McKinsey Global Survey results

# Building capabilities for performance

*The capabilities that companies need most have evolved, but companies' methods to build those skills have not. The most effective companies focus more than others on sustaining skills and linking learning to business performance.*

**Capability building has remained a high strategic priority** since we first surveyed executives on organizational capabilities in 2010. Four years later, many companies are using the same approaches to learning and skill development—namely, on-the-job teaching—that were most common in the earlier survey. Yet the responses to our latest survey on the topic[1] suggest that organizations, to perform at their best, now focus on a different set of capabilities[2] and different groups of employees to develop.

Amid their evolving needs and infrequent use of more novel skill-building approaches (digital or experiential learning methods, for example), executives report notable challenges in their capability-building programs. Among the most pressing are a lack of learning-related metrics and difficulty ensuring the continuous improvement of skills. In the results from organizations that are most effective at capability building,[3] however, are some lessons for improvement. Respondents at these companies are much likelier than others to say sustaining capabilities over time and linking learning to company performance are integral parts of their capability-building programs. They typically use more methods than others to develop employee skills, more often say their human-resources functions and businesses

[1] The online survey was in the field from May 6 to May 16, 2014, and garnered responses from 1,448 executives representing the full range of regions, industries, company sizes, functional specialties, and tenures. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

[2] We define *institutional* capabilities as all skills, processes, tools, and systems that an organization uses as a whole to drive meaningful business results. *Individual* capabilities refer to training, learning, or specific skills.

[3] Respondents who say capability building is a top or top-three strategic priority at their organizations and that their organizations' learning programs for frontline staff and company leaders are very effective at preparing them to drive business performance.

co-own learning, more often use metrics to assess the impact of their programs on the business, and in turn report more success at meeting their programs' targets.

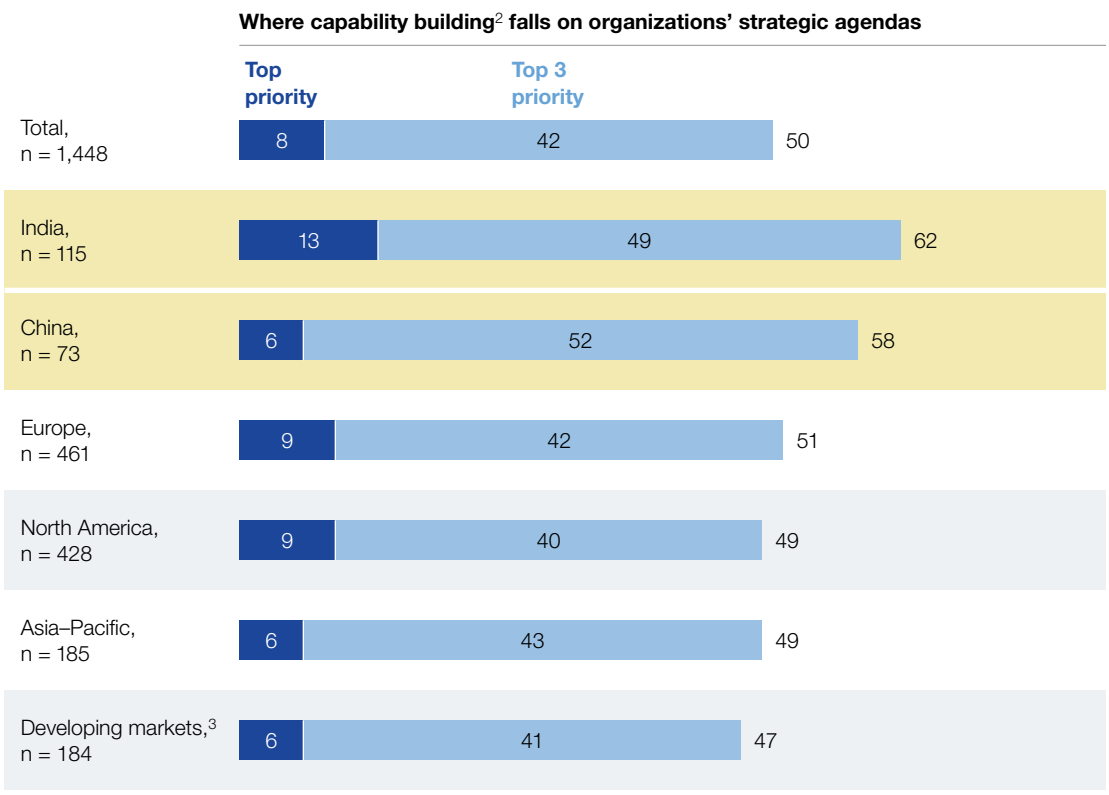
### New focus on functional capabilities and the front line

The strategic importance of capabilities is apparent around the globe: half of all respondents this year say capability building is at least a top-three priority at their companies. It's even more significant in parts of Asia, particularly in India and China (Exhibit 1). This finding supports our experience with fast-growing organizations in the region, which face notable

Exhibit 1

**Half of executives rate capability building as one of their companies' top-three priorities.**

% of respondents,[1] by office location



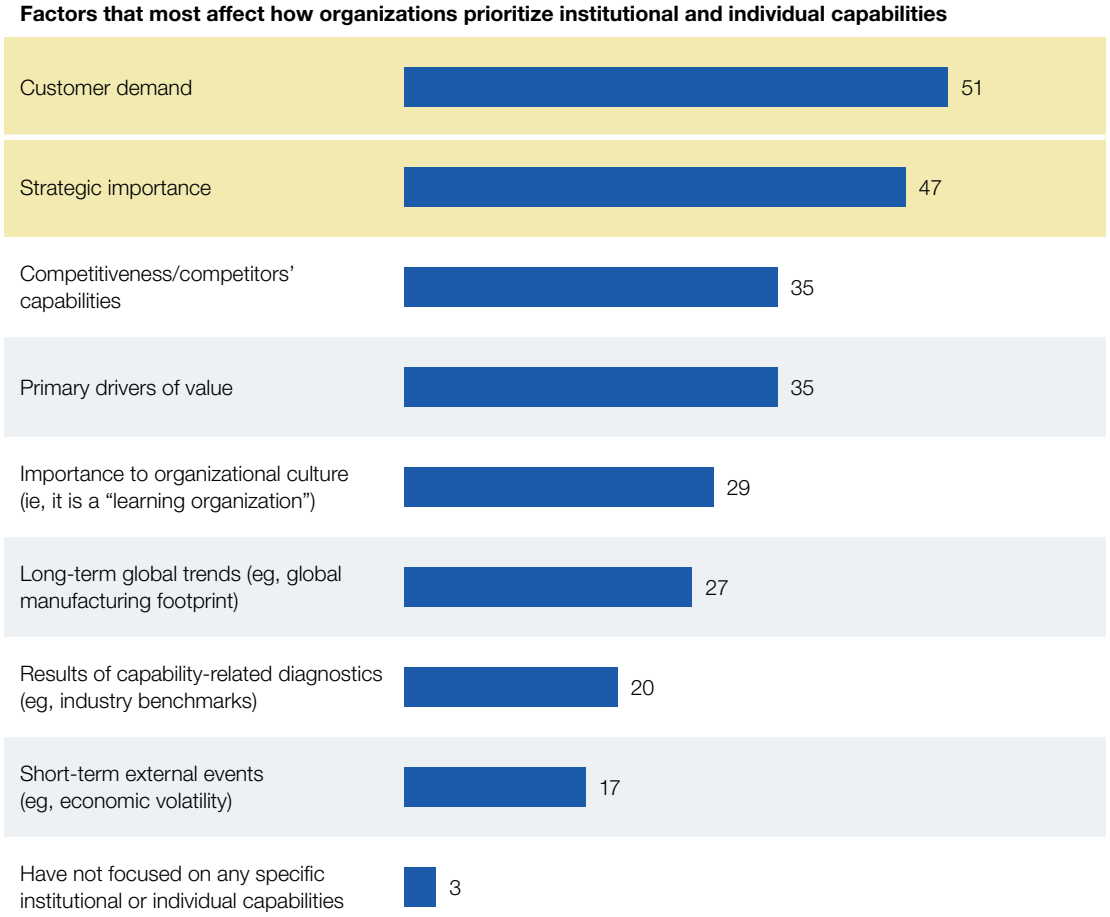

[1] Respondents who answered "among the top 10 priorities," "not a priority," and "don't know" are not shown.
[2] Includes both institutional and individual capabilities.
[3] Includes Latin America.

capability gaps as they expand. Regardless of region, though, most executives agree that they are not building capabilities for purely competitive reasons. They most often cite customer demand and strategic importance as the factors their companies consider when prioritizing capabilities (Exhibit 2). Company culture and the results from standardized diagnostics rate lower.

Exhibit 2

## When deciding which capabilities to build, companies most often consider customer demand and strategic importance.

% of respondents,[1] n = 1,239




[1] Respondents who answered "other" or "don't know" are not shown.

Although the high priority placed on capabilities is consistent with the 2010 results,[4] this year's respondents identify changes in capability-related needs and challenges. On one hand, executives still believe leadership skills contribute most to their companies' business performance—and at the companies we define as effective capability builders, executives are twice as likely as others to rank leadership skills first. Yet functional capabilities now rank second, replacing sector-specific capabilities in our earlier survey.[5] Among specific functional capabilities, executives most often identify skills in strategy, operations, and marketing and sales as the most important to business performance.

Organizations have also shifted the focus of their spending on capability building (Exhibit 3). Thirty-three percent of respondents now rank frontline employees first as the group with

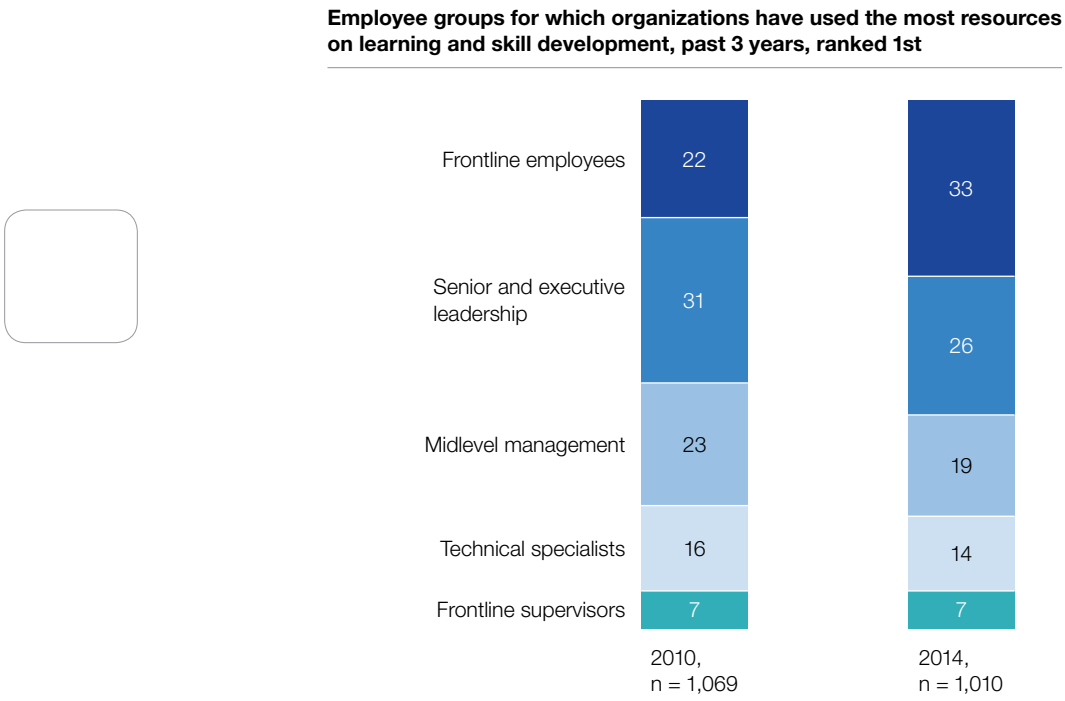
[4] See Liz Gryger, Tom Saar, and Patti Schaar, "Building organizational capabilities: McKinsey Global Survey results," March 2010, mckinsey.com.

[5] In 2014, 31 percent of respondents ranked functional capabilities as contributing most to their business performance, behind leadership capabilities (35 percent), while 10 percent said the same for sector-specific capabilities. In 2010, 19 percent ranked functional capabilities first, and 26 percent ranked sector-specific capabilities first.

Exhibit 3

## Since 2010, companies have shifted their capability-building spending to focus more on frontline employees.

% of respondents[1]




[1] Figures were recalculated after removing responses from those who said, "Spending is roughly equal across these groups," and may not sum to 100%, because of rounding.

the most resources for learning and skill development (up from 22 percent in 2010), followed by senior and executive leaders as a spending priority.

### Untapped potential in assessment and program design

The results indicate that today, few organizations have a robust approach to assessing their current capabilities and identifying skill gaps. Only 18 percent of all respondents—and 24 percent of effective capability builders—say their organizations use structured, objective third-party diagnostics to do so. Instead, manager assessments and self-assessments are the most popular methods of identifying capability needs, even though our experience suggests that the quality of initial diagnostics influences companies' ability to design effective and targeted learning programs.

And despite their changing needs, executives tend to say their organizations rely on the same methods to deliver learning and build skills as they did four years ago. On-the-job teaching

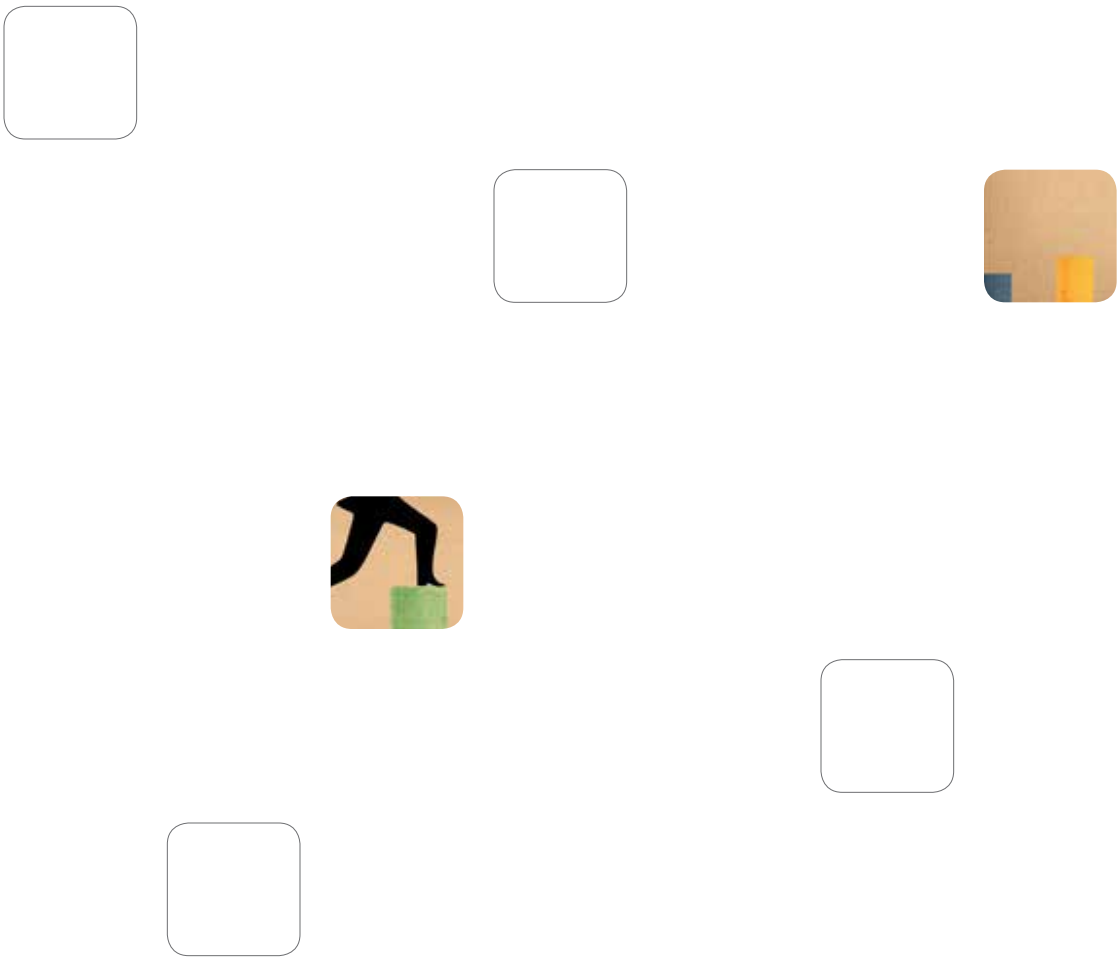
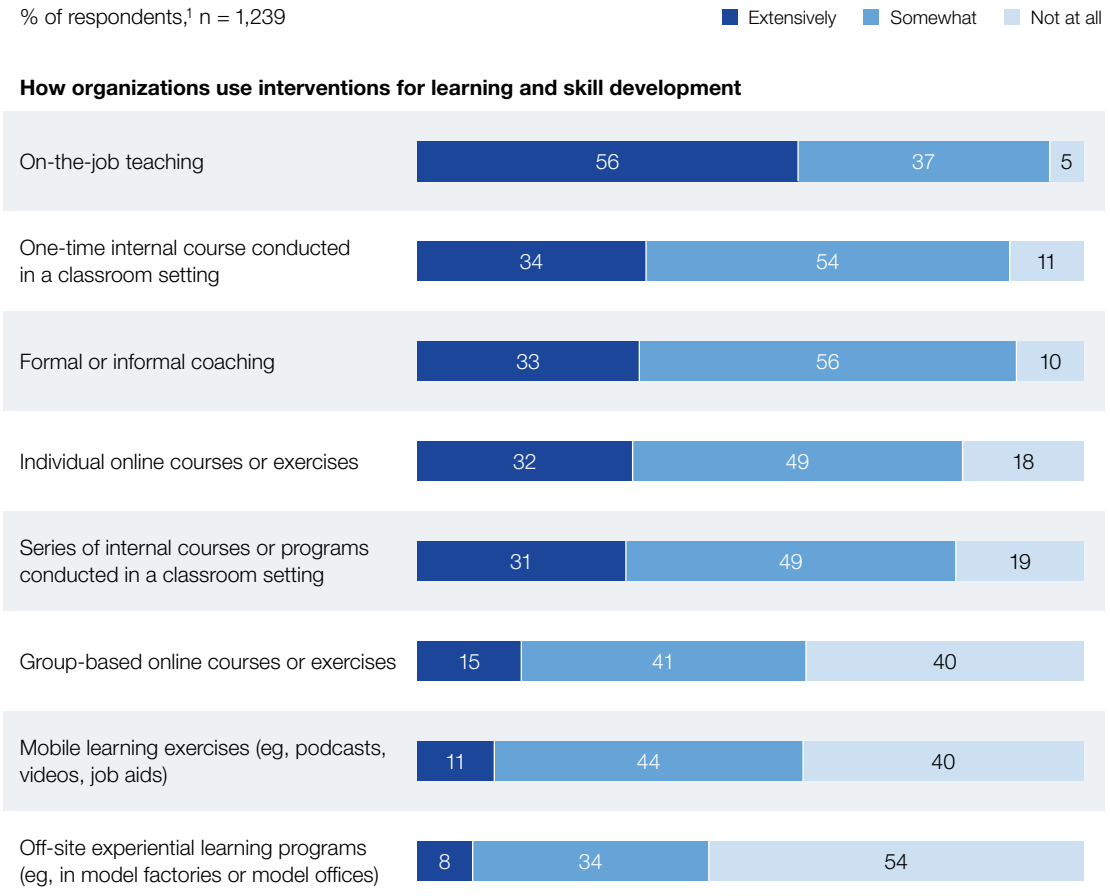


Exhibit 4

## On-the-job teaching remains the most popular method for building organizational capabilities.




[1] Respondents who answered "don't know" are not shown, so figures may not sum to 100%.

is used most extensively, followed by in-person training and coaching (Exhibit 4). Only one-third of all executives say their companies use formal or informal coaching extensively, which we also saw in 2010. At the most effective companies, though, 60 percent say the same, supporting our experience that coaching can successfully complement many other types of interventions.

Still fewer respondents report the use of more leading-edge learning methods, such as experiential environments (model factories or simulators, for example) or digital interventions beyond individual online classes, such as mobile learning exercises or group-based online courses. While respondents at the most effective companies are more likely than others to report using all of the interventions we asked about, even their use of these novel methods suggests room for improvement. Only 22 percent say they use experiential methods to teach adults in an experimental, risk-free environment that fosters exploration and innovation. They are still nearly four times likelier, though, than all other respondents to report the use of these methods. Interestingly, among their peers across regions, executives in India report the most extensive use of both experiential and digital methods.

These leading-edge training methods could enable all organizations to replicate or scale up their learning programs quickly and cost-effectively across multiple locations. But currently, companies tend to plan and execute large-scale learning programs with a train-the-trainer approach or with help from external providers to roll out their programs. At larger companies, respondents cite the use of pilots more often than their smaller-company peers. Just 9 percent of all executives say their companies use double pilots, where a program is run first to prove the concept and then again to prove that line leaders can scale it on their own and achieve the targets.

### To sustain capabilities, alignment and measurement are key

To capitalize on the skill-development work they are already doing, it's critical for organizations to formalize their approaches to maintaining and improving capabilities. Yet few executives report that their companies do this well. Nearly half say their organizations encourage employees to develop their skills. But less than one in five say their human-resources functions and business units co-own learning—a practice that reinforces the importance of skill development and also aligns learning objectives with business needs. Across all the activities to sustain capabilities that we asked about, the respondents who *do* report co-ownership are the most likely to say it's been very effective in supporting their learning programs.

In their efforts to sustain and continuously improve, the most effective companies stand out from the rest. Forty percent of these respondents say their human-resources functions and business units co-own learning, compared with 14 percent of all others (Exhibit 5). Relative to their peers, this group reports a more structured approach to developing tools, methods, and procedures to support capability building. They also say their learning programs are more often based on competency models and "learning journeys" for all roles.

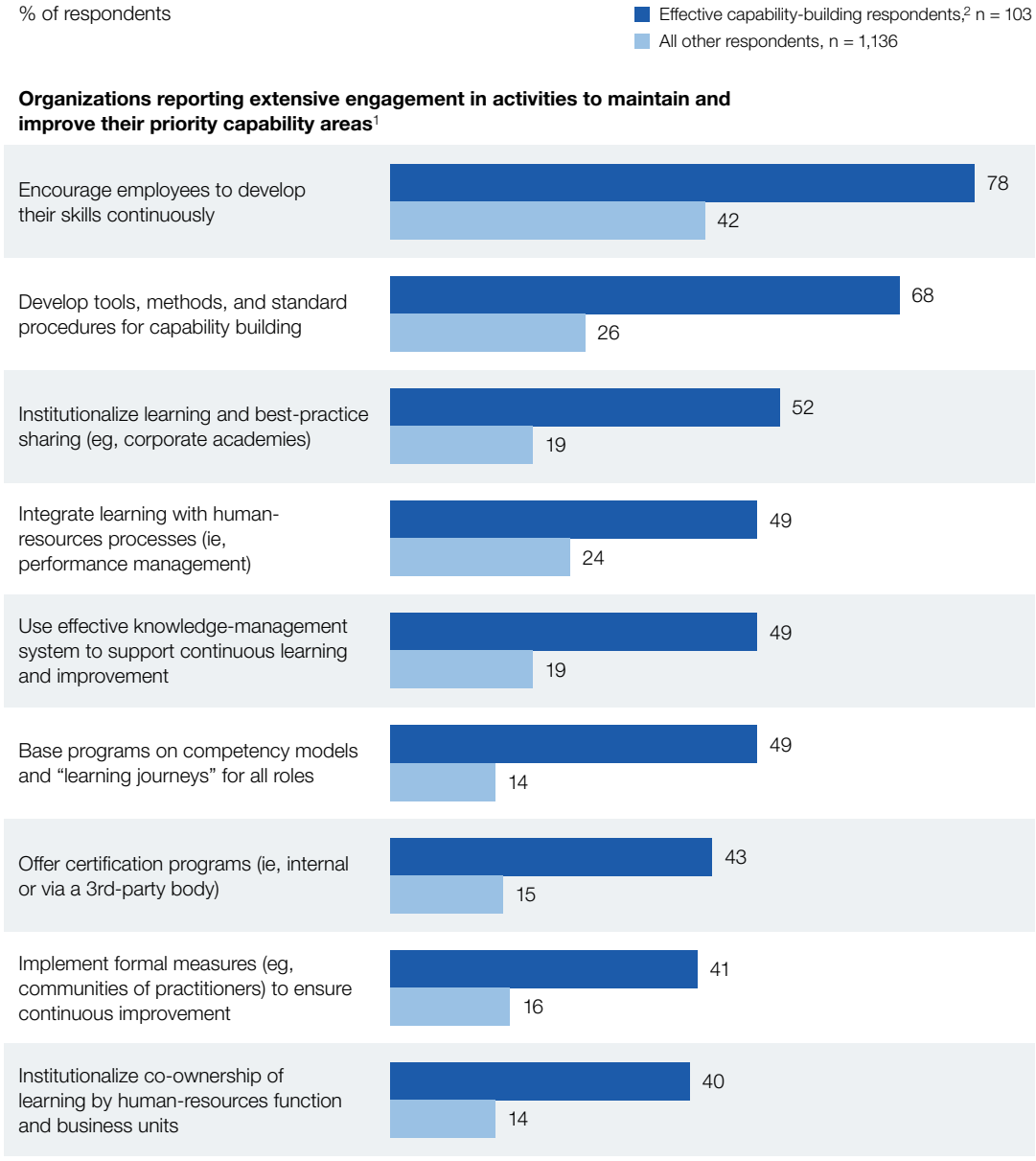
In our experience, one way organizations can institutionalize and sustain capability building is with a corporate academy.[6] Roughly one-third of executives say their organizations already have corporate academies, which tend to focus on developing functional and technical skills. They are most often governed by human-resources functions, either on their own or jointly with business units—the co-ownership that, again, fosters alignment between learning and business objectives.

And, fundamentally, metrics are a prerequisite for building capabilities in a sustainable way. They are top of mind for most organizations: more than half of executives say their companies formally link the skills employees acquire in learning programs with individual performance. At the same time, metrics are a growing concern. When asked about their companies' biggest challenges in building capabilities, executives cite a lack of credible metrics much

[6] We define corporate academies as dedicated, integrated initiatives or units to develop and sustain capabilities that are in line with corporate strategy.

Exhibit 5

## The most effective capability builders take more action than others to maintain and improve their capabilities.



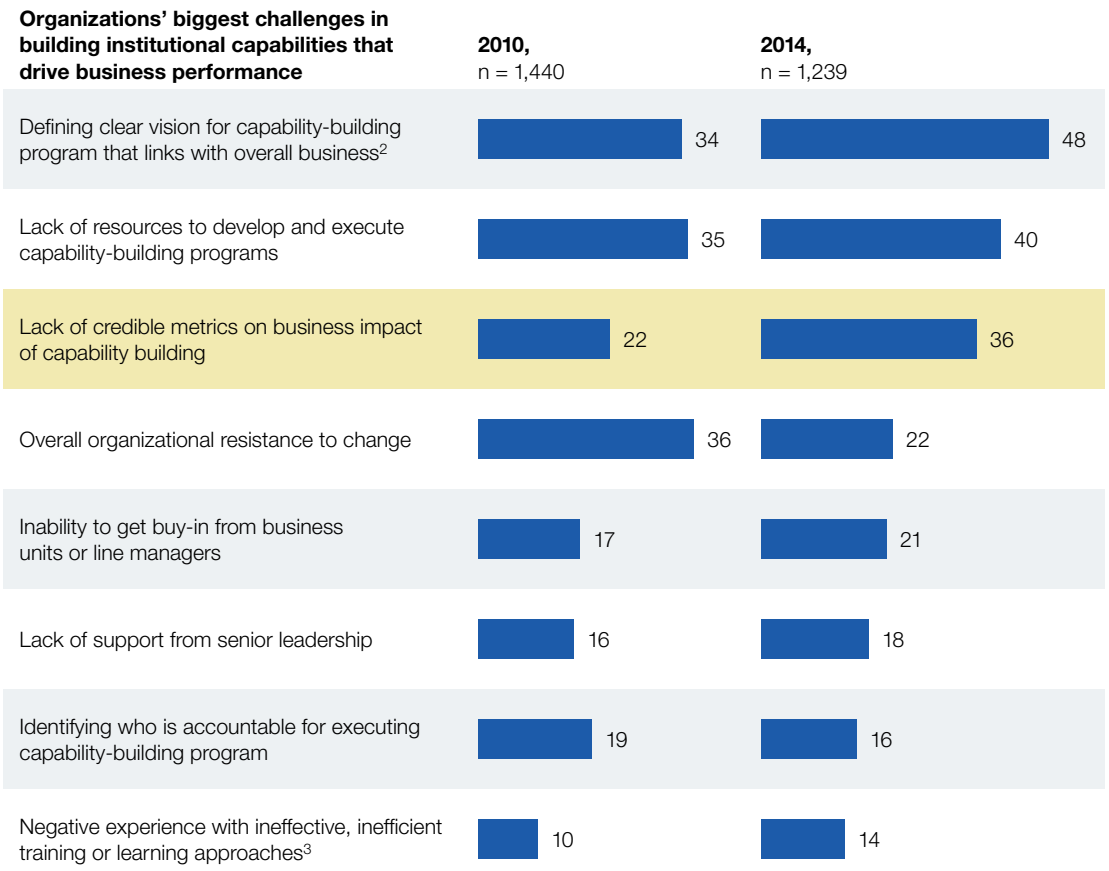

[1] Respondents who answered "somewhat," "not at all," or "don't know" are not shown.
[2] Respondents who say capability building is a top strategic priority at their organizations and that their organizations' learning programs for frontline staff and company leaders are very effective at preparing them to drive business performance.

more often than they did in 2010 (Exhibit 6). One in five respondents say their organizations do not measure the impact of their learning programs at all. At the organizations that do measure impact, employee or manager feedback is the most commonly cited metric; only 13 percent say their organizations calculate the quantifiable returns on their learning investments.

Exhibit 6

## Lack of metrics has become a greater challenge to capability building.

% of respondents[1]

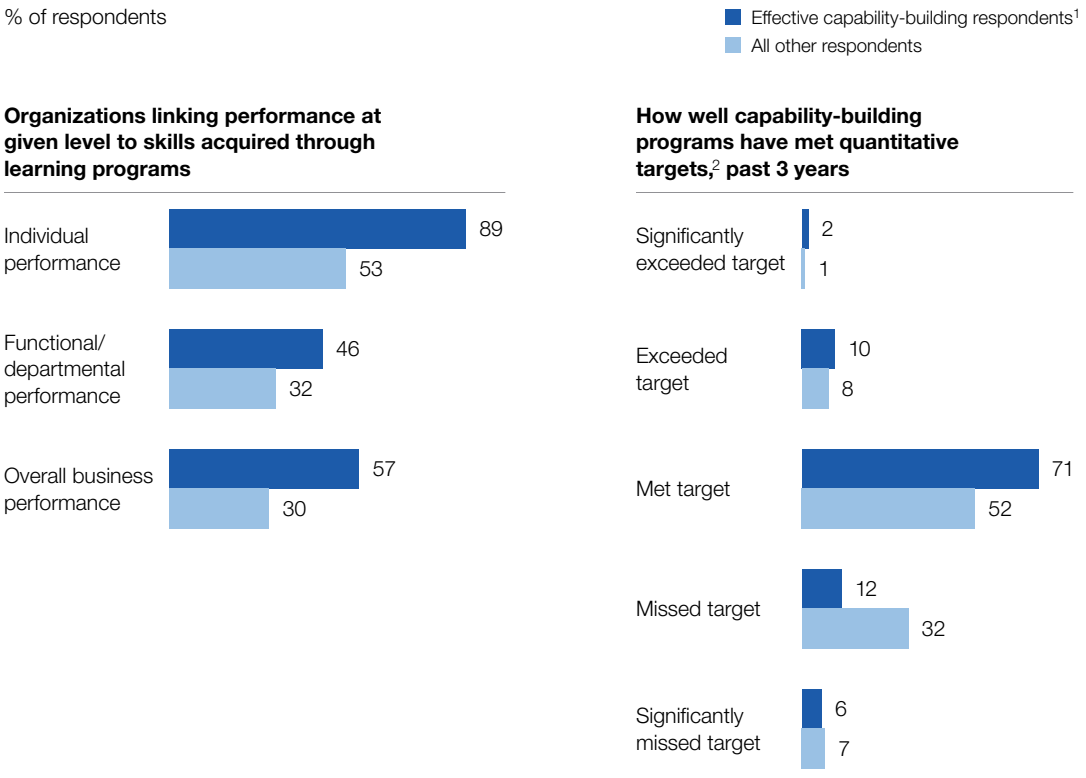



[1] Respondents who answered "other" or "don't know" are not shown.
[2] In 2010, the answer choice was "definition of clear vision or objectives of a capability-building program."
[3] In 2010, the answer choice was "ineffective training approaches."

With respect to goals, too, there is much work to do. More than half of respondents say either that they do not know whether their capability-building programs have achieved quantitative targets in the past three years or that they have not set targets at all. Not surprisingly, the most effective companies put more emphasis on metrics and see better results than others do (Exhibit 7). Of executives whose companies set targets, 83 percent of those at the effective companies say their programs have either met or exceeded targets in the past three years. In contrast, only 61 percent of all other respondents report the same success.

Exhibit 7

## Companies that build skills most effectively do a better job of linking those skills to performance and of meeting targets.




[1] Respondents who say capability building is a top strategic priority at their organizations and that their organizations' learning programs for frontline staff and company leaders are very effective at preparing them to drive business performance.
[2] This question was asked only of respondents who report the use of quantitative targets in their organizations' learning programs, and figures were recalculated after removing the "don't know/not applicable" responses to the question. At effective capability builders, 32 percent of respondents said "don't know/not applicable"; at all other companies, 60 percent of respondents said the same.

### Looking ahead

- *Diagnose systematically.* In our experience, companies are best able to build strong capabilities when they systematically identify the capabilities, both institutional and individual, that can have the most positive impact on the business. Objective assessments are an important tool in this process—and few respondents say their companies use such assessments now. These diagnostics not only help companies assess their skill gaps relative to industry peers but also help them quantify the potential financial impact of addressing capability gaps. By diagnosing these gaps in a systematic, objective way, companies can better establish a foundation for the effective design of learning programs that link learning results to the business and include meaningful, quantitative targets.

- *Design and deliver learning to address individual needs.* The core principles of adult learning require that companies tailor their learning programs to employees' specific strengths and needs, rather than developing a one-size-fits-all program for everyone. In our experience, the most effective approach to adult learning is blended—that is, complementing in-class learning with real work situations and other interventions, such as coaching. The results suggest that all companies could take advantage of more novel approaches, such as digital learning (which can reach large groups of employees anywhere, at once) and experiential learning (which links skill development to day-to-day work experience in a risk-free setting).

- *Align with and link to business performance.* To be effective and sustainable, capability building cannot happen in a vacuum. Learning objectives must align with strategic business interests, and, ideally, capability building should be a strategic priority in and of itself. Making human-resources functions and individual business units co-owners of skill-building responsibilities and then integrating learning results into performance management are effective steps toward achieving this alignment. These actions will also ensure broad buy-in for learning success, at both the organizational and individual levels. To ensure that their learning programs have real business impact, organizations must focus on metrics, as our most effective capability builders often do. They must establish rigorous performance-management systems with robust metrics and then measure progress against clear targets, to know where and how skill gaps are (and are not) being closed. ☐

The contributors to the development and analysis of this survey include **Richard Benson-Armer**, a director in McKinsey's Stamford office; **Sisu Otto**, a specialist in the Hong Kong office; and **Gina Webster**, a specialist in the New York office.

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