

The War for Talent

By Charles Fishman

In the boardroom bunkers and in the cubicle-filled trenches, the early skirmishes of the next war are being fought. For the moment, most of the action is guerrilla warfare - brief raids in which the companies under attack are often unaware that they've been hit. Ultimately, though, the war will be global, and for businesses, the stakes will be success and perhaps even survival.

According to a yearlong study conducted by a team from McKinsey & Co. - a study involving 77 companies and almost 6,000 managers and executives - the most important corporate resource over the next 20 years will be talent: smart, sophisticated businesspeople who are technologically literate, globally astute, and operationally agile. And even as the demand for talent goes up, the supply of it will be going down.

The McKinsey team is blunt about what will result from these trends: Its report is titled "The War for Talent." The search for the best and the brightest will become a constant, costly battle, a fight with no final victory. Not only will companies have to devise more imaginative hiring practices; they will also have to work harder to keep their best people.

In the new economy, competition is global, capital is abundant, ideas are developed quickly and cheaply, and people are willing to change jobs often. In that kind of environment, says Ed Michaels, a McKinsey director who helped manage the study, "All that matters is talent. Talent wins."

To see what the coming conflict looks like from the war room, Fast Company interviewed Michaels in his Atlanta office.

Your study says that talent is the most important factor in a company's success. Why?

Over the past decade, talent has become more important than capital, strategy, or R&D. Think about the sources of competitive advantage that companies have. Capital is accessible today for good ideas and good projects. Strategies are transparent: Even if you've got a smart strategy, others can simply copy it. And the half-life of technology is growing shorter all the time.

For many companies, that means that people are the prime source of competitive advantage. Talented people, in the right kind of culture, have better ideas, execute those ideas better - and even develop other people better. As Larry Bossidy, the CEO of AlliedSignal told us, "At the end of the day, we bet on people, not strategies."

Why is that a good idea? The world is changing so fast, it's difficult to see around corners. Things don't always work. And when they don't work, what you can fall back on is talent.

Why do you call the current environment a "war for talent"?

A lot of it has to do with demographics. In 15 years, there will be 15% fewer Americans in the 35 to 45-year-old range than there are now. At the same time, the U.S. economy is likely to grow at a rate of 3% to 4% per year. So over that period, the demand for bright, talented 35 to 45-year-olds will increase by, say, 25%, and the supply will be going down by 15%. That sets the stage for a talent war .

You developed case studies for 20 companies. What trends did you spot that signal the beginning of a war for talent?

In order to keep the pipeline full of talented people, almost all of the companies we studied are starting to take nontraditional approaches to recruiting. They're also finding it harder to keep the great people they already have.

We saw this trend most clearly in high-tech businesses. But we saw it even in more traditional industries, such as banking. Historically, companies in these industries have had people lining up at their doors. Now they're having to compete aggressively for talent. One bank that we studied has started offering signing bonuses of up to \$100,000 to recruit people to key sales-management jobs - a practice that was unheard of a few years ago.

Do companies know they're in a talent war?

Lots of companies don't. When you talk to most of them about retention issues, for example, they have a knee-jerk reaction: We don't have a retention problem! In a sense, they're right. At the senior level, the attrition rates at these companies are often quite low - 4% or 5% a year.

But there is also a silent battlefield in the war for talent. That battlefield involves people who have been at the same firm for 3 to 10 years, people between the ages of 25 and 35. Most companies are losing more people in these ranks than they realize. And those people are often some of their best employees.

Most of these larger companies are highly decentralized: They may have 20, 50, or even 100 divisions. For that reason, they don't know how many people they are losing. They don't know if they're losing good people, great people, or average people. They don't know where these people are going. Most important, they don't know why these people are leaving.

Why is the silent battlefield important?

Only 60% of the corporate officers at the companies we studied said that they were able to pursue most of their growth opportunities. They have good ideas, they have money - they just don't have enough talented people to pursue those ideas. They are "talent-constrained." The leaders at Johnson & Johnson, a world-class operation, told us that they never used to go outside the company to recruit their top-level managers. Now they have to go outside as often as 25% of the time - because they are talent-constrained.

This is something of a zero-sum game. When companies go outside for talent, they're just taking people from other companies.

What does it take to raid another company's talent successfully?

We asked top people what they were looking for in deciding where to work. The answer: a great company and a great job. When they talk about a great company, they mean one that's well managed, that has terrific values, and that has a great culture.

They also know what they want in a job. One store manager at Home Depot told us, "This is my \$50 million business." He was talking about his store. "I can double it, or I can run it into the ground. Where else could I get that kind of independence and that much of a challenge at age 33?" People want "elbow room" - a job that's pretty big, where they have responsibility for a number of functional levers, such as marketing and sales. They also want "headroom" - a job where they can make decisions on their own, without having to go through a bureaucracy. The best companies are beginning to appreciate these aspirations. Dick Vague, the chairman and CEO of First USA, part of Banc One, told us, "I aspire to create an enterprise where at least 80% of everybody's job consists of doing things that they love."

What role do startups and small companies play in the talent war?

The people at AlliedSignal were clear on this point. They told us, "We are competing with startups, not General Electric. There is a whole raft of talent that we simply do not get access to."

What do talented people get at startups? For one thing, the opportunity to make a lot of money. For another, they have a chance to be very connected to the top of the company. They can play a key role and make a difference to the whole institution - all at an earlier age. A highly talented 30-year-old is confident that even if he or she goes bust on a small-company venture, there will be another job out there.

What weapons can larger, more established companies use against startups and small companies?

The best large companies have learned how to mimic small companies. They create smaller, more autonomous units. They offer greater wealth-creation opportunities for their best people, regardless of age or seniority. And they compensate these people on the basis of performance. The best companies also find ways to keep 30-year-olds connected to the larger organization and to give them exposure to people at the top - which makes them feel that they are part of a smaller organization.

Big businesses can capitalize on their size. For instance, they've got more money, so they can afford to give a 35-year-old more responsibility and a bigger budget than small companies can. Big companies also have many more jobs to fill. More jobs means more bosses. So big companies can offer more mentoring opportunities.

What kinds of recruitment campaigns attract the most talented people?

There are four kinds of messages that the best people respond to. The first one is "Go with a Winner." It's for people who want a high-performing company, a company where they're going to get lots of advancement opportunities. A second message is "Big Risk, Big Reward." The people who respond to it want an environment where they're challenged either to do exceptionally well or to leave - where there's considerable risk but good compensation, and where they can advance their career rapidly. A third message is "Save the World." It attracts people who want a company with an inspiring mission and an exciting challenge - a pharmaceuticals or a high-tech company, for instance. The last group is drawn to a "Lifestyles" message. These people seek companies that offer them more flexibility and better lifestyle benefits - such as a good location.

How prepared are most companies to wage this war for talent?

Of the executives we surveyed, 75% said that their companies either don't have enough talent sometimes or are chronically short of talent. We then asked them, "Does your company make improving its talent pool one of its top three priorities?" In many companies, only 10% or 20% of corporate officers said yes.

In our view, these companies - the ones that are complacent about talent - are the ones that have the most to lose and that are most at risk. They are the least innovative, the least aggressive. They are reluctant to promote people early on, to recruit in different ways, to take action to move their average players to the sidelines and their best players to the forefront.

And the companies that are most likely to succeed are the ones that spend the most energy on attracting, developing, and retaining talent - the companies that are the most restless, the most dissatisfied, the most nervous, the most paranoid. So, as the war for talent intensifies, the gap between the winners and the losers will probably get wider and wider.

Charles Fishman, cnfish@mindspring.com, is an extremely talented Fast Company contributing editor. Ed Michaels, ed_michaels@mckinsey.com, a director of McKinsey & Co. in Atlanta, has been with the firm for 28 years.