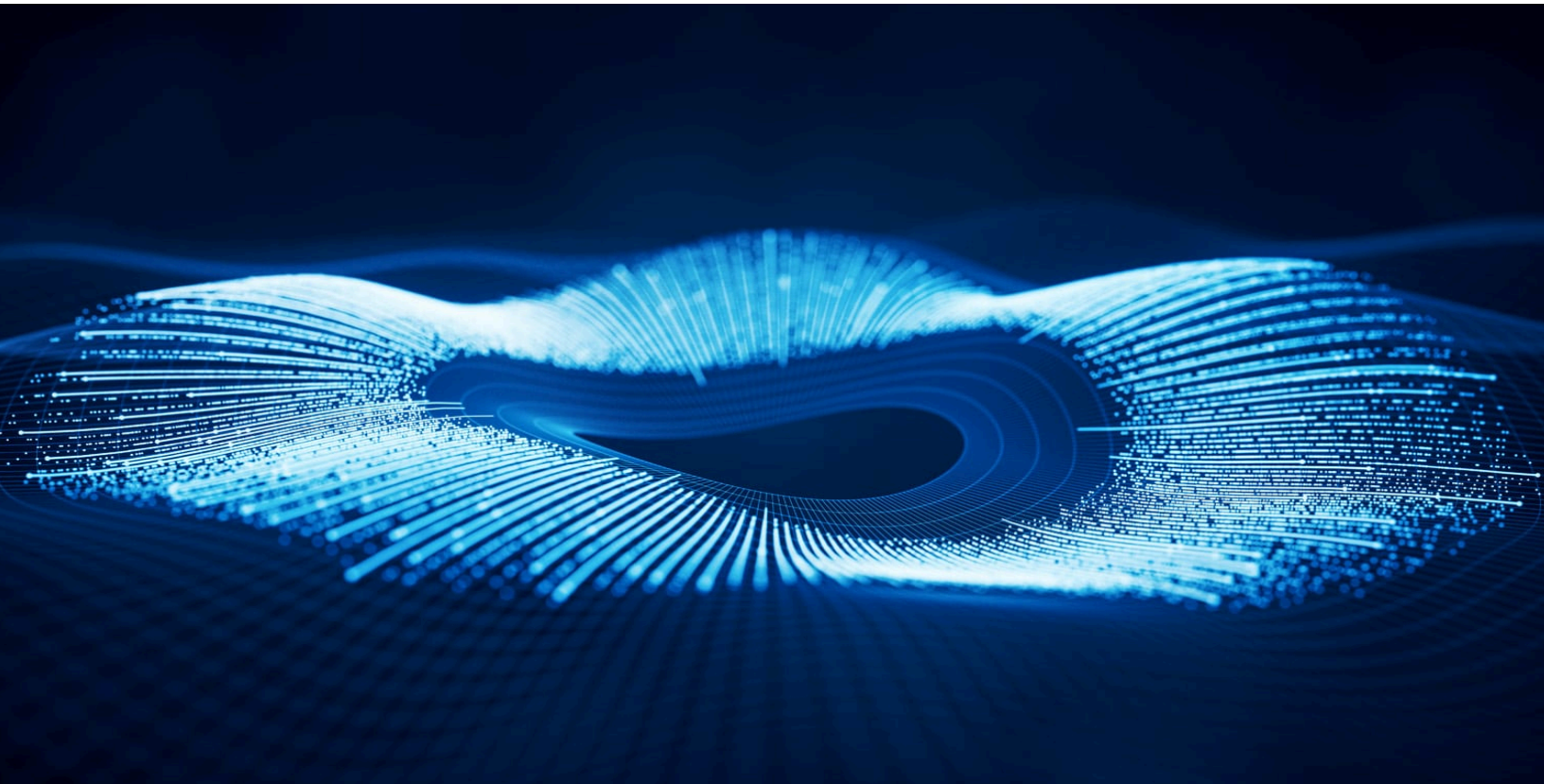


People & Organizational Performance Practice

# A new operating model for people management: More personal, more tech, more human

To get the most from employees, organizations need a more strategic, collaborative, fluid, and data-driven people operating system. Here's how they can build one.

*This article is a collaborative effort by Asmus Komm, Fernanda Mayol, Neel Gandhi, and Sandra Durth, with Jasmin Kiefer, representing views from McKinsey's People & Organizational Performance Practice.*



**The way organizations manage** their most important assets—[their people](#)—is ready for a fundamental transformation. New technologies, hybrid working practices, multigenerational workforces, heightened geopolitical risks, and other major disruptions are prompting leaders to rethink their methods for attracting, developing, and retaining employees.

In the past year alone, for instance, we have seen more and more companies adopt, innovate, and invest in technology—[particularly in gen AI](#)—in ways that have spurred more changes to people operations than we have observed in the past decade.

Many organizations are also taking significant steps to address shifts in employees' expectations about work, pursue greater productivity, and foster greater resilience. In many cases, they are looking beyond previously established people management practices and [people function \(or HR\) operating models](#) and taking a step into the future of people management.

What does that future look like? In our view, it is centered on technology's potential to reshape organizations. In the not-so-distant future, emerging technologies may allow companies to deliver personalized employee experiences, redefine work as a symbiotic relationship between human and machine, and continuously measure organizational health and performance to solve problems before they arise. Furthermore, automation through these new technologies should free up managers' time so they can provide more of a “human touch” when interacting with employees—that is, more individualized attention as well as guidance and coaching.

To help codify this vision of the future of people management, we gathered perspectives from more than 100 experts in HR technology, executives from blue-chip companies, academics, and other thought leaders in the people and technology domains. Our conversations with these experts and our own research reiterate the value that strong people management functions can generate: Organizations that excel in both people development and financial performance are [four times as likely as peers to outperform financially](#) and one and a half times as likely as peers to remain top tier year on year.

In this article, we explore our new vision of people management, outline the core elements of the operating system required to turn this vision into reality, and suggest concrete steps organizations can take to implement a new people operating system.

## **Envisioning the future of people management**

In coming years, effective people management will require an increased focus on employee engagement, development, satisfaction, and productivity; more fluid allocation of skills to the most value-adding tasks; and a greater emphasis on human-centric leadership.

### **Hyper-personalizing the employee experience**

Customization is already part of employees' personal lives—from tailored social media feeds and customized workouts to e-commerce and music streaming recommendations. People are now looking for similar personalization in the workplace—that is, coaching support, training, and development opportunities tailored to their unique interests, preferences, and needs.

Organizations will need to elevate their employee experience to address this shift in expectations. Historically, they haven't had the technological capacity to create personalized experiences based on, for instance, language, culture, role, or people's individual preferences. This has been especially true for large, global, matrixed companies. In some cases, organizations have also lacked the required data or ability to integrate data across sources, or it was too expensive to make such personalization possible.

Technological innovation is democratizing the employee experience. The technology solutions are better and cheaper, allowing organizations to collect more data from disparate sources, gain insights, and create new services. For example, in the future, organizations could offer tailored compensation and benefits to employees based on their local market conditions with the click of a button. By delivering more individualized compensation and benefits rather than grouping them by role, organizations would ensure that employees feel valued and rewarded in ways that resonate with their personal and professional needs.

Organizations will also be able to give leaders, managers, and other employees customized road maps for their professional development by taking into account existing skills, skill gaps, current and future organizational demands, and workers' stated career goals. Companies will be better able to tailor the employee experience at critical inflection points in workers' careers—for instance, by offering personalized onboarding communications, customized training programs, and AI-based coaching for individuals and [whole teams](#).

Furthermore, organizations and their people functions can take advantage of improved data sources and analytics to measure how these offerings affect employees' experiences and behaviors. These metrics can be used to foster a culture of continuous improvement (see sidebar “Improving coaching with AI”). Managers would receive higher-quality information, allowing them to act as true development coaches. The result for employees may be significantly higher engagement, satisfaction, and productivity.

## **Improving coaching with AI**

**A telecommunications operator** recently established a gen AI-enabled coaching engine for its sales and services team. The engine is trained on role-specific KPIs, using data from call center transcripts and other customer service indicators, so it can identify and track employees' learning gaps. Employees receive nudges and training suggestions to help them build their skills in specific areas and improve their performance. The engine also provides data to team leaders and coaches them on how to help employees build their capabilities, ensure they are following through on their training goals, and motivate them in their daily work and path toward success.

The next frontier of technologies holds great promise for further personalizing the employee experience. [Digital twins](#) or individual [personal agents](#) could serve as the point of access and interaction for all of an employee's work activities, providing real-time assistance around the clock (see sidebar "Introducing personal agents").

## Introducing personal agents

**An Asian ride-hailing provider** introduced personal agents in its people function to automate low- and mid-skill-level tasks, such as assessing compensation and benefits plans for employees in local markets, providing an overview of regulations in local markets, updating information on local labor laws under which the company operates, and prefilling job descriptions.

## Creating a frictionless organization

Future organizations will need to move past the rigid roles, paths, hierarchies, and silos that often prevent them from achieving their desired business outcomes. Today, employees are too frequently hired for their past experience, not their current skill or skill potential. Companies emphasize promotions over lateral moves, even as McKinsey research indicates that many organizations are losing value by not creating enough internal mobility; [more than 80 percent of role moves involve changing employers](#). And titles, roles, paths, and pay grades still drive status and power in organizations.

Even at the top levels of many organizations, senior management often tries to address leadership gaps while in firefighting mode rather than proactively planning successions over time. Or, they address leadership underperformance too late instead of providing real-time constructive feedback and development support.

In a tech-powered future, people management will be much more proactive, data-driven, and fluid. Organizations will use forward-looking data to understand what's needed to improve organizational health and performance. Strategic workforce planning can happen in real time: Organizations will be better able to anticipate shifts in strategy and, as different capabilities and capacity are required, flexibly match skills to new tasks. They will have the fact base they need to launch interventions such as hiring, insourcing, outsourcing, upskilling, or reskilling. And these interventions themselves will not be one-off activities—rather, the practice of adapting, reallocating, adjusting, and improving will become the norm.

For example, some companies are already using AI to power online marketplaces that give employees information about internal job opportunities. Some of these internal marketplaces are breaking from organizational boundaries and forming broader talent exchanges that give workers a view of opportunities beyond their current employers (see sidebar “Increasing talent fluidity”). Through this type of ecosystem, organizations can react quickly when skill needs change; in the case of short-term work, they can more easily identify freelance, temporary, or gig workers to handle certain tasks. Of course, this requires the people function to have deep expertise in identifying strategic objectives and translating them into the capabilities required to meet those objectives.

## Increasing talent fluidity

**Opportunity marketplaces** can offer more flexibility for organizations and employees. For example, imagine that an assistant is hired and the opportunity marketplace identifies learning and development as an area for a potential career move. In parallel, the system identifies that fewer assistant-level tasks will be needed in the near future. The system could notify both the employee and the business area with the potential “match” and help the assistant develop skills to prepare for the new tasks.

Opportunity marketplaces also help support ecosystems that allow for more fluidity beyond organizational boundaries. For instance, one Middle Eastern city has conducted strategic workforce planning on a city level to better understand how to support local industries in upskilling and reskilling their workers. In another example, a digital platform in Iberia connects employers, job seekers, and reskilling program providers to help workers acquire new skills and pursue new roles, creating opportunities for more fluid talent exchange.

### **Elevating humanness**

As London Business School economist Andrew J. Scott has said, “As machines get better at being machines, [humans have to get better at being more human.](#)”

This is true for individuals in [organizations at large](#) and especially for senior leaders. They will need to shape a new future of work—ensuring that they are leading technology and not being led by technology. To do that, they will need a deep understanding of technology’s potential and how to capture that value by using technology in ethical and socially responsible ways.

Managers will need to devote more attention to “humanness”—that is, providing the [empathy, compassion, judgment, and inspiration](#) their employees say they want. They should no longer simply delegate that responsibility to the people function. With more of their time freed up by automation, managers can focus on enabling others to embrace and master the use of new technologies while reducing employees’ anxieties about change and technological disruption.

The role of the people function will be to equip managers with the technology, tools, and insights they need to elevate and deliver on their humanness pledge. In the short term, leaders in the people function may need to provide an ethical sounding board for senior leadership on technology usage; they will also need to double down on [skill building](#) for leaders, managers, and employees across the organization. Longer term, the people function will act as a thought partner to managers and the senior leadership team, bringing its perspectives on systems, people, technology, and the organization into decision-making.

### **Transforming the people operating model**

As these shifts suggest, the next era of people management will require new ways of working and new responsibilities for those in the people function. Specifically, functional tasks will change and will be delivered by people function leaders forming a “strategic triumvirate,” the people operating model will be more streamlined, and those in the people function will need to be able to use technology to master complexity to a greater degree than they already do.

#### **Establishing a strategic triumvirate**

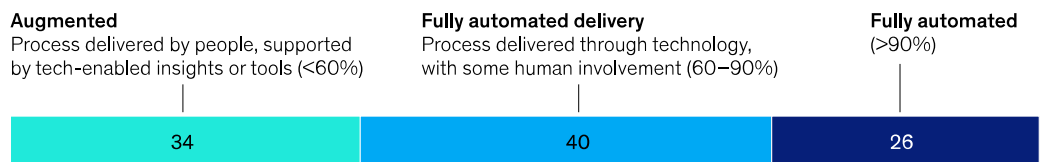
The tasks of the future people function will be significantly narrower and more focused on strategy and business. Our research estimates that only about 20 percent of the most strategic activities in today’s HR portfolios will remain. We estimate that two-thirds of current HR tasks can be automated to a large degree (Exhibit 1).

Given the scope of automation that can be achieved, the people function will be freer to focus on activities designed to improve the organization, such as developing a higher-performing organizational design and culture and enabling leadership and management. Furthermore, the people function will play a central role in managing change, adaptability, and resilience in a world that is becoming more uncertain and more complex.

Exhibit 1

## Two-thirds of today’s people management processes can be largely automated.

### Level of automation potential, selected processes



#### People and organizational strategy

- Translate business strategy into people strategy
- Translate business strategy into organizational strategy
- Design measurement structure
- Continuously measure and improve

#### People planning

- Define value-to-skill needs
- Analyze skill gaps
- Design levers to fill gaps
- Conduct operational resource planning
- Measure experience, effectiveness, and efficiency

#### People attraction

- Derive needs
- Design sourcing strategy
- Reach out to potential candidates
- Screen and assess
- Interview, extend offers, and provide feedback
- Design and deliver onboarding
- Measure experience, effectiveness, and efficiency

#### People development

- Derive learning and development needs
- Design learning strategy and philosophy
- Develop/source content
- Design offerings
- Deliver offerings
- Measure experience, effectiveness, and efficiency

#### People management

- Manage executive succession
- Manage nonexecutive succession
- Design professional-development offerings
- Design performance management system
- Execute performance management process
- Design total rewards
- Measure experience, effectiveness, and efficiency

#### Organizational effectiveness

- Derive needs
- Design initiatives
- Design communications strategy
- Deliver and implement
- Measure experience, effectiveness, and efficiency

#### People operations

- Run operations and service delivery
- Manage personnel/people data
- Manage payroll and compensation
- Track time and absence
- Run compliance reporting
- Manage labor relations
- Manage external ecosystem

Source: McKinsey Global Institute Automation Model (midpoint scenario by 2030, average of HR activities for EU-10 + US; based on full technical potential; McKinsey HR Transformation benchmarks)

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On the one hand, the demand for lower- and medium-level-skill roles will decline because of automation. On the other, demand will rise for data and HR technology specialists and for deep subject matter experts in areas such as culture, learning, or leadership and organizational effectiveness. As a result, the people function of the future will be much more expertise-driven and technology-enabled, and people professionals will work in fundamentally different ways: more interconnected, more fluid and project-focused, and more oriented on strategy and business value.

Indeed, the people function will turn from cost center into value-creation leader. It will comprise a new “strategic triumvirate” of coaches, subject matter experts, and technologists who will be charged with reimagining how current HR tasks will be delivered:

- *People strategists*: These are senior coaches who collaborate with business leaders to enhance organizational effectiveness. They translate business strategy into people and organizational priorities based on data-driven insights. Evolving from the HR business partnering role, they will need a deep understanding of industry and business strategy and an ability to act as a sparring partner with leaders.
- *People scientists*: These comprise a small pool of deep subject matter experts—evolving from center of excellence (COE) roles—who use data-driven insights to design effective people and organizational interventions. People scientists are generally deployed dynamically to the highest-priority projects, and they are charged with developing learning and leadership development programs, organizational health initiatives, and other products and solutions aimed at improving the employee experience and the organization.
- *People technologists*: These are highly tech-savvy experts with a much larger share of dedicated capabilities than those found in HR today; this group includes data scientists, infrastructure experts, and vendor managers. As the data intelligence engine of the function, they build, maintain, and improve the data and technology backbone for all people and organizational topics, working in virtual or local product delivery squads.

### **Streamlining the people operating model**

Our research indicates that more than three-quarters of HR functions are still largely organized along the classic [Ulrich model](#), with HR split into business partnering, shared-services centers, and COEs, or groups focused on specific topics such as learning and development, compensation, and benefits.<sup>1</sup>

In the future people function, the operating model will need to encompass a leaner, more flexible pool of capabilities, with experts deployed to the most value-driving business priorities, collaborating in product squads. Under this new model, traditional COEs will evolve into virtual practice groups, with people scientists collaborating with other roles on cross-functional priority projects, products, and interventions focused on propelling organizational health and

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<sup>1</sup>David Ulrich, *Human Resources Champions: The Next Agenda for Adding Value and Delivering Results*, first edition, Boston, MA: Harvard Business Review Press, 1996.



effectiveness. Once a specific outcome is achieved, the squad will dissolve and reallocate to other priorities based on “skills to value.”

Administrative tasks in [shared-services centers](#) will be largely automated, leveraging AI and robotic process automation, and will be delivered by personalized agents. The future shared-services organization will instead own the people and organizational data intelligence engine—managing data and technology platforms, providing insights from data, and steering resources toward the highest value for the business.

Traditional HR benchmarks will need to be reconsidered given the degree of automation possible in the people function of the future. There is no reason to believe that the current average ratio of one people function employee to roughly every 80 employees could not be greatly improved. Ultimately, the people function would have a much larger share of senior team members with expertise-based capabilities, including technology skills.

### **Mastering complexity with technology**

Most, if not all, of the potential for reinvention of people management and the people operating model hinges on technological advancements. Even with recent leaps in innovation, spurred by increased adoption and investment, there is still a long road ahead for organizations and their people functions. They must continuously upgrade their capabilities to keep up with new technologies. Everyone must become a technologist.

To meet the needs of the people function of the future, organizations will need to invest in an integrated, standardized core data lake comprising a range of critical information on people and business processes. They must also move from a fragmented patchwork of costly point solutions toward a streamlined, fit-for-purpose, cloud-based, AI-powered technology stack (Exhibit 2).

Streamlining the tech stack can eliminate the need to manage multiple complex legacy systems and processes and enable real-time access to people and organizational metrics (see sidebar “Building a centralized hub.”) It can also provide a better user experience for employees by giving them a hyper-personalized entry point to all work-related interactions; applications associated with onboarding, learning, or coaching can be seamlessly integrated under the hood.

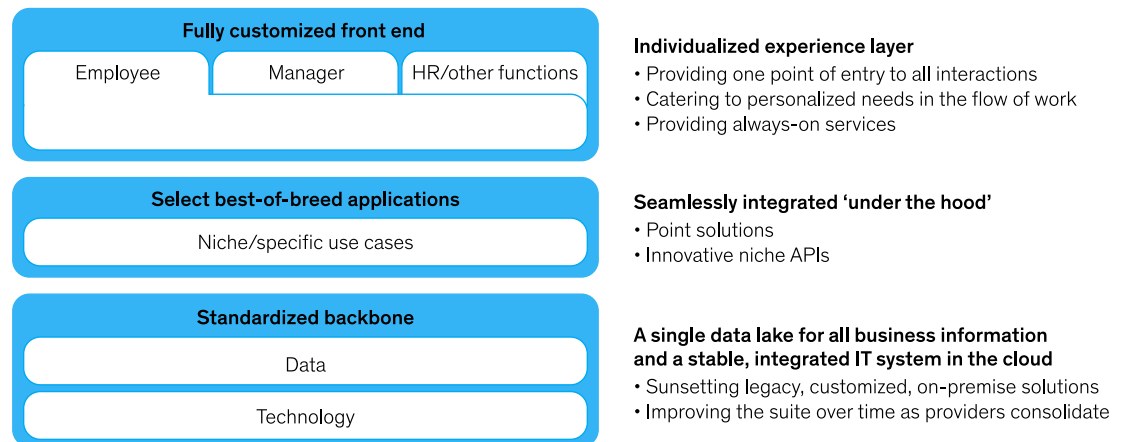
## **Building a centralized hub**

**McKinsey developed Lilli**, a gen AI platform that serves as a centralized hub for the firm’s knowledge and insights. Lilli has enhanced productivity among employees by streamlining access to all of McKinsey’s various sources of information, allowing them to focus on higher-value tasks. It also provides customizable resources that enhance the employee experience, including assistance with internal processes, content development, problem-solving, and access to learning offerings.

## Exhibit 2

### In the people function of the future, the intelligence engine will be a more streamlined, AI-powered technology stack.

#### Tech stack, illustrative



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### Moving toward the new era

As we have just outlined, the people function of the future will be more strategic, collaborative, fluid, and data driven. It will combine the best of human and technological capabilities to consistently deliver positive business outcomes (Exhibit 3).

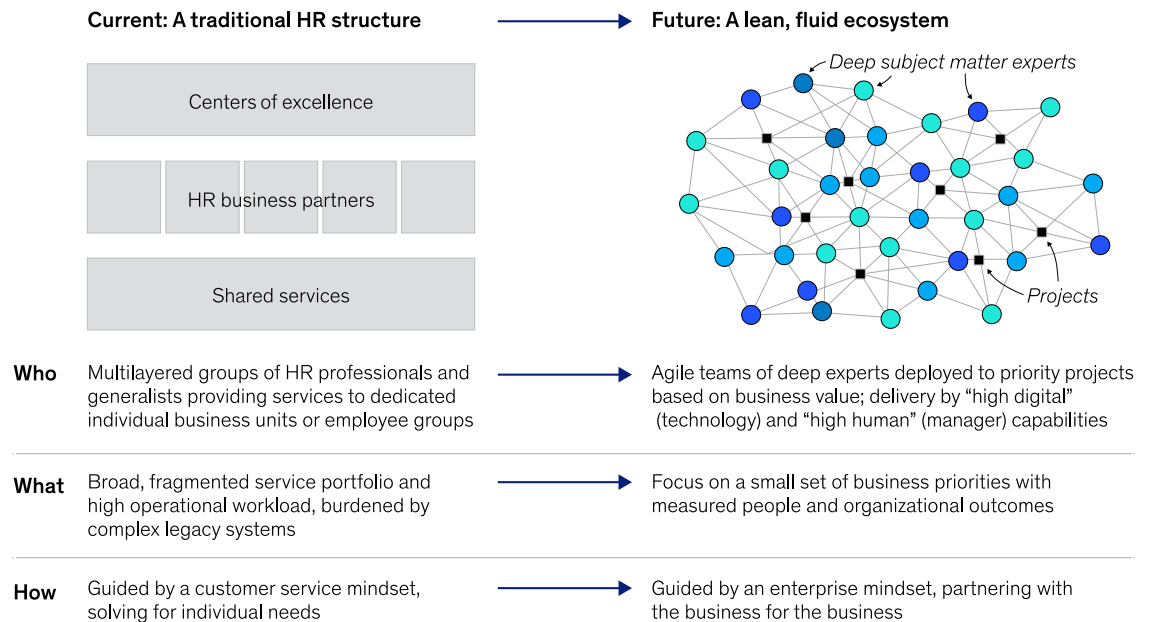
Based on our research, however, only a handful of organizations (roughly 5 percent of companies) are successfully and routinely incorporating new technologies in their people management functions. Most are still in early stages—defining their strategies, road maps, and design choices, and considering their guidelines and boundaries for the responsible use of data and technologies. Depending on each organization's starting point, we suggest concrete next steps (Exhibit 4).

- For the *strategists*, who are starting the journey, first steps will include defining a North Star and making a business case for enhancing the people function by investing in new technologies (such as people analytics) and capabilities. Companies can identify use cases, launch pilots, and use the data from those experiments to identify capabilities needed.
- For the *scalers*, who are looking to capture value as technology adoption takes hold, it will be important to strive for continuous improvement of human and technological capabilities. This will mean testing and measuring and using these lessons to expand the impact of their digital offerings. They will need to continue to redefine ways of working—continually revisiting the people function's operating model, collaborating more strategically with the business, and building out a robust technology and data backbone.

Exhibit 3

**The future operating model for people management will be more strategic, fluid, and tech-enabled.**

**Current and future structure for the people function, illustrative**



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- For the *visionaries*, who have been on the journey for several years and have reached maturity with technology and data, it’s probably time to flip the switch to a fully AI-powered people operating model and redefine the people management practices across the organization. Their “people intelligence engine” will be primed to inform senior leadership’s decisions on people and the organization and how to allocate capacity toward the highest-value areas of the business.

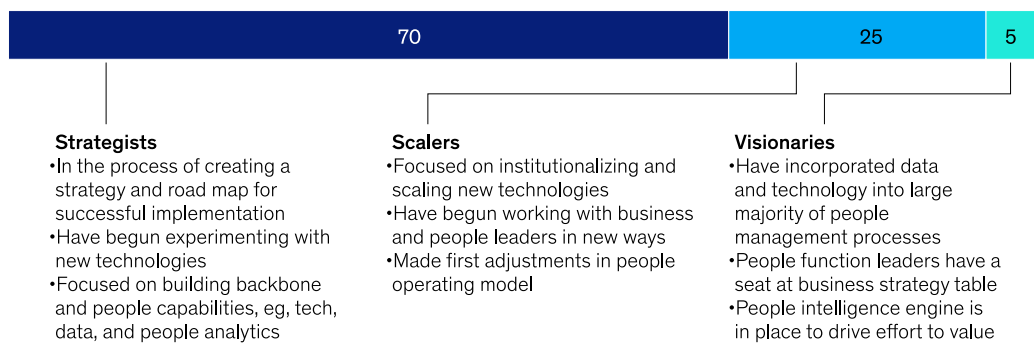
Across all these archetypes, organizations and leaders should keep the following principles in mind as they move forward:

- *Set a clear North Star.* Organizations need to understand the distinctive business value for their future people management philosophy and for the resulting new practices and operating system. They should define their long-term, medium-term, and short-term aspirations while keeping a relentless focus on value.

Exhibit 4

**As they progress toward the future of people management, organizations fall into one of three types.**

Share of organizations, by type, %



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- *Create a people transformation team.* Organizations should establish a central team composed of senior leaders of business, HR, finance, and IT. This team can ensure that the company's people strategy and business strategy are aligned. It can also encourage cross-functional collaboration.
- *Reimagine boundaries, including between business and people.* Organizations should aim to rebalance responsibilities between business leaders and the people function. They should not simply digitalize existing processes but rather reimagine processes to reduce organizational complexity, silos, and friction. They also should tap into (or build) external ecosystems.
- *Experiment, continuously improve, and scale what works.* It's important for organizations to pick their battles as they experiment with ideas to benefit employees, managers, and the business. They should start small and move quickly—learning, adjusting, and adapting over time.

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- *Invest in technology and change.* As companies harness the power of technology, they should not underestimate the need to [actively manage adoption and change from day one](#). This will require investing in the capabilities and mindsets of business leaders, managers, and the people function itself.
- *Maintain momentum.* Persistence is key for companies as they measure and celebrate outcomes and focus on building new capabilities.

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Organizations are just at the start of a massive transformation in people management—but the time to act is now, as people functions will play a critical role in helping them navigate a more complex and uncertain future. Over the next decade, they must take significant strides toward a value-driven, human-centered, and tech-enabled approach to people management. This will mean overhauling the people operating system to be simpler, more strategic, and more fluid than it is now. Such a transformation will boost organizational effectiveness as well as employee engagement and productivity. Regardless of their starting point, organizations should embrace the opportunities in adopting this powerful new people management model and use it to create value for the business.

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The authors wish to thank the following for their contributions to this article: Christian Winnewisser, professor of applied sciences and McKinsey senior adviser; David Green, managing partner at [Insight222](#) and coauthor of *Excellence in People Analytics*; Josh Bersin, global industry analyst, CEO of The Josh Bersin Company, and thought leader behind [Systemic HR](#); Peter Cheese, CEO of The Chartered Institute of Personnel and Development; and Sarena Lin, supervisory board member and McKinsey senior adviser.

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This article was edited by Eric Quiñones, a senior editor in the New York office.

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