathematical. For example, "We bought a company for \$2 billion. We're going to make it worth \$5 billion. And here's where the \$3 billion is going to come from." And it's a list of things, ten or 12 long, that human beings can understand. And boy, if you want human beings to perform, one of the best things you can do is be

clear with them about what you're trying to accomplish. And then they can fill in how they do their jobs to make that happen in the best way.

## Testing the strength of organizational purpose

**Diane Brady:** Are the best companies evolving on some front with regard to purpose, value, and culture?

**Chris Gagnon:** This is about conscious aspiration. Look at the Amazon leadership model. It does not look like something that's posted on the wall of a traditional corporation. Look at the wonderful document that many, many people will have seen online about Netflix's culture and how they try to treat each other. Read Ray Dalio's book about principles.

Now, you can agree or disagree with any of those. In fact, I would argue they're not worth much unless you could agree or disagree violently with them. But those are people having real conscious decisions about who they want to be and how they want to act. And just like in our individual lives, I would submit that's a really good thing to do.

**Elizabeth Mygatt:** I would probably go one step further. It's not enough to make it feel good. But if, in fact, it doesn't inform decisions—and hard decisions at an organizational level—it's probably not a strong enough purpose, and people are going to walk away because it's not going to resonate for them.

So as one example, think about predictable dilemmas or hard trade-offs that organizations need to make and moments when that purpose can inform it. So for example, CVS. They exited the tobacco business because they are a health company. The tobacco business is a big business, right? They had to say no to a pretty meaningful stream of revenue and business and consumers there. But it was not consistent with their purpose. It wasn't consistent with their identity. So they made a decision, right? People look at that and they say, "OK. I actually

know that CVS is literally putting its money where its mouth is."

So examples like that, not only is it about identity, not only is it about an individual feeling like their own purpose is resonant with that of the organization's, but we actually see the company walking the walk and making hard decisions informed by and guided by the purpose.

## Why great companies have distinctive cultures

**Diane Brady:** One of the things that's always fascinated me is culture. Every CEO talks about culture and the importance of it. Yet it is so hard to measure and not really something that can be a top-down initiative. What do you see the top quartile of companies or cultures doing differently?

**Chris Gagnon:** Wow. I'm going to answer that by disagreeing with almost everything you just said in the question. This is going to be fun. Let me tell a story, though, to lead into it. I do something with audiences all the time, which is to put up a slide with some of the best and most well-known business books of the last ten years. So *Good to Great's* up there, and *The Toyota Way* and *Execution* by Larry Bossidy. And I ask the audience, "Who's right? What do we think good management is?" Because those seem like interesting questions, right?

**Diane Brady:** What do they say?

**Chris Gagnon:** Interestingly, they say lots of things. Sometimes we say there are no right or wrong answers. Here there are actually right or wrong answers. We've been measuring cultures with the Organizational Health Index [OHI] for 15 years now. And we know that the companies that score in the top quartile of OHI have two-and-a-half or three times the performance of those in the median. Furthermore, what we know is that to score in the top quartile, you have to have a culture that stands for something. So what doesn't work is reading a little bit of every one of those books



and putting them together, which is what so many companies do.

They have executives pass through. They've read books. They've started initiatives. They've probably been influenced by consultants. You have a management system, which is mush. The best companies have a distinct philosophy. At Toyota, the Toyota way is around continuous improvement. That's not the way Apple runs themselves, right? They're in really competing markets. Apple's a market shaper. They think about innovation and market data. The way those two companies spend their time is completely different.

The success of hallmark cultures is that they read one of these groups of books that hung together with a consistent philosophy, and they really, really stuck with it. A little bit of best practice here, a little bit of best practice there will get you killed.

**Diane Brady:** So it is the personality basically set from the top?

**Chris Gagnon:** Yeah. I think this is measurable. And if not set from the top, it certainly can be led from the top. People need to get it in the core of who they are. That's why we'll talk about talent assessment being so important. It's not enough to have good people. It's not enough to just have many people who fit. But if I were to lay out the requirements for a great leader, having a clear cultural aspiration and a plan to drive it through the organization would be really near the top of my list.

**Diane Brady:** Liz, do you want to add to that?

**Elizabeth Mygatt:** I would love to add to the concept of "mush" because it's a good one—or maybe a bad one. So you think about what makes a culture compelling: a couple of distinctive, different, noticeable practices.

McKinsey's a great example, right? McKinsey's culture isn't for everyone. But for the people who are here and who stay here, there are a bunch of

very consistent cultural practices that work and that make it work for teams to come together having never met each other and be jelling within a day.

Similarly, if you think about Bridgewater, they're very known for radical transparency. You put people in the middle of a circle, and you have super transparent performance reviews. This would make many people's skin crawl, right? But for the people who are there, they learn from it. They thrive on it. It's a key piece of what allows them to do their business well.

Amazon's got these leadership principles that I see many others sort of adopting from, whether it's customer obsession, whether it's having a backbone, whether it's disagreeing and committing. Disagree and commit, for example, is something that I have a couple of clients who have absorbed for themselves. Because it's really distinctive. A simple practice like that really changes how the business functions. It changes how decisions get made. It changes how the place gets run.

None of these things are mush. They are sharp practices. People notice them. They also allow you to get the talent you need because top talent likely isn't going to go to a place with a middle-of-the-road culture that doesn't really stand for anything and isn't exciting.

## The competitive advantage of diverse organizations

**Diane Brady:** It's fascinating. One of the challenges with culture or values has been the sense that it hasn't been inclusive, for example, of all stakeholders. Cultural fit can sometimes be shorthand for "people like me."

When we think about the importance of diversity, inclusion, broader stakeholders within a culture, can you accommodate that? The cultures you talk about, for example, are very distinct cultures. How do we kind of move to where the world's going, which is we basically have to answer to more masters? Chris?

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—Elizabeth Mygatt

**Chris Gagnon:** Yeah. I would argue that we not only can but that we have to. Let me tell you why. The first argument for diversity and equity and inclusion is just the human argument. It is the right thing to do. Sometimes I feel like that should be enough. If we don’t stand for being fair to human beings, I don’t know what to stand for.

But let me proceed to the case, which is, cultures that are cohesive in the way you described—we all look alike, we all think alike, we all have the same accent—do better, actually, in certain circumstances. They do better as long as the world is really stable and the challenge is very stable. That’s not the case for almost any company in the world. So to manage change, you need diversity of perspective and style.

Now that diversity of perspective and style has to all fit within a management system. And people will select those. I don’t think the way they select them will sort out on race, creed, color, gender, or sexual preference. Some people will fit at Bridgewater, and some people will fit at Amazon, and some people won’t. But that’s a selection process about human beings, not about surface characteristics.

**Elizabeth Mygatt:** Let me share one more thought on the diversity piece. There are lots of good

arguments for just how much talent is lost when you don’t take a full-spectrum perspective. But there’s also research around how diversity can actually really enhance decision making—internal decisions, external decisions.

### Moving beyond the org chart

**Diane Brady:** What does it mean to be radically flat? That is also one of the imperatives, which I know gets into more of the kind of operational aspects of being future ready. Talk a bit about that.

**Elizabeth Mygatt:** On the structure piece, this is one that we actually struggled with. We saw so many different examples of how organizations were behaving.

On the one hand, and we see this quite a bit with COVID-19, you have organizations dissolving into networks of teams or agile teams. As COVID-19 unfolded, instead of people doing their normal day job, they would show up in a morning huddle and figure out what was the job to be done that day or that week. You figured out who needed to be deployed against it. Those people went off and focused on that. When they were done, they came back. You have teams of teams with the right

resources. And you have a fair bit of fluidity in the organizational structure and much more focus on the mission and the outcomes.

On the other end, we also see organizations radically getting flatter. Instead of having typical spans of five to eight to ten to 12, you see spans as big as 30 and even higher because of how organizations are reconceiving management.

**Diane Brady:** For those who don't know, can you define what we mean by "spans"?

**Elizabeth Mygatt:** In a typical organization, you might have a manager who has five direct reports or eight direct reports. Or if she's managing a customer-service center, she might have ten, 15, 20 direct reports on her team. You might see similar spans in nursing units, for example. Rarely, though, did we see spans of larger than 15 or so because there are human limits as to how much time you can actually spend helping teams figure out what they need to be doing. Now we see, in a number of agile organizations, there's spans of up to 50. People are just very clear on what they need to do, and they go and do it.

When you think about how an organization is set up, an executive might reach reflexively for an org chart. But that doesn't actually describe what people are doing. More and more, as project work becomes more important, there are a whole bunch of other dynamics that actually describe the work people are doing and how they're spending their time. So what we're seeing is many other mechanisms, like decision making, like having a clear value agenda, like culture, that are really informing how work is happening. Hierarchy takes a back seat. It doesn't disappear. Humans like hierarchy. But it does become less of the command-and-control, top-down, simple way we draw the organization.

## Flexibility in decision making and the lessons of the COVID-19 crisis

**Diane Brady:** I've heard "helix organization," "matrix." Those are terms I've certainly heard and seen around McKinsey. Is that best in practice?

**Chris Gagnon:** McKinsey actually helped a lot of clients invent the matrix. It was enormously powerful for a long time because it let you operate on more than one business-unit dimension at once. Today, even two's not enough. So I've got bad news for anybody listening to this podcast. You are stuck with business units, functions, geographies, customer segments, and initiatives. There's no structural way out of it. There is no magic, right answer. You pick the ones you want to emphasize at any moment in time. You try to do that with some sense. But you're still stuck managing across all those dimensions. The world dictates it.

**Elizabeth Mygatt:** If we take the human lens, it is very hard for anyone to conceive of more than about three dimensions. So if you think about four, five, six dimensions, all of a sudden, you are really stuck in a pickle because it's very hard to figure out what to do and who to answer to.

**Diane Brady:** We shut down.

**Chris Gagnon:** Yeah. So what do we need? We need ways for people to deploy flexibly in team-based ways to tackle things. We need ways to make decisions. And on the balance of making decisions with super accuracy or speed, I'll tell you, the balance is moving toward speed and then getting the right people involved.

Structurally though, to Liz's point, we had a huge set of learnings during COVID-19. One of the reasons we had managers was to manage people. We assumed if we didn't manage them, they wouldn't work very hard. Then we went to the COVID-19 world. And if anybody knows anyone who hasn't worked very hard for the past year, please send them to me. Because we've been looking for them, and we haven't found them. We don't know a single company where they would say, "Boy, we let our people work remotely, and they all goofed off." So managing people to keep them working hard is a really bad justification. But because of it, we trapped lots of great people in middle management.

We brought you into companies. If you did well, we promoted you to management. And management—



I'm going to be a little flip here—often turned into preparing reports to go into the recommendations to the steering committee for the spreadsheet before the orderly budget update, right? Nobody really wants to spend their time that way. But COVID-19 happened, and we all moved to a Zoom world.

I don't know about you, but most of the folks I talk to can see either nine or 12 or 16 people on a screen, and that's all that really need to be in the meeting. If you're looking at nine people there, who should be there? How about the people who are doing the work and know what's going on and the people who can make big decisions? So the world really took a lot of people who were stuck in very staff-like positions and moved them into being doers or deciders. And the world got better, and everybody got happier.

### Developing and retaining talent

**Diane Brady:** What is the role of talent right now? And how do people manage it to be ready for this very unpredictable future, COVID-19 or not?

**Elizabeth Mygatt:** Your word “unpredictable” is really important, and it can actually govern a lot of this. As we thought about talent, the big theme

here was recognizing that talent is, in fact, a scarcer capital than financial capital. It used to be that you could get the talent you needed, but financial support was hard to come by. Now it's largely reversed. For most organizations you talk to, what's top of their list? What keeps them up at night? It's the question, “Do we have the talent to deliver on our strategy, to meet our customers' needs?”

So as we think about unpredictability, there are a few pieces. One, as you get clear on your value agenda, how do you get the right talent in the roles that matter and drive disproportionate value? How do you get that right today? Then how do you get it right in two months or six months or a year? So the dynamism of it is really important. This mapping of talent to value, which is something we talk about quite a bit beyond this, is a really key piece. How do you get the right folks in the right roles at the right time that really, really matter? And then how are you able to move it around? That's one piece.

A second piece is, how do you develop signature employee experiences and make sure that the experience itself is building, developing, retaining, delighting your people because this is something that matters over time, right? We recognize that talent is hard to come by. When you find the

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talent you need, try and keep them as best you can. Recognizing that employee experience is increasingly important. Organizations have become much savvier at doing that.

The third piece here is really getting much sharper around the HR function. How do you build an analytical, data-driven powerhouse that's really there to deploy your talent, your talent engine, in the ways that matter most to your business? Recognizing that HR and the talent capital is one of your most important assets—for some organizations, it's your only asset—is really key.

**Chris Gagnon:** This is a revolutionary moment in HR, to Liz's question. If you talk to CEOs, there are a number of surveys out that say they think HR and talent are their number-one priority. If you ask them about their confidence in their own HR department's ability to tackle it, it's really, really low.

The reason for that is too many companies think about talent for talent's sake. "Are we a nice place to work?" is the starting question. When I meet a new client, my test for this is always to ask when talent gets discussed in the executive committee or board meeting. If the answer is "at the end of the meeting, if there's time," you know you're stuck in this hole. But when you connect talent to that value agenda, magical things happen.

The HR staff becomes the equivalent of the finance staff, except they really do control the most important asset: the human talent to get things done. They get much more demanding about having the right person in the right role, not just at the executive team, but I can't tell you how often the key roles that are controlling value are *n* minus two, three, four in the organization. The difference between having the right person and the wrong person can be hundreds of millions of dollars of value.

When you get the right people in, there's where magic really happens because those people won't

put up with whatever's dysfunctional in your organization. If the processes are too slow, if decision authorities aren't right, if the culture isn't aligned, you're going to hear from those performers trying to drive performance. If you get the value agenda and the talent thing right, it sort of forces you to resolve a bunch of other issues.

## The importance of teamwork and building partnerships

**Diane Brady:** It gets into how we grow. I remember a CEO many years ago telling me, "Diane, the future company could be a CEO and, let's say, a CFO. And everyone else, they don't need to own, because they'll be part of an ecosystem." I'm intrigued by how talent plays into what you also write about with regard to ecosystems as a driver of growth going forward. When we talk about talent, do we need to own them, or is it about having them in our orbit? Liz?

**Elizabeth Mygatt:** Having them in your orbit is often enough, right? You think about the rise of the gig economy. And certainly, this has been impacted by COVID-19. But many, many people were choosing to work gig jobs because of the increased flexibility and freedom it afforded.

Organizations like Apple don't do their own manufacturing: iPhones are huge, I have one right next to me, but they don't actually own that. They work with partners to do that. Owning the resources in a world where transaction costs are falling is actually no longer as important. Being able to play well with others in the sandbox and really build privileged partnerships, really learn how to navigate and manage the ecosystem, becomes increasingly important.

COVID-19 is a great example of showing how companies were coming together in the ecosystem. So beyond just gig economies or privileged partnerships in the supply chain and broader in the ecosystem, you had public-private partnerships

coming together around vaccine manufacturing and distribution. You had healthcare organizations and auto plants coming together to increase the productivity or the production of ventilators early on. Just thinking about the lowering boundaries and the importance of being able to blur boundaries really came into focus during COVID-19. But it has massive implications for talent and partnerships as well.

**Chris Gagnon:** I love that, Liz. Some of the most fascinating experiments we're seeing are in this area for two reasons. One is the bigger an organization you have, the harder it is to organize it and make its culture special, right? The more complexities you're trying to fit in, the more people, the more variants you've got. If you can keep your organization small, focused, and elite, the chance that your secret sauce is going to have some magic goes up. But second, there's a great organizing principle that some companies are taking advantage of, which is: markets work.

A fascinating company to look at is Haier, the white-goods company in China. Zappos has also done something similar around disaggregating their organization into almost small subcompanies that work together contracting but treat each other more like customers, suppliers, and partners who have to find a way to work together because they're trying to perform, than corporate citizens who have to somehow play according to some rule book. There's a lot that getting that kind of market tension in between units can really help. So we're going to see more and more experimentation around disintegration of the talent base and leverage of the ecosystem.

**Diane Brady:** Right. We've been talking about ecosystems for years. So it is interesting to think it's more about the evolution of the ecosystem now, isn't it? What is it that we've learned that has not worked?

**Chris Gagnon:** Let me start with one. We talked earlier about the decline in importance of hierarchy in managing work and teams. That is not to say that

hierarchy isn't required. Hierarchy is absolutely a functional part of organizations. It's how a direction gets set. It's how the most important decisions get made. So one thing that's failed is kind of new age self-organization, "We'll all just figure this out together." I don't know of a single company that I consider wildly successful and deeply empowering of its employees that doesn't have strong leadership.

## Using data and technology to create value

**Diane Brady:** So let me ask about data. We've talked a lot in the org practice—and beyond, about AI, the future of work. That is obviously a big factor in how companies grow. This seems like the winner-take-all category here. She who has the best platform wins. Liz, I'm sure it's more than that.

**Elizabeth Mygatt:** I think it is more than that. There's an ecosystem element here. Certainly, some of the big tech players have been enormously successful, which is part of why they're doing well, right? But another thing we see is that organizations are looking beyond the confines of their organization to think through the data they need.

Think about healthcare organizations that are thinking about data they have internally and data they have access to in the broader ecosystem. How do you amass the data you need, whether or not you own it, to help inform the decisions you make and the moves you make, the strategy you take? Two, how do you streamline your business processes, as we were talking about earlier: having technology and platforms underpin and help the people in an organization move in sort of an elegant, coordinated way?

Many of the challenges we see organizations facing are around processes that don't work, that don't talk to each other; data sets that don't work, don't talk to each other; people that don't work, don't talk to each other. So how do we use platforms and technology and people to get better at having different parts of the organization really talk to each other, inform each other, build insights together?

**‘Making hiring decisions with data is a great place to start. We’re so much better off today using forensic, due-diligence, big data, and online-assessment tools.’**

–Chris Gagnon

**Chris Gagnon:** I'll give you a couple of examples there. The winners are clearly thinking about what information they want to own. And they assign value to it in advance of when they can commercialize it. And they do that by imagining customer value. I teased one client who I was close with. And I said, “If our business was running Amazon, we’d have a committee debating book recommendations,” right?

**Diane Brady:** Try Harry Potter. It sells.

**Chris Gagnon:** Exactly right. But second is bringing a data-centric mind. I'll give you the first place I would start, which is in human-talent decisions. Why do I say that? There are so many shout-outs we should give during this, but a huge one goes to Daniel Kahneman. If anybody listening to the podcast hasn't read *Thinking Fast and Slow*, you should.

We've known for a long time that interviewing people is a terrible way to make hiring decisions. It's not very accurate. It's subject to all the biases we were concerned about earlier. One of our good friends and champions of the world, Sandy Ogg, says, “We spend all this money trying to decide on investment decisions. And then when it comes time to talk about the people who run the asset, we talk to them for 45 minutes and say, ‘You know what? Seemed like a good guy.’”

**Diane Brady:** “You remind me of me at 23.”

**Chris Gagnon:** Exactly. It's more often a “good guy” than a “good gal” when you do it that way, right? Making hiring decisions with data is a great place to start. We're so much better off today using forensic, due-diligence, big data, and online-assessment tools. And you see that in the hiring processes of, I would guess, 90 percent of the companies we looked at and admire.

## **Why continuous learning matters**

**Diane Brady:** This last one fascinates me: learning. My first reaction is, “I'm from HR, and I'm here to help.” We are rethinking what it means to learn because it has a bit of a bad rep sometimes within companies. Can you talk a bit about that, Liz?

**Elizabeth Mygatt:** When we think about learning, why does it matter, right? It isn't because people spend a little bit of time each year in classes and coursework and checking boxes. It's because so many of the jobs that will exist in 2030 literally don't exist yet. The educational institutions around us aren't necessarily fully geared up to deliver those skills.

So a key piece of this is really understanding: What are the skills, and therefore skill gaps, that we're

going to need to deliver on our strategy? And then, how do we set it up internally, or sometimes externally, to make sure that we have those skills and capabilities in our talent pool when we need them?

It's an ever-moving target. It's not just about knowing the skills you're going to need and being able to cultivate them. It's also actually being able to learn to learn as leaders, as individuals, and as organizations because the world is moving so, so fast that if you are really good at what you do right now but you can't become good at something new, you're likely going to get stuck.

## How organizations can go big and bold

**Diane Brady:** Hiring for potential: What advice do you have?

**Chris Gagnon:** I would personally take away a couple of things from our research. The first is that structuring any organization is a design challenge. It is a challenge of imagination, of aspiration, and of coherence. So thinking about the organization as a system—and spending time designing it—is a worthwhile exercise for the leadership team.

If I said, “I can't do everything at once, but I want to start making traction, and I want to move as fast as I can,” I would center on a couple of plays. One is, I would think about the value agenda as though a private-equity firm had just bought my company. What would we be working on if we were trying to triple our value in five years? Answering that question in a really finite way, with dollar values next to ideas and initiatives, is a really good thing to do.

The second thing I would do is, I would get the best talent I can possibly put my hands on next to every one of those initiatives. Because if I get great people against the right initiatives, as we said earlier, they'll force us to sort out a lot of the inelegances that are in any organization system.

Last, I'd have a bias for speed. I would wire my company to make decisions faster unless there was a really good way not to. We all err on the side of

too much staff work, too slow. It's very hard to make the error the other way. If you haven't read Jeff Bezos's annual letter that talks about this, it is one of the few must-read pieces of the last decade. So that would be my third.

**Elizabeth Mygatt:** It's not just the Amazons of the world that are doing this. When we looked at 30 US companies across the ten industries that own the most economic profit, they were doing many of the things that Chris said. But it wasn't only those things. The thing we see, and the thing I'd encourage organizations to do, is to pick a couple of areas where you want to go big and go be bold there. Innovate, experiment, see what works, and scale the stuff that does because that is one of the ways you get crisp on what you're trying to do, who you are, how you show up, how you organize. It also is ultimately what's going to allow you to build that distinctive culture, that distinctive way of organizing, that's going to ultimately be helpful in the long run.

**Chris Gagnon:** Liz, I love that one. I want to share two stories from the COVID-19 world that have continued to inspire me. One was a company that had a plan, and this is not a technology company. They had a plan to go to curbside delivery. Their project plan was an 18-month plan to get through the pilot. When COVID-19 hit, they went live in two weeks. The CEO looked at me and said, “I don't know if 18 months was the right plan. And I don't know if two weeks is right. But how do I think about all the other projects that are going too slow in our company?”

The second was a meeting with a mining company, about as low technology a business as you can get, digging stuff out of the ground. They showed me a chart that showed plant productivity relative to the amount of supervision they could get back to work. And there was a straight trend line. And I said, “That's not very interesting.” And they said, “That's because you can't read very well, Chris. We inverted the scale. The less supervision we had come back, the higher productivity was. What do we do about that?”

Now listen, these were special times. There are a lot of heroics that have been going on. But we've all got to realize that the dynamics of running companies in the '50s, '60s, and '70s aren't the dynamics today. There's a lot more risk from sitting still, doing things the old way, than there is from doing what Liz says and trying your own experiments to be bold in some new ways.

**Diane Brady:** The words that come to mind for me are “disrupt or be disrupted”; I guess that would be one of the big takeaways here. And a fascinating piece. So Chris Gagnon, Liz Mygatt, thank you very much for joining us.

**Chris Gagnon:** Thank you.

**Elizabeth Mygatt:** Thanks, Diane.

**Diane Brady:** And thanks to you, the listener. I hope that you do check out their piece on the future-ready company on McKinsey.com. In addition to the articles, there are some really terrific graphics that really bring this to life. I'm Diane Brady. Look forward to seeing you next time. And good luck in getting ready for the future.

**Chris Gagnon** is a senior partner in McKinsey's Austin office, and **Elizabeth Mygatt** is an associate partner in the Boston office. **Diane Brady** is an alumna of McKinsey's New York office.

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