Why multinationals struggle to manage talent

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Managing talent in a global organization is more complex and demanding than it is in a national business—and few major worldwide corporations have risen to the challenge.

A McKinsey survey of managers at some of the world's best-known multinationals covered a range of sectors and all the main geographies. Our findings suggest that the movement of employees between countries is still surprisingly limited and that many people tempted to relocate fear that doing so will damage their career prospects. Yet companies that can satisfy their global talent needs and overcome cultural and other silo-based barriers tend to outperform those that don't.

We've long observed that global corporations grapple with a more difficult talent agenda than their domestic counterparts—partly because they need to share resources and knowledge across a number of business units and countries, partly because of the especially demanding nature of global leadership. To find out more, we undertook in-depth interviews with executives at 11 major global corporations and separately invited senior managers at 22 global companies to participate in an online survey investigating how effectively they manage their talent. More than 450 people, ranging from CEOs and other directors to senior managers, including human-resources (HR) professionals, took part in the survey.

The responses confirmed impressions from the interviews that companies now struggle on a number of talent-management fronts, such as achieving greater cultural diversity, overcoming barriers to international mobility, and establishing consistent HR processes in different geographical units.

Despite the value companies claim to place on international management experience, the senior managers who took the survey had made, on average, only 1.5 cross-border moves during their careers, as against an average of 2 for managers at the top-performing companies. Interestingly, we found that the respondents had also moved, on average, 1.7 times between different divisions within the same geography but only 1.3 times between different functions—another sign that movement from silo to silo is still limited.

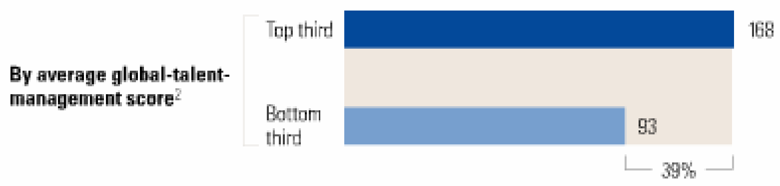
Participants cited several personal disincentives to global mobility, but one of the most significant was the expectation that employees would be demoted after repatriation to their home location. "Overseas experience is not taken seriously and not taken advantage of," commented one senior manager. "Much valuable experience dissipates" because companies have a habit of "ignoring input from returnees, and many leave." The quality of the support for mobility a company provides (for instance, assistance with housing and the logistical aspects of a move) also plays a decisive role in determining how positive or challenging an overseas assignment is for expatriates.

Perhaps the most provocative finding from the research was the relationship between financial performance, as measured by profit per employee,[1] and ten dimensions of global talent management. Companies scoring in the top third of the survey (when all ten dimensions were combined) earned significantly higher profit per employee than those in the bottom third (Exhibit 1). The correlations were particularly striking in three areas: the creation of globally consistent talent evaluation processes, the management of cultural diversity, and the mobility of global leaders. Companies achieving scores in the top third in any of these three areas had a 70 percent chance of achieving top-third financial performance (Exhibit 2). Companies scoring in the bottom third of the survey in these three areas had a significantly lower probability of being top performers, particularly if the company had inconsistent global talent processes. Although providing no evidence of true causality and lacking a longitudinal perspective, the strong associations between company financial performance and these global-talent-management practices strengthen our belief that these are important areas on which businesses and HR leaders should focus their attention.

EXHIBIT 1

The payoff

Average profit per employee, 2006; index: EBITDA per FTE[1]



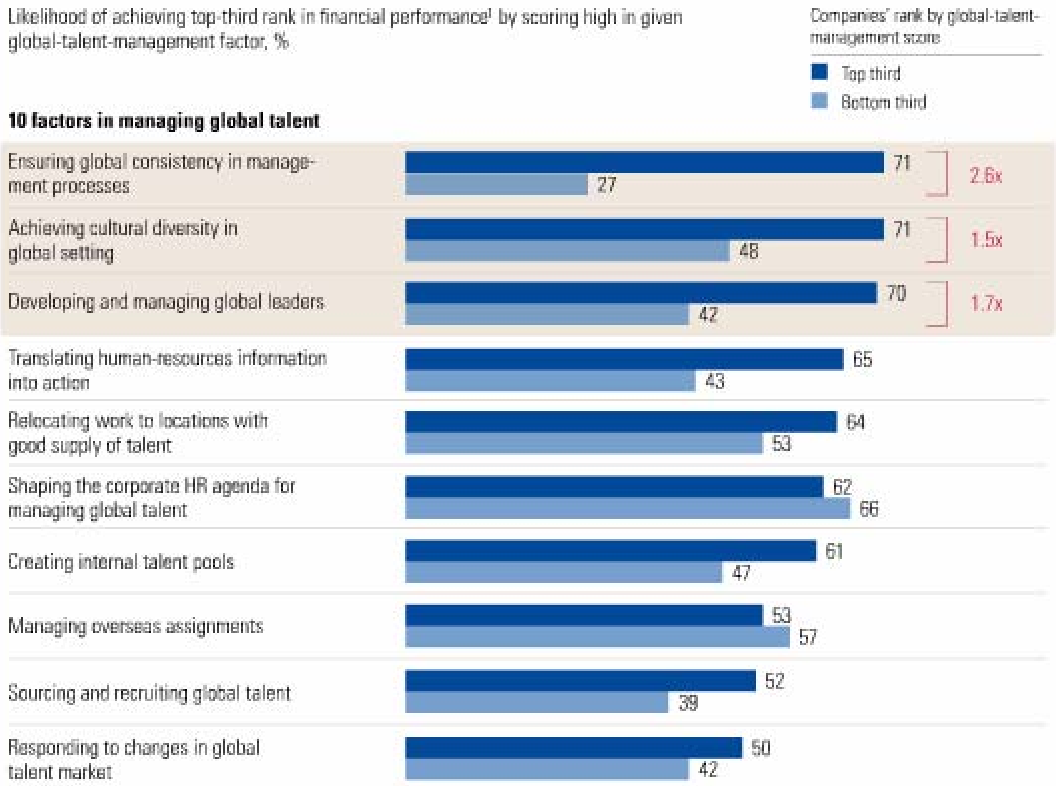
[1]Each company was benchmarked against its industry to create a benchmarked EBITDA per FTE metric comparable across industries; for financial institutions, net income per FTE was used as an alternative to EBITDA per FTE; EBITDA = earnings before interest, taxes, depreciation, and amortization; FTE = full-time equivalent.
[2]Respondents ranked effectiveness of their organization on each of 10 factors (see Exhibit 2).

Source: Bloomberg; company annual reports; Hoover's; Osiris database; Dec 2007 McKinsey global-talent-management survey of >450 executives; McKinsey analysis

EXHIBIT 2

Best practices

Likelihood of achieving top-third rank in financial performance[1] by scoring high in given global-talent-management factor, %

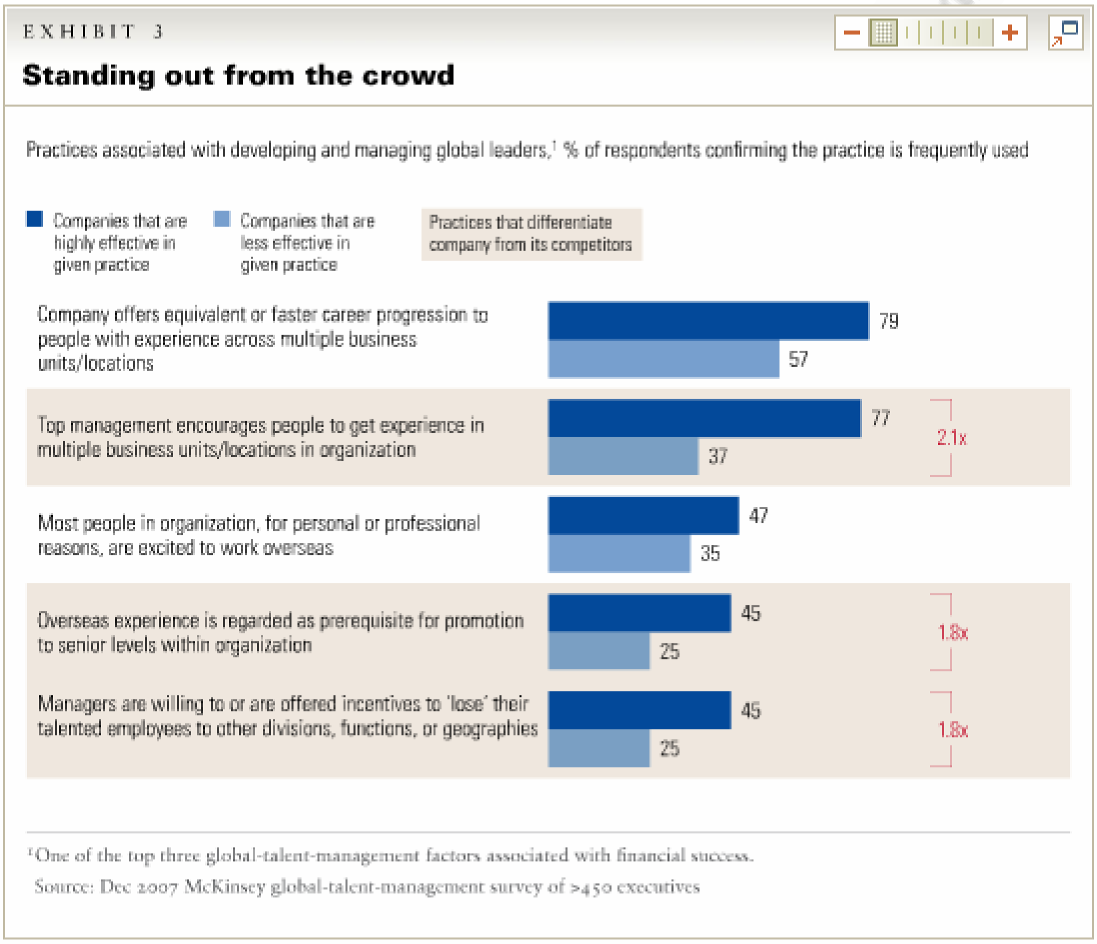


[1]Profit per employee measured by either EBITDA per FTE or net income per FTE (when EBITDA not available); EBITDA = earnings before interest, taxes, depreciation, and amortization; FTE = full-time equivalent.

Source: Company annual reports; Dec 2007 McKinsey global-talent-management survey of >450 executives

Global consistency in a company's talent evaluation processes is important, because for mobility to succeed, line managers need to feel confident that employees transferring into their units from other parts of the organization meet the same standards that their own people do. Moreover, company support and training is vital to the promotion of diversity. HR managers stressed the need for expatriates to learn more about the culture of the countries they transfer to than just the local language. "If you have to choose," explained one HR director, "it's more important to have an open-minded leader than to have someone with the right language skills."

In our view the key implication of the research is that companies should focus hard on rotating talent globally across divisions and geographies. Not only will this rotation support the development of company talent, it will also promote greater cultural awareness and diversity. The research further examined why some companies are better than others at developing global talent in this way. It found that those with top managers and promotion systems that actively encourage their people to gain international experience—and provide managers with incentives to share their talent with other units—were roughly twice as likely to have effective global mobility practices than those that don't (Exhibit 3).



Global companies should consider devoting more resources and senior-management time to liberating talent "trapped" in national silos and more wholeheartedly supporting global-mobility programs. Instilling a common set of talent evaluation processes throughout the world—especially standardized individual performance evaluations—will underpin this effort and build the confidence of line managers.

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