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## THE BOSTON CONSULTING GROUP

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Management Associations

# Creating People Advantage 2010

How Companies Can Adapt Their HR Practices
for Volatile Times

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# Executive Summary

*T*he challenges of leading and managing people were complicated by the financial crisis and global recession. The crisis layered in a new level of volatility and uncertainty on top of the accelerating change that most businesses were already experiencing. Companies that don't adapt to the new state of high volatility will be rendered obsolete by more nimble and flexible rivals—and the key variables for adaptation are the quality of the workforce and how it is deployed.

*It's no longer feasible to conceive a strategy in an executive ivory tower and expect a docile workforce to implement it. Innovation and growth today require creativity and engagement by employees at all levels. This survey report details those human resources practices and methodologies that enable companies to create competitive advantage—and those that are no longer suited to these times.*

**This global survey is the second conducted by The Boston Consulting Group and the World Federation of People Management Associations. The first was completed in 2008. (BCG has also partnered with the European Association for People Management in 2007 and 2009 on a similar European survey.)**

◇ The online survey generated 5,561 responses (nearly one-fifth more than our 2008 survey) from 109 countries covering five continents and numerous industries. We also interviewed more than 150 executives, mostly board and executive committee members of multinational companies.

◇ This report presents our findings and analysis of the 21 topics covered. We also feature short case studies on individual company initiatives or relevant research, and we have produced a White Paper, inserted at the back of this report, on the pivotal role that middle managers play in restoring employee engagement that was weakened during the crisis.

**Most industries and countries will experience a widening talent gap, notably for highly skilled positions and for the next generation of middle and senior leaders.**

◇ Populations in most developed countries such as Japan, Germany, and the United States will skew sharply older in the coming decade, barring radical changes in immigration policies. The upcoming waves of baby boomer retirements may cause many positions to go unfilled and raise the risk that companies will lose valuable institutional and process knowledge. Rapid growth in many emerging nations, meanwhile, has already created a gap in skills that population growth alone cannot ameliorate.

◇ Revising public policy to facilitate labor mobility would help, but companies have to seize control of their own fate when it comes to securing the best workforce today and for the future. They need to ramp up their talent-sourcing, retention, and development practices now, before it's too late.

**Four HR topics stand out as the most critical.**

◇ *Managing talent*—identifying, attracting, and retaining talent—continues to be the most important future HR topic. Corporate capabilities in this area have improved only slightly since our 2008 survey.

◇ *Improving leadership development* has risen in importance over the past two years. Fifty-six percent of sur-

vey respondents cited a critical talent gap for senior managers' successors. In volatile times, leaders who can convey the company's vision and motivate employees are invaluable. It is generally easier and more effective for homegrown talent to step into leadership roles. Yet companies fill more than half of their executive positions from outside, suggesting that internal leadership-development programs, including corporate universities, need to be improved.

◇ *Employee engagement* suffered during the past two years because of layoffs and other cutbacks. Companies are now trying to restore a sense of pride and trust. Our survey found that flexibility measures such as job mobility and flexible work arrangements can help improve engagement and are more effective economic measures than cutbacks over the long term. Strengthening the corps of middle managers, who supervise the majority of employees, is another means of bringing engagement back.

◇ *Strategic workforce planning* is the cornerstone of fact-based HR management. Companies need an accurate picture of the composition, age structure, and capabilities of their people. But executives rated current capabilities low in this regard. Only 9 percent of companies deploy a sophisticated workforce supply-and-demand model, suggesting that strategic-workforce-planning capabilities have a long way to go. Business volatility and uncertainty increase the need for companies to rely on advanced analytics, scenario simulations, and other sophisticated workforce-planning levers.

**High-performing companies emphasize certain HR practices that low-performing companies tend to play down.**

◇ Performance management and rewards is a topic that separates strong and weak companies (as measured by revenue and profitability growth). It was ranked the second-highest HR capability by high-performing companies but only ninth by low performers. This correlation highlights the value of focusing on performance and rewards.

◇ High-performing companies also focus their efforts on fewer, carefully chosen HR projects. Even when they

*High-performing companies emphasize HR practices that low performers play down.*

have a strong capability in an important HR area, these organizations keep refining and experimenting to grow even stronger.

**Companies need to reboot their HR function and boost resources devoted to it.**

◇ HR professionals should be viewed as functional experts and partners to the business units, similar to corporate finance. At many companies, they have been going through this transformation, but they still need stronger capabilities and larger roles. HR professionals themselves acknowledge that they have big capability gaps in business analytics, business planning, and client relationship management. In particular, more sophisticated analytical skills will permit them to better predict future requirements, track performance outcomes, and calculate the return on investment for various human-capital initiatives.

◇ While both HR professionals and business managers recognize the need for training and other developmental initiatives, the differences in their perceptions must be addressed. Business managers view HR professionals' HR expertise as less important than their skills in business planning and conflict resolution. And, while both groups agree that business managers' handling of poor performers is their most important people-management skill, business managers see a far smaller gap in their own performance than HR professionals do.

**The rest of the report discusses how to strengthen the various links among employees, the HR function, and business strategy and execution. Here's a summary of the five sections.**

◇ "Global Trends in Managing People" summarizes the survey results, revealing which topics executives deem critical and which corporate capabilities need upgrading

◇ "Do You Have the Right Future Leaders?" discusses how the HR function can build stronger capabilities in leadership development and talent management

◇ "A Strategic Workforce Plan to Build the Capabilities You Need" outlines an approach to creating long-term

strategic workforce plans that incorporate future shifts in strategy, product mix, and technology

◇ "Building Flexibility in the Workforce" examines the use of flexibility measures to create a more elastic and engaged workforce

◇ "Developing Capabilities for HR to Partner with the Business Units" lays out a road map for HR professionals to develop new analytical skills and expert knowledge, and to serve as trusted counsel to business managers

**Two additional elements round out and enhance the content of the report.**

◇ The White Paper *Creating a New Deal for Middle Managers: Empowering a Neglected but Critical Group* discusses how to empower middle managers to better execute the business strategy and engage employees

◇ A CD contains a PDF file of the report, detailed survey data by country and industry, case studies, and video interviews with the global HR vice presidents of Google and Nokia

# Global Trends in Managing People

*N*ow that companies are resuming their search for growth, many of them must rebuild their foundation of human capital that was eroded during the global recession. In particular, our survey shows, they must pay attention to such areas as managing talent and developing current and future leaders—topics that respondents assigned high future importance but weak current capabilities within their companies.

In general, HR is conducting too many initiatives, with mediocre outcomes. Companies with high financial performance excel in several HR areas relative to low performers, such as performance measurement and rewards. Even when they have strong capabilities in an area, high performers dedicate more investment to focused projects, typically leading to better results.

Our online survey generated 5,561 responses (nearly one-fifth more than our 2008 survey) from 109 countries covering five continents and many industries. (See Exhibit 1.) Countries generating the most responses, in descending order, were Canada, the United States, France, Australia, Brazil, Finland, Germany, and Russia.

## Exhibit 1. Executives in 109 Countries Responded to the Survey



Slovakia **10**
Hungary **36**
Poland **8**
Sweden **121**
Czech Republic **28**
Germany **173**
Norway **24**
Denmark **42**
Switzerland **67**
Netherlands **89**
United Kingdom **131**
Belgium **26**
Ireland **30**
France **270**
Andorra **2**
Spain **50**
Portugal **100**
Macedonia **30**
Morocco **8**
Dominican Republic **24**
Cape Verde **2**
Costa Rica **42**
Trinidad and Tobago **5**
Venezuela **38**
Nicaragua **8**
Panama **24**
Colombia **50**
Ecuador **31**
Brazil **201**
Peru **26**
Bolivia **4**
Paraguay **18**
Chile **7**
Uruguay **27**
Argentina **25**
Canada **438**
United States **293**
Mexico **19**
Guatemala **16**
Saint Kitts and Nevis **2**

Serbia **22**
Slovenia **48**
Austria **21**
Estonia **1**
Finland **177**
Latvia **38**
Ukraine **3**
Moldova **2**
Albania **1**
Tunisia **4**
Senegal **20**
Ivory Coast **3**
Benin **4**
Algeria **1**
Nigeria **8**
Chad **1**
Angola **1**
Namibia **6**
South Africa **97**

Romania **52**
Bulgaria **109**
Montenegro **2**
Italy **57**
Greece **89**
United Arab Emirates **10**
Qatar **2**
Saudi Arabia **75**
Kenya **11**
Tanzania **33**
Malawi **2**
Uganda **44**
Swaziland **1**
Zimbabwe **5**
Botswana **29**

Turkey **53**
Malta **74**
Cyprus **20**
Russia **166**
Japan **18**
South Korea **42**
China **73**
Afghanistan **1**
India **50**
Sri Lanka **16**
Taiwan **101**
Thailand **33**
Philippines **85**
Brunei **1**
Indonesia **3**
Malaysia **15**
Singapore **3**
Australia **220**
New Zealand **68**

Legend:
- 0
- Fewer than 10
- 10–19
- 20–49
- 50–99
- 100 or more

**Sources:** Proprietary Web survey with 5,561 responses; BCG/WFPMA analysis.
**Note:** This exhibit does not show all the countries where executives responded to the survey.

Respondents came from a broad range of industries. The top five industries represented were business services; technology, media, and telecommunications; consumer goods; health care; and financial services.

We also interviewed 153 executives, mostly board and executive committee members of multinational companies. Eighty-eight of these interviews were conducted in Europe, 28 in Asia, 15 in North America, 11 in South America, 6 in Africa, and 5 in the Middle East.

## How Executives View the Most Critical HR Topics

This report aims to analyze how HR challenges have been changing over time and in different economic environments, through survey responses and interviews on 21 topics. To start, we asked executives to rate their company's current capability in the 21 HR topics and to tell us whether they foresee the topic becoming more or less important in the future. Four topics surfaced as the most pressing challenges, with high future importance but low current capability. These are red-zone topics, as shown in Exhibit 2.

*Managing talent,* which includes issues such as talent pools and effective staffing of leadership positions, continues to be the most critical topic for executives. Moreover, corporate capabilities in this area have improved only slightly over the past two years. As Henrique de Melo, head of HR at Caixa Geral de Depósitos of Portugal, noted: "The key differentiating element in banking is people. Products are imitated, technology can be bought, but people make the difference."



Exhibit 2. Managing Talent, Leadership Development, Employee Engagement, and Strategic Workforce Planning Are Perceived as the Most Critical Topics

**Sources:** Proprietary Web survey with 5,561 responses; BCG/WFPMA analysis.
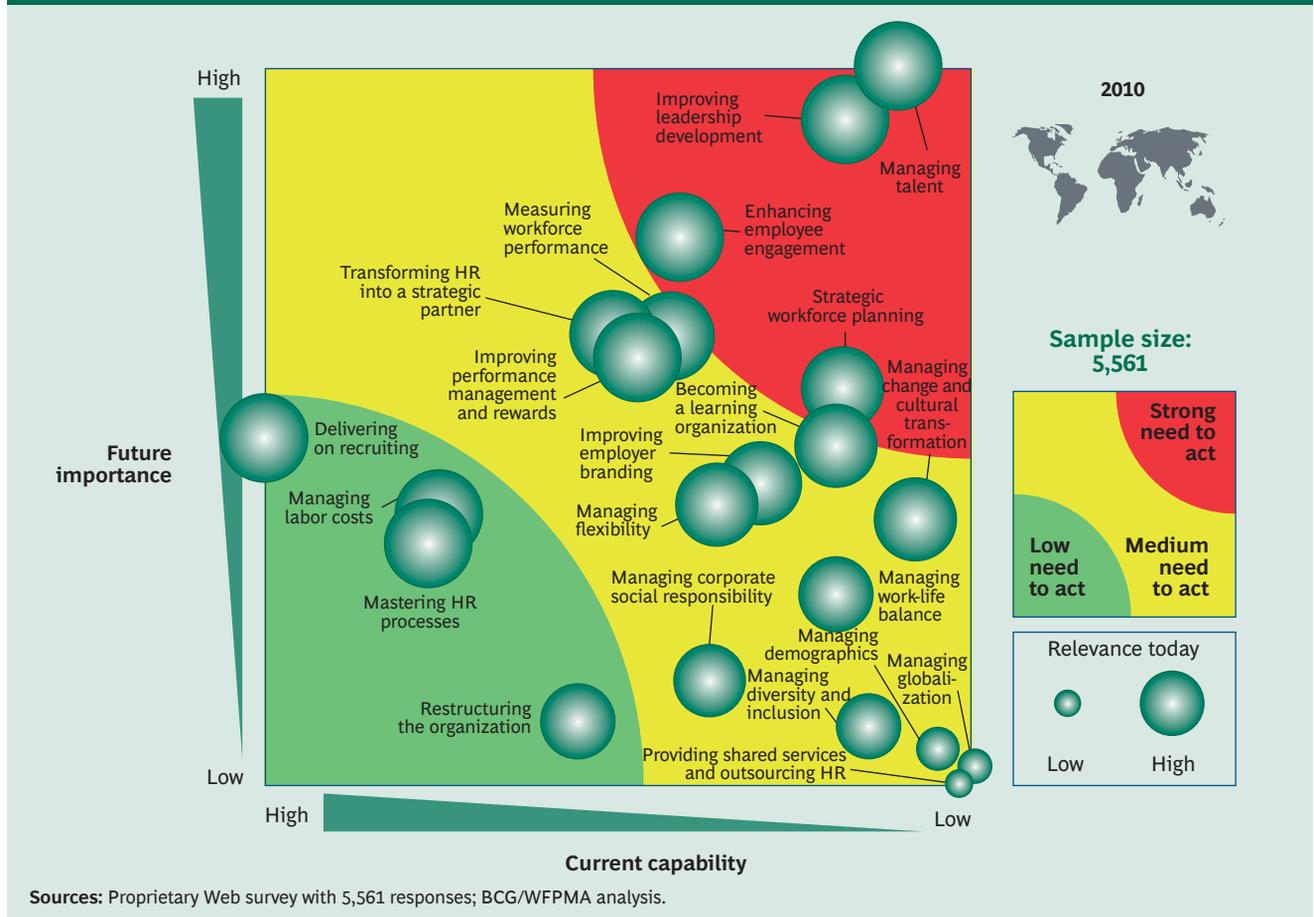
*Improving leadership development* follows managing talent. Its importance has risen over the past two years—not surprisingly, because leaders are the ones charged with conveying the company's vision, serving as role models, and engaging employees. Yet corporate capabilities in this area have actually declined since 2008, so companies will need to improve their programs to define, assess, and develop current and future leaders.

*Enhancing employee engagement* has moved from the yellow zone in 2008 to the red zone today. In response to the financial crisis and worldwide recession, many companies resorted to cost-cutting measures, which dampened morale. Now executives want to instill a sense of pride and trust in the company that will get employees engaged again. K.K. Sinha, group HR director of Jindal Steel & Power in India, said that beyond compensation as a baseline factor, engagement is critical as "the glue" binding employees together in a common purpose.

*Strategic workforce planning* was viewed as fairly important for the future, but current capabilities were rated low. Supply and demand of skilled employees change over time and as a company's strategy shifts—from, say, making an industrial product to offering services around the product. The HR function must be equipped with sophisticated models to predict supply-and-demand dynamics that closely align with an evolving company strategy; such models enable business leaders to undertake strategic workforce planning.

Taking a country view of the HR topics, executives in the vast majority of countries ranked *managing talent* and *improving leadership development* within their top five; only executives in Germany, the Netherlands, and Russia did not consider both of these to be of utmost importance. (See Exhibit 3.) *Strategic workforce planning* and *enhancing employee engagement* also consistently ranked high.

Returning to the matrix in Exhibit 2, topics with low future importance and high current capability fall in the green zone at the lower-left corner. *Managing labor costs* and *restructuring the organization,* for instance, are per-

## Exhibit 3. Managing Talent and Improving Leadership Development Ranked High in Most Countries

**Matrix analysis**

| Subject \ Country | North America Canada | United States | Latin America Brazil | France | Germany | Italy | Nether-lands | Russia | United Kingdom | Saudi Arabia | South Africa | China | Australia | New Zealand | Philip-pines | Mentions in Top 5 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Managing talent | 1 | 2 | 4 | 1 | 1 | 2 | | 1 | 1 | 1 | 2 | 3 | 1 | 2 | 2 | 14 |
| Improving leadership development | 2 | 1 | 1 | 2 | | 1 | 2 | | 2 | 2 | 1 | 1 | 2 | 1 | 1 | 13 |
| Strategic workforce planning | 3 | 3 | 3 | | | 5 | 3 | 4 | 5 | 5 | 5 | 4 | 4 | 4 | 3 | 13 |
| Enhancing employee engagement | 4 | 4 | | 3 | | | | 3 | 3 | 3 | | | 3 | 5 | | 8 |
| Transforming HR into a strategic partner | | | | | 4 | | | 2 | | 4 | 3 | 2 | | | | 5 |
| Measuring workforce performance | | 5 | | | | | | 5 | 4 | | | | 5 | 3 | | 5 |
| Managing change and cultural transformation | | | 5 | | 2 | 3 | 4 | | | | | | | | | 4 |
| Becoming a learning organization | | | | 4 | | 4 | 5 | | | | | 5 | | | | 4 |
| Improving employer branding | 5 | | | | 3 | | 1 | | | | | | | | | 3 |
| Improving performance management and rewards | | | 2 | 5 | | | | | | | | | | | 5 | 3 |

**Rank** 1 2 3 4 5

**Sources:** Proprietary Web survey with 5,561 responses; BCG/WFPMA analysis.
**Note:** This exhibit shows those countries where the number of respondents exceeds 50.

ceived as not critical, because they were addressed during the crisis.

Thirteen topics fall in the yellow zone, where challenges do not pose immediate danger and can be addressed before they move into the red zone. However, we should highlight several yellow-zone topics for which current capabilities are low and we believe future importance might have been underestimated.

*Managing demographics,* which goes hand in hand with *strategic workforce planning,* declined dramatically in future importance after 2008 because of pressing short-term concerns. However, in our view this topic remains highly relevant to multinational companies. Populations in many developed countries are skewing sharply older, causing waves of retirements and a smaller pool of young skilled workers from which to recruit. Companies would do well to improve their supply-and-demand models for guidance in long-term recruiting, training, and staffing decisions. According to Nick Thripp, HR vice president at Infineum International, a global formulator, manufacturer, and marketer of petroleum additives headquartered in the United Kingdom, "An unprecedented number of our leaders are expected to retire in the next five years or so. We are contemplating further 'life friendly policies,' including extended careers for people close to retirement."

Four topics in the yellow zone—*managing globalization, work-life balance, diversity and inclusion,* and *corporate social responsibility*—also saw a drop in perceived future importance that we believe is unwarranted. Each of these topics was sidetracked both by the economic crisis and by increases in perceived corporate capabilities in these areas. However, we would argue that they are highly relevant for future success, because of long-term demographic and social trends, and that managers should rekindle efforts to improve in each area. As Amy DiGeso, executive vice president of global HR at Estée Lauder, put it, the company benefits from "encouraging and leveraging differences; we know that inclusiveness strengthens our culture and business results."

Among other topics in the yellow zone:

◇ *Measuring workforce performance* increased in both future importance and current capability. Companies

> Managing demographics declined in future importance yet in our view remains highly relevant.

seem to have improved their assessment of employees' performance.

◇ *Becoming a learning organization* decreased slightly in future importance but remained close to the red zone. In a fast-changing environment, there is a premium on skills and knowledge that help people adapt to the changes, as well as a premium on mastering new digital channels of learning. Companies should also capture the knowledge of older employees before they retire.

◇ *Improving performance management and rewards* had a slight increase in future importance, probably because of wide public debates on executive compensation.

◇ *Managing change and cultural transformation* declined as well, yet HR professionals must ensure that employees can continuously adapt to changes in regulatory regimes, skill requirements, and work.

◇ Similarly, *providing shared services and outsourcing HR* dropped in perceived future importance, while capabilities remain very low. Yet shared services and outsourcing remain effective methods of improving HR costs and productivity.

Note that certain HR capabilities are assessed quite differently depending on one's vantage point in the organization. For example, HR executives tend to give higher ratings than do line business executives to all HR capabilities. Exhibit 4 shows the seven capabilities with the largest ratings difference between the two groups.
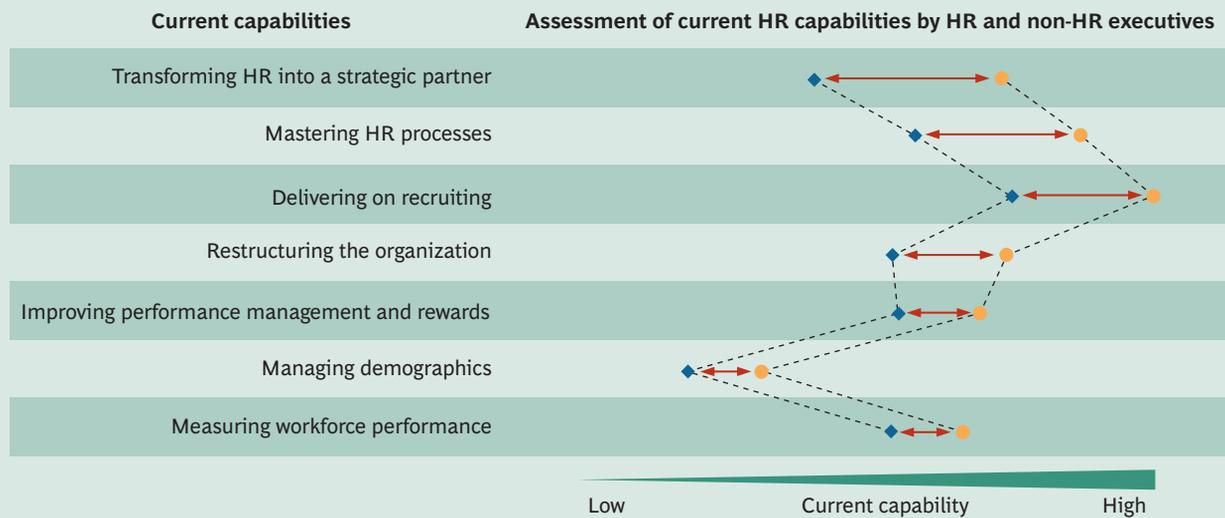
## The Tide Turns in 2010

The survey also asked executives about the topics' *current* importance, and it's worth noting what has changed since 2008. (See Exhibit 5.) In response to the economic crisis, companies generally focused more on workforce productivity topics, such as *mastering HR processes* and *measuring workforce performance,* and less on topics related to building workforce capabilities, such as *managing work-life balance* and *managing change and cultural transformation.*

*Managing talent* and *improving leadership development* remain the top two in current importance, though the latter

## Exhibit 4. Seven HR Capabilities Are Assessed Very Differently by HR and Non-HR Executives

| Current capabilities | Assessment of current HR capabilities by HR and non-HR executives |
| --- | --- |
| Transforming HR into a strategic partner | |
| Mastering HR processes | |
| Delivering on recruiting | |
| Restructuring the organization | |
| Improving performance management and rewards | |
| Managing demographics | |
| Measuring workforce performance | |

Low          Current capability          High

◆ Current capability assessed by respondents outside of HR      ● Current capability assessed by HR respondents

**Sources:** Proprietary Web survey with 5,561 responses; BCG/WFPMA analysis.
**Note:** This exhibit shows the top 7 of 21 HR topics according to the greatest difference between the two groups.

## Exhibit 5. Employee Engagement and Performance Management and Rewards Have Jumped in Current Importance Ranking

### Current importance

| 2008 ranking | | 2010 ranking | |
| --- | --- | --- | --- |
| Managing talent | 1 | 1 | Improving leadership development |
| Improving leadership development | 2 | 2 | Managing talent |
| Delivering on recruiting | 3 | 3 | Enhancing employee engagement |
| Managing work-life balance | 4 | 4 | Measuring workforce performance |
| Managing change and cultural transformation | 5 | 5 | Improving performance management and rewards |
| Transforming HR into a strategic partner | 6 | 6 | Managing labor costs |
| Enhancing employee engagement | 7 | 7 | Delivering on recruiting |
| Improving performance management and rewards | 8 | 8 | Transforming HR into a strategic partner |
| Measuring workforce performance | 9 | 9 | Strategic workforce planning |
| Restructuring the organization | 10 | 10 | Mastering HR processes |
| Becoming a learning organization | 11 | 11 | Becoming a learning organization |
| Managing demographics | 12 | 12 | Managing change and cultural transformation |
| Mastering HR processes | 13 | 13 | Managing flexibility |
| Managing diversity and inclusion | 14 | 14 | Improving employer branding |
| Managing corporate social responsibility | 15 | 15 | Restructuring the organization |
| Managing globalization | 16 | 16 | Managing work-life balance |
| Providing shared services and outsourcing HR | 17 | 17 | Managing corporate social responsibility |
| | | 18 | Managing diversity and inclusion |
| | | 19 | Managing demographics |
| | | 20 | Managing globalization |
| | | 21 | Providing shared services and outsourcing HR |

**Sources:** Proprietary Web survey with 5,561 responses; BCG/WFPMA analysis.

is now number one. The next three topics in perceived importance are all newcomers to the top five: *enhancing employee engagement, measuring workforce performance,* and *improving performance management and rewards.*

Topics that have declined in current importance, meanwhile, include *managing work-life balance, managing change and cultural transformation,* and *managing demographics*—possibly because they were overshadowed by the cost and productivity imperatives of the economic crisis.

As for future importance, companies are starting to turn their attention to workforce-building topics such as planning the size and composition of the workforce, attracting talent through improved employer branding, and retaining top employees by managing them well.

## Practices of High-Performing Companies

The companies participating in our survey provided information on their revenue and profitability over the past

three years, and we used those data to group the companies into performance quartiles, adjusting for industry-specific revenue and margin differences.

From that analysis, we compared the ranking of HR capabilities of high- and low-performing companies in each industry. One topic in particular stands out: *improving performance management and rewards* was ranked the second-highest capability by high-performing companies, but only ninth by low performers. Excellent financial performance clearly correlates with a focus on employee performance and rewards. Three other capabilities—*measuring workforce performance, enhancing employee engagement,* and *transforming HR into a strategic partner*—also ranked higher among high performers than among low performers, but to a lesser extent.

In terms of perceived HR performance, respondents who were asked which company has the best HR practices overwhelmingly chose Google, followed by Procter & Gamble and Microsoft. (See the sidebar "HR for 'Googlers': How a Giant Company Aims to Remain Intimate.")

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### HR for "Googlers"
How a Giant Company Aims to Remain Intimate

Google has an impressive track record and an enviable reputation for people management. It routinely ranks first or near the top in "best places to work" reports. What ingredients account for Google's success as an employer—beyond, of course, its financial and market success?

Google's value proposition as an employer combines a laser focus on innovation and smart business practices with a small-company feel that includes direct access to top management. For instance, no one hesitates to pose questions directly to the founders at the weekly all-hands meetings.

The HR management system plays a critical role in keeping this value proposition well tuned and relevant for each successive generation of employees by embedding Google's mission into daily work life. As Laszlo Bock, vice president of people operations at Google, said in an interview with BCG: "If you talk to anybody at Google and ask them what the mission is, they'll say, 'To organize the world's information and make it universally accessible and useful.' It's rare to find a place where everyone knows the mission—and then actually believes it."

Google's benefits and compensation packages, renowned for their largess, have a threefold purpose, Bock pointed out. First, to create a community—hence the microkitchens sprinkled around the offices, where people can interact informally. Second, to drive innovation: the more people interact, the higher the likelihood of creating serendipitous sparks of innovation. And third, to promote efficiency: on-site oil changes and dry-cleaning services help hard-working employees save time in their personal lives.

To keep a pulse on how "Googlers" are feeling, which informs talent-management and development programs, HR undertakes a variety of analyses, Bock said. The company monitors retention and attrition and looks for patterns. An annual employee survey plus focus groups throughout the year provide ample qualitative feedback. On the basis of this analysis, upward management feedback gets put into practice. "Every member of our executive team has goals for the year," Bock said. "These are not amorphous goals, like 'make the company feel more engaged,' but very specific, like 'there were three issues in the sales organization that we will address this year.'"

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## Improvement Through Focused Projects

As companies try to improve their various HR capabilities, they often undertake specific projects to test alternative practices against traditional methods, or to make step-change improvements in traditional methods. We asked respondents how many projects per HR topic their company undertook and how satisfied they were with the projects' outcomes. Grouping the answers for number of projects and satisfaction with the outcome of each allowed us to define four groups:

◇ *Good practice* for an above-average number of projects and high satisfaction

◇ *Poorly managed* for an above-average number of projects and low satisfaction

◇ *Underleveraged* for high satisfaction but for just a few projects

◇ *Difficult topics* for a few projects that generated low satisfaction

As a broad observation, HR is conducting too many initiatives, with mediocre outcomes. Of the five most frequent types of project, only *delivering on recruiting* had satisfying results and therefore could be categorized in the *good practice* group. (See Exhibit 6.) The other four—*improving leadership development, restructuring the organization, managing talent,* and *enhancing employee engagement*—resulted in below-average satisfaction and thus would have to be called *poorly managed.*

Companies clearly must improve their HR project management. To conduct so many projects with unsatisfying results squanders precious resources that perhaps could be transferred to more projects for the *underleveraged* topics. *Difficult topics,* meanwhile, should be reassessed with well-structured projects that lead to greater satisfaction with the results.

Analyzing the ranking of HR projects by high- and low-performing companies, we find it striking that *measuring workforce performance* ranks fifth among high performers but only tenth among low performers. (See Exhibit 7.) This project gap reinforces the capability gap between

## Exhibit 6. Of the Five Most Frequent Types of Project, Four Are Poorly Managed

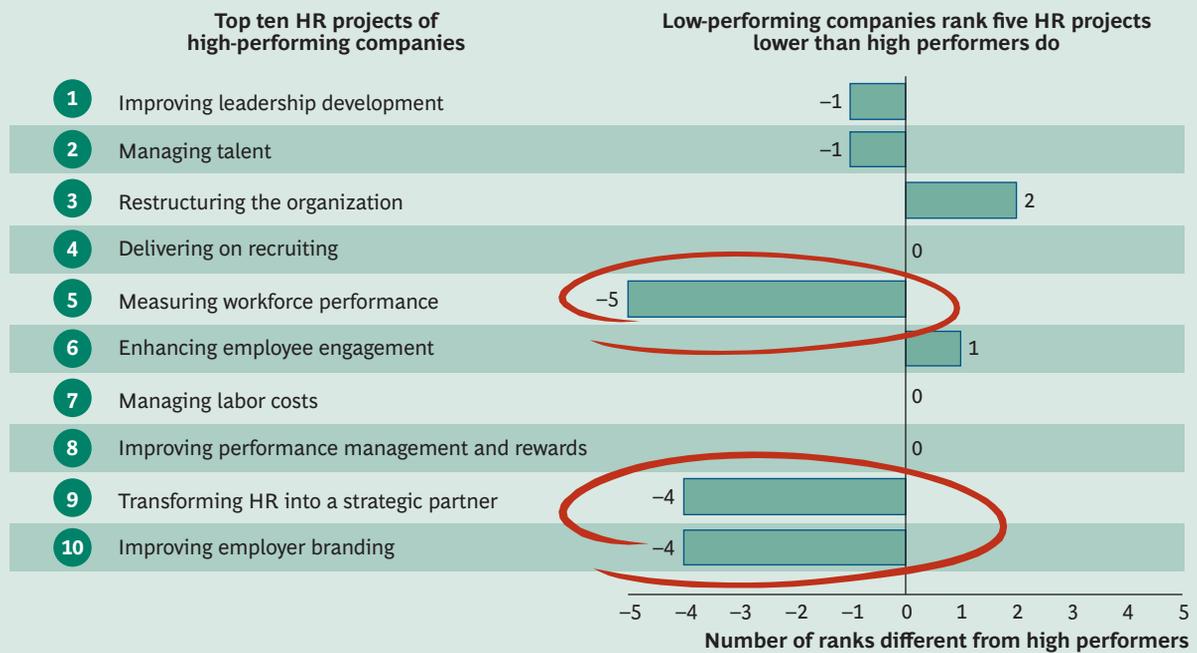| | | |
|---|---|---|
| **Above-average satisfaction with projects** | **Underleveraged**<br>◇ Managing corporate social responsibility<br>◇ Becoming a learning organization<br>◇ Managing work-life balance<br>◇ Managing flexibility | **Good practice**<br>◇ **Delivering on recruiting**<br>◇ Mastering HR processes<br>◇ Transforming HR into a strategic partner<br>◇ Improving employer branding |
| **Below-average satisfaction with projects** | **Difficult topics**<br>◇ Managing change and cultural transformation<br>◇ Strategic workforce planning<br>◇ Providing shared services and outsourcing HR<br>◇ Managing diversity and inclusion<br>◇ Managing demographics<br>◇ Managing globalization | **Poorly managed**<br>◇ **Improving leadership development**<br>◇ **Restructuring the organization**<br>◇ **Managing talent**<br>◇ **Enhancing employee engagement**<br>◇ Measuring workforce performance<br>◇ Managing labor costs<br>◇ Improving performance management and rewards |
| | Number of projects undertaken is below average | Number of projects undertaken is above average |

The five most frequent HR projects

**Sources:** Proprietary Web survey with 5,561 responses; BCG/WFPMA analysis.

low and high performers that we noted earlier for the same topic, despite the topic's relatively high importance. Projects pertaining to *transforming HR into a strategic partner* and *improving employer branding* were also much less important to low performers than to high performers.

High-performing companies are noteworthy for their persistence with appropriate projects. Even when they rank high in a certain capability, high performers continue to undertake projects to improve further. Excellence in talent management, it seems, entails continual experimentation and refinement.

**Exhibit 7. Three High-Priority Projects of High-Performing Companies Are Neglected by Low Performers**

| | Top ten HR projects of high-performing companies | Low-performing companies rank five HR projects lower than high performers do |
|---|---|---|
| 1 | Improving leadership development | −1 |
| 2 | Managing talent | −1 |
| 3 | Restructuring the organization | 2 |
| 4 | Delivering on recruiting | 0 |
| 5 | Measuring workforce performance | −5 |
| 6 | Enhancing employee engagement | 1 |
| 7 | Managing labor costs | 0 |
| 8 | Improving performance management and rewards | 0 |
| 9 | Transforming HR into a strategic partner | −4 |
| 10 | Improving employer branding | −4 |

Number of ranks different from high performers
−5  −4  −3  −2  −1  0  1  2  3  4  5

# Do You Have the Right Future Leaders?

*T*he leadership pipeline can be a resource for growth or a bottleneck. Fifty-six percent of survey respondents cited a critical talent gap for senior managers' successors, in part because their internal talent pools are too shallow. High-potential employees have many options, so companies must adapt their leadership-development programs in order to retain and motivate the best and the brightest inside the organization—including women, who tend to be underrepresented in talent pools. Companies should augment their training curricula and job assignments to foster the critical skills of formulating and executing strategy, navigating complex markets, and attending to a diverse set of stakeholders.

Corporate leaders today must be comfortable navigating a more complex and fast-changing business environment, where boundaries between different players are more porous, competitors sometimes serve as collaborators, and the range of stakeholders making demands on the company has greatly expanded.

Yet most companies report a shortage of future leaders with the requisite capabilities. This shortage, which has existed for certain highly skilled technical positions, is now emerging at all levels of organizations. It will only get more extreme in most Western countries and Japan because of well-documented demographic shifts.

Executives also worry that their leadership-development programs have not kept pace with the new complexities. Many such programs are disconnected from workforce-planning activities, divorced from explicit career paths, or lacking transparent criteria for employee selection.

Companies will thus be pressed to advance their leadership development along several fronts:

◇ Building a larger, stronger pipeline of future senior executives by balancing the talent available from internal pools with the targeted new capabilities that can be acquired through external recruitment

◇ Devising better approaches to career development conversations and plans, and to building the capabilities among high-potential employees to handle complexity

◇ Planning and organizing talent flows internally and externally on a multinational—even global—scale

◇ Encouraging leadership training by, for instance, establishing or augmenting corporate "universities"

## Leadership Talent Is in Short Supply

Our survey reveals a major gap for high-potential employees who will serve as the next generation of leaders. In the leadership pipeline, we distinguish among four groups: *emerging potentials*—young university graduates who are likely to flourish; *high potentials*—promising employees who can be found at any level; and *senior manager* and *CEO successors*—who have already advanced and have the potential for senior executive leadership.

Our survey respondents are most worried about the talent gap for senior manager successors, with 56 percent citing a critical talent gap for this group. Fifty percent of respondents are concerned about the gaps for CEO successors and high potentials, and 40 percent for emerging potentials.

The leadership talent shortage is most acute in IT and, to a lesser extent, in support functions and in marketing and sales. The regions with the biggest gap are the Commonwealth of Independent States (the former Soviet Union), India, and South America. (See the sidebar "Stimulating Economies Through Talent Mobility.")

## In Search of Homegrown Talent

Many companies are dealing with this shortage of qualified future leaders by recruiting from outside the organization, even though they have many young, talented employees eager to advance their careers. Respondents said their companies recruited externally, on average, for 52 percent of top executives, 48 percent of senior managers, and 44 percent of middle managers.

They are looking externally because internal talent-development programs have not produced a sufficient number of strong candidates—a major shortcoming in HR management. Only about one-fifth to one-third of respondents said their companies have talent management programs dedicated to developing each of the groups.

One frequently overlooked pool of potential leaders is women. Despite the strides made by women in many professions, they still struggle to break into leadership ranks. In 44 percent of the companies surveyed, women constitute 10 percent or less of the talent pool.

*High-performing companies fill most top executive positions with internal candidates.*

A clear and well-structured leadership-talent strategy is critical. Companies with such a strategy fill roughly one-third more positions internally than do companies without a clear strategy, our survey finds. High-performing companies, for instance, report filling 60 percent of top executive positions with internal candidates, while low performers fill just 13 percent of those slots internally.

MTR Corporation of Hong Kong, which operates rail systems around the world, maintains a pipeline with three levels of seniority to meet the need for future leaders who will steer the company for growth and sustainability, said William Chan, HR director. Besides identifying and nurturing promising employees, talent programs should improve staffing decisions. Staffing decisions can be made on the basis of an individual's potential and development path, not just on competence and past performance. And a more forward-looking approach to staffing would anticipate the need for leaders ten years out.

As Marcelo Madarasz, manager of development and leadership at Natura, a Brazil-based cosmetics manufacturer, noted: "We can't sustain this growth—and the complexity it brings—if we don't develop our own leaders in-house. That's because we need leaders who breathe and retransmit our values, vision, culture, and beliefs."

Filling too many middle and senior leadership positions with outside candidates, or with internal candidates who have not demonstrated the requisite characteristics and capabilities, undermines the organization in several ways. Practically speaking, employees need opportunities for

### Stimulating Economies Through Talent Mobility

Talent mobility is widely recognized as one effective means of addressing the increasing skill gaps in some countries. BCG has been collaborating with the World Economic Forum on a project to design concrete recommendations to policymakers that will facilitate talent mobility.

Over the next 20 years, countries such as the United States and Japan will face large talent gaps in many industries. And certain sectors, including health care, education, IT, and business services, will likely experience major

shortages regardless of the country. Other countries, such as Brazil, Sweden, and Italy, are unlikely to experience acute shortages. (See the exhibit "The Region-Industry Matrix Highlights Likely Skill Shortages in 2020 and 2030.")

Making cross-border mobility easier for employees is one way that governments, for their part, can address the challenges of demographic shifts and resulting talent gaps, and thereby foster economic growth. Policymakers should consider these other avenues as well:
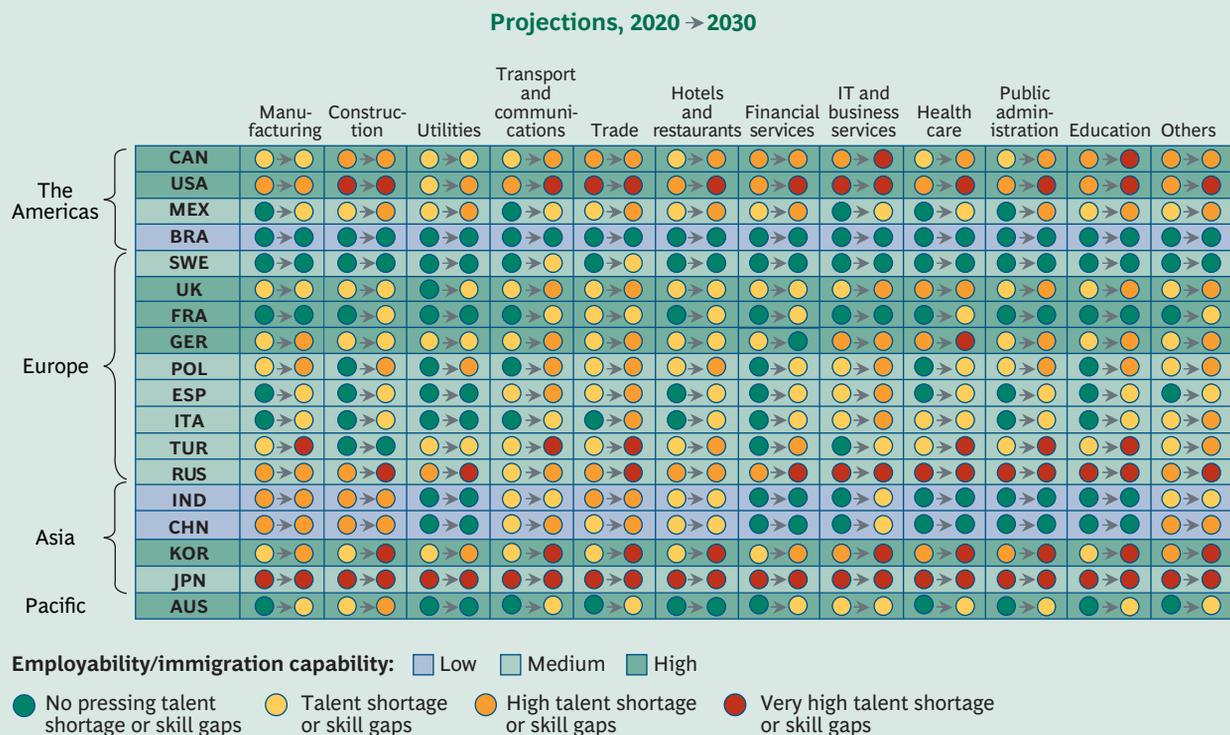
◇ *Assess current and future shortages through strategic skills planning.* Governments should analyze capacity and productivity risks for each job type and develop policies to mitigate anticipated shortfalls. Australia, for instance, has set up an independent body consisting of multiple stakeholders that advises the minister for education, employment, and workplace relations on Australia's current and future skill needs.

◇ *Develop recognized skills training for native and immigrant employees, particularly for critical skills in short supply.* For instance, the U.K. government, industry associations, and training providers have established 25 Sector Skills Councils to develop training solutions and to influence development of qualifications.

◇ *Design comprehensive immigration policies that cover a range of immigrants, from students to experienced workers.*

Governments should ensure the proper integration of immigrants, provide them with employment and language support, and facilitate the portability of pensions and social benefits. A new category of short-term work visas targeting highly skilled immigrants can further increase workforce flexibility and help mitigate immediate shortages.

◇ *Develop public-private partnerships in education and training,* working with businesses and academic institutions to better match supply and demand. The collaboration among IBM, Google, and leading U.S. universities is one such partnership.

◇ *Integrate migration into the development strategies of sending countries.* Hosting and sending countries must collaborate to design policies that encourage talent circulation and ensure the transfer of migrants' skills.

## The Region-Industry Matrix Highlights Likely Skill Shortages in 2020 and 2030

**Projections, 2020 → 2030**

The matrix rows are grouped by region:

- **The Americas:** CAN, USA, MEX, BRA
- **Europe:** SWE, UK, FRA, GER, POL, ESP, ITA, TUR, RUS
- **Asia:** IND, CHN, KOR, JPN
- **Pacific:** AUS

The matrix columns (industries): Manufacturing, Construction, Utilities, Transport and communications, Trade, Hotels and restaurants, Financial services, IT and business services, Health care, Public administration, Education, Others

**Employability/immigration capability:** ☐ Low  ☐ Medium  ☐ High

● No pressing talent shortage or skill gaps  ● Talent shortage or skill gaps  ● High talent shortage or skill gaps  ● Very high talent shortage or skill gaps

**Source:** BCG analysis.

career growth. Lacking those opportunities, top talent will notice their company's tendency to court outsiders, and they will become disengaged and leave for greener pastures. In addition, it takes outsiders a longer time to acquire the institutional knowledge and informal network that are essential for getting things accomplished.

External recruiting will always have a role, especially for young or fast-growing companies. One Indian company in the construction materials market, which has a goal of growing ten times its size over four years, faced a severe talent challenge. The company developed a detailed manpower model for the next five years, plotting the demand and supply of talent for each role. For example, for roles in high demand and high supply, the company cast a wide recruiting net and built an "onboarding" engine that emulated IT companies. For roles in high demand but short supply, the company instituted cross-functional rotations, a fast-track development program for top performers, and on-the-job training. Through a combination of initiatives, the company has been able

*Companies can attract more external candidates by working with second-tier universities.*

to create the bench strength it needs for its ambitious growth agenda.

But external recruiting should be combined with a dedicated internal-development plan. Companies benefit from strong internal-development programs by promoting people who have been thoroughly assessed, have strong connections in the company network, and know the business well. And high-potential employees, meanwhile, benefit by receiving more development opportunities. (See the sidebar "Sanofi-aventis Confronts the China Talent Squeeze.")

Companies can also ensure that they have an adequate supply of external candidates by expanding relationships with second- and third-tier universities, whose top students are often overlooked.

The Indian IT and business-service firm Wipro has done just that by expanding its university-graduate sourcing and linking it with a dedicated internal-development plan to meet its strong demand for new talent.

## Sanofi-aventis Confronts the China Talent Squeeze

Explosive growth and intense competition have strained the management attention of pharmaceutical giant Sanofi-aventis in China in recent years. Like other companies in China, the firm experienced high employee turnover, which has been particularly challenging in the middle management ranks because middle managers provide key leadership for a fast-growing organization. To compound the problem, Sanofi-aventis forecast that it would need to double the size of its China operation within five years.

In response, said David Ford, global head of executive talent management, the company decided it needed to devise a strong talent strategy that would identify high-potential employees at each layer of management and give them opportunities for new challenges and professional development. Sanofi-aventis took several steps:

◇ Forecast baseline revenue and head count by function, seniority, and future job families.

◇ Defined future talent demand for China on the basis of global data adjusted for local trends, such as attrition

rates. The forecasted demand included the type and quantity of talent that would be needed year by year.

◇ Conducted interviews and a "talent vision" workshop to align senior management and the HR function on the main talent challenges.

◇ Established a dedicated talent center for the Chinese market.

The new talent center, which operates alongside the HR function, has several unique characteristics. Through funding and staffing mechanisms that smooth the impact of talent movements on business units, it avoids the usual conflict with business unit leaders, who don't want to lose their best people to grooming and transfer, and who have no incentive to underwrite talent development.

Training sessions and coaching will increase development opportunities for high-potential talent, as well as increase the flow of talent through to managers at all levels. As a result, Sanofi-aventis is far more confident about overcoming the unique HR challenges of the Chinese market.

## Components of Effective Leadership Development

Our interviews and experience suggest that the most effective approach to leadership development contains a blend of training sessions, frequent conversations, coaching, and hands-on experience. In each activity, the survey findings suggest that companies should devote more time to *people development* and *effective decision-making.* High-performing companies rank their capabilities in those two skills much higher than do low performers.

The most common leadership-development initiatives—*technical and functional training, regular development con-* *versations and plans,* and *on-the-job projects*—were each undertaken in nearly half of the companies surveyed. Technical and functional training, along with on-the-job projects, were deemed the most effective in developing leadership skills. (For a conceptual guide to leadership training content, see the sidebar "Navigating with a Leadership Compass.")

On the other hand, regular development conversations and plans were not considered very effective, in part because they are too infrequent and disconnected from other initiatives. (See Exhibit 8.) At many companies, a manager or even an executive might have just one conversation with his or her supervisor each year, to review

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### Navigating with a Leadership Compass

Young, promising employees need focused training and other measures to help them step into leadership roles. It's essential to have a leadership "compass" that helps the next generation of leaders develop the right set of skills for navigating a volatile, interconnected, and complex world.[1] In a recent study, BCG interviews with nearly 30 senior HR executives around the world revealed that four capabilities—the four points of the compass—will differentiate the most successful leaders in the coming years:

◇ *Navigate.* Leaders will need to combine analytical skills with an ability to interpret mixed signals in order to make decisions in uncertain situations.

◇ *Empathize.* Leaders must respect and understand diverse perspectives and build networks of people outside their organization. Empathy with people at all levels and with different perspectives can be quite valuable when entering new regions or market segments.

◇ *Self-correct.* Leaders will want to challenge and periodically revise their assumptions about leadership styles and modes of interacting with people. They should also be willing to reframe their business paradigms on the basis of changing demands.

◇ *Win and win.* Leaders should broaden their view of what constitutes success, as success increasingly depends on cooperation with competitors, nongovernmental organizations, and regulators.

These four compass points should inform every initiative that aims to develop leadership skills, from training to mentoring to project assignments. Companies can offer a range of practices to help leaders think and behave consistently with these new imperatives.

First, they should actively expand future leaders' horizons. Promising early-career leaders can be immersed in unfamiliar regions, product lines, or customer segments. More experienced leaders can be assigned temporarily to important external initiatives concerning policy or trade.
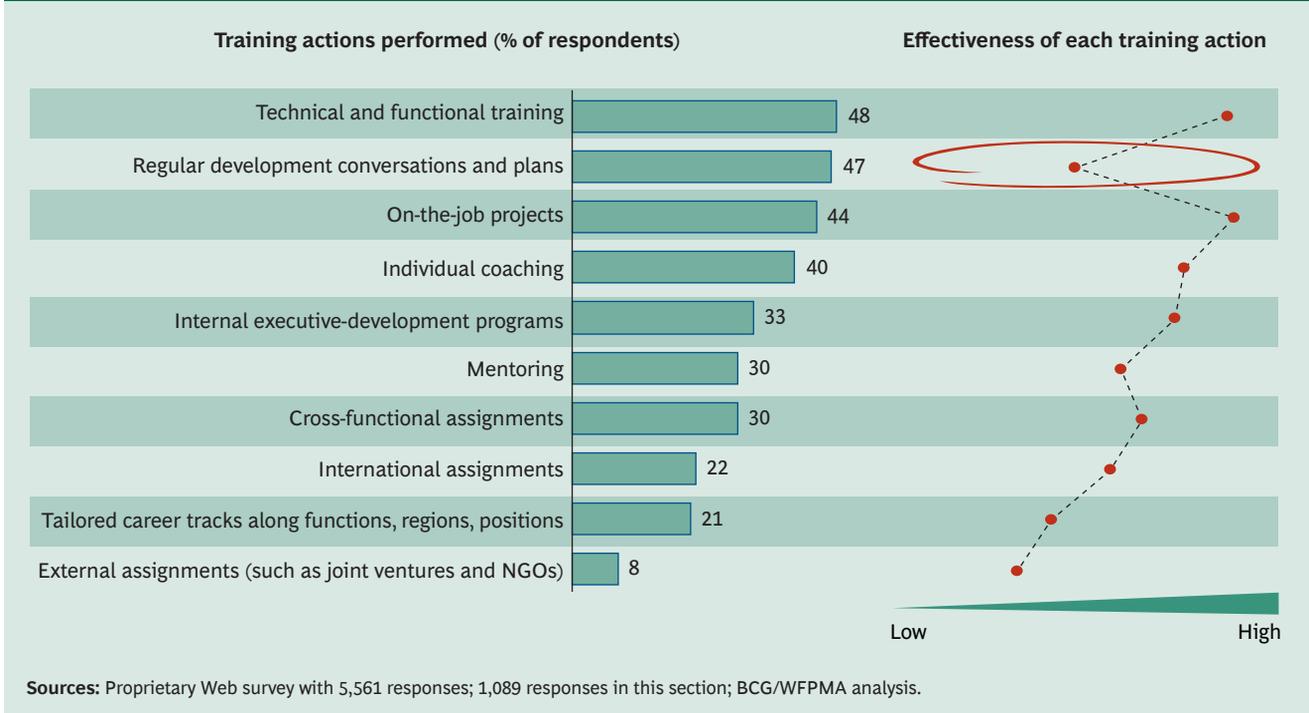
Second, they should lay down fast tracks that provide opportunities for high-potential employees to skip a rung. Migrating to new roles and new assignments benefits both young and later-stage leaders.

Third, they should accelerate skill development, benchmarked against the top talent in key markets. Leading a peer group or a joint venture can provide a controlled experience in authority, monitored through regular reviews to explicitly mine the points that can be learned.

Finally, companies should strive to inspire and retain their future leaders through opportunities to work on social causes that align with the business, through sabbaticals to pursue personal passions, or through challenging assignments that foster a sense of continuous learning and personal growth.

1. Roselinde Torres, "New Leadership Rules," online article, The Boston Consulting Group, May 2010.

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## Exhibit 8. Development Conversations and Plans Are Relatively Popular but Not Considered Very Effective

**Training actions performed (% of respondents)**

| Training action | % |
|---|---|
| Technical and functional training | 48 |
| Regular development conversations and plans | 47 |
| On-the-job projects | 44 |
| Individual coaching | 40 |
| Internal executive-development programs | 33 |
| Mentoring | 30 |
| Cross-functional assignments | 30 |
| International assignments | 22 |
| Tailored career tracks along functions, regions, positions | 21 |
| External assignments (such as joint ventures and NGOs) | 8 |

**Effectiveness of each training action**

Low — High

**Sources:** Proprietary Web survey with 5,561 responses; 1,089 responses in this section; BCG/WFPMA analysis.

past performance and future objectives. Such initiatives clearly should be improved through more frequent conversations, additional 360-degree reviews, follow-up plans with a specific development agenda, and training sessions that explicitly connect to that agenda.

In order to facilitate training, 22 percent of the respondents have launched a corporate university. These pro-grams typically aim to develop job skills, as reflected in the curriculum; courses on leadership behavior, for example, would be relevant for senior and middle managers. In addition, corporate universities can communicate and also contribute to development of the company's strategy, thereby reinforcing desired behaviors and culture as well as providing networking opportunities.

# A Strategic Workforce Plan to Build the Capabilities You Need

*W*ill you have the capabilities you'll need in your workforce in five or ten years? Huge gaps are developing in companies' workforces, owing to both economic fluctuations and demographic shifts. It takes years to train personnel in complex skills and to put in place other measures to address workforce capacity shortages or surpluses. Yet currently, only 9 percent of surveyed companies are analyzing their future workforce supply and demand under different growth scenarios—and a mere 6 percent have begun developing a retention, recruiting, and talent management strategy for the job functions at greatest risk of a labor shortage.

Companies that systematically assess their workforce capacity risk and then put a strategic plan in place to manage that risk will gain a clear competitive advantage in the next decade. Very broadly, strategic workforce planning involves estimating the future supply of and demand for human capital and then figuring out how to close gaps. Such planning allows companies to think through their workforce alternatives to the high fixed cost of full-time employees.

The supply, of course, is determined by the availability of employees. A quick analysis, drawing on easily available company data, can be used to identify locations and business units facing the most critical capacity losses that occur because of attrition, retirement, or other trends. For those locations and business units, a more granular analysis is necessary, with jobs categorized into relatively broad groups, narrower families within each group, and functions within each family.[1]

With such an analysis in place, businesses can determine whether they will face surpluses or, more likely, shortages in key jobs. Since our last global survey, published in 2008, a small amount of progress has been made in understanding workforce supply: 15 percent of respondents now use a supply model to predict the availability of workers. (See Exhibit 9.) These models lack sophistication, however: less than half, for example, can simulate attrition or retirement rates at the job function level.

Demand is more difficult to predict because it hinges on a company's corporate strategy. Strategy determines the markets that a company expects to pursue and the products or services it expects to provide—and consequently the capabilities that will be needed. Furthermore, companies should anticipate and simulate several different demand scenarios, depending on how they anticipate that markets could develop.

Only 9 percent of the surveyed companies model demand as well as supply. Most of their demand models, however, lack the sophistication to simulate an array of scenarios, such as market-disrupting changes in technology.

The final step in strategic workforce planning combines supply-and-demand calculations to determine the risk (the size of the shortfall or surplus) and its immediacy. Capacity risk may be quantitative (number of workers) or qualitative (competencies and qualifications of available workers).

When spotted early enough, workforce shortfalls and surpluses can be addressed through a variety of measures, including recruitment, retention programs for critical job functions, cross-training programs within job families, job

1. For more information, see Rainer Strack, Jens Baier, and Anders Fahlander, "Managing Demographic Risk," *Harvard Business Review,* February 2008.
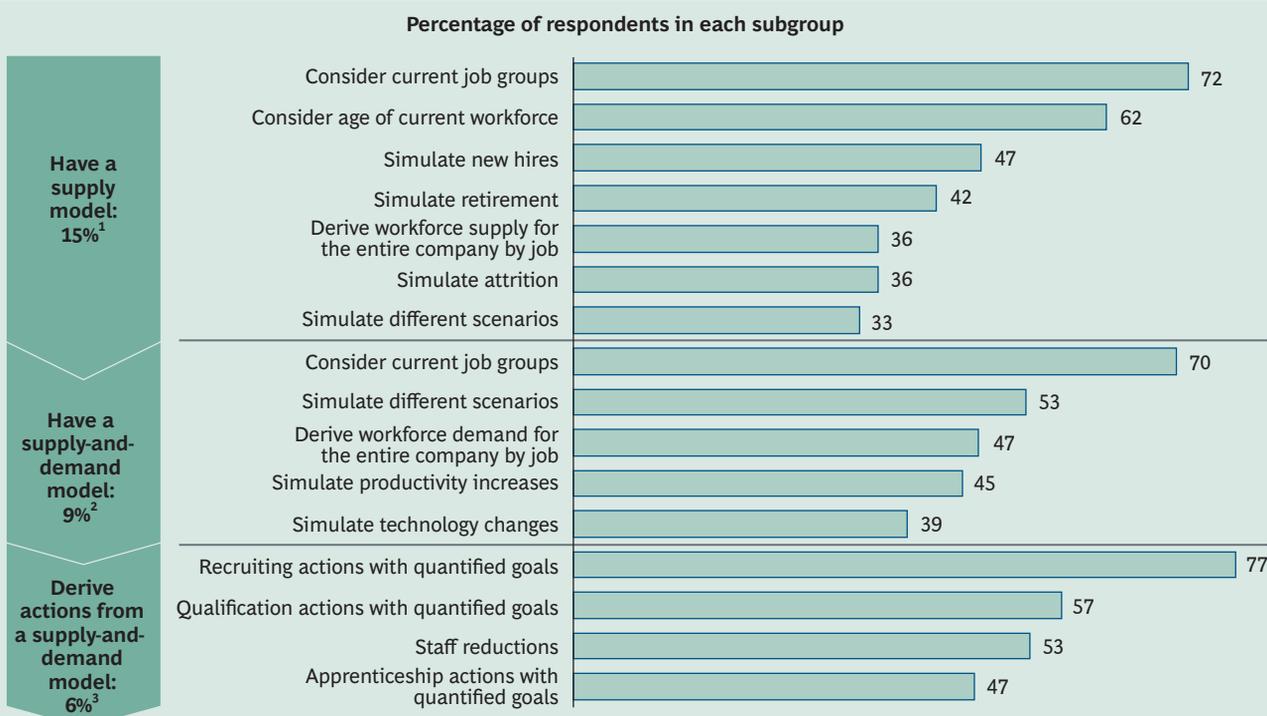
transfers, and outsourcing. These measures require a long-term vision; for example, some specialized jobs require seven to ten years of training and certification.

Very few companies are currently in a position to mitigate their capacity risk before a crisis occurs. Only 6 percent of the surveyed companies have implemented measures to address risks identified through modeling of future supply and demand. (For an example of a company that has, see the sidebar "Lufthansa Technik: Mitigating Capacity Risk.")

## How Far Out to Plan

Strategic workforce planning links corporate strategy to HR strategy. But most companies do not take full advantage of this opportunity. Their time horizon for HR is much shorter—generally just one or two years—than their strategic horizon. (See Exhibit 10.)

The most effective HR plans have a time horizon of at least four years. Planning ahead even further is difficult without the supply-and-demand models that most companies lack; even so, prospective planning of five or more years is considered more effective than using a shortsighted horizon of one or two years for strategic workforce planning.

## Measuring Employee Performance

Traditional metrics, such as return on assets or return on equity, measure capital productivity. Such metrics are of little use in measuring employee performance. To identify where and how people are creating—or squandering—value, companies need performance metrics that are as rigorous as those used in the finance department but are designed to measure human productivity. As a senior executive from a global pharmaceutical company said, "We are trying to align our KPIs with the de facto strategy."

## Lufthansa Technik
Mitigating Capacity Risk

Lufthansa Technik, an industry leader in aviation technology services, has successfully incorporated a longer-term perspective into its strategic workforce planning. (See the exhibit below.)

The airline created a taxonomy of approximately 230 job functions, 150 job families, and 90 job family groups. Individual job functions at the airline are highly specialized, yet the taxonomy allowed Lufthansa Technik to identify opportunities for cross-divisional exchange of personnel as well as for training personnel to move up into more complex job functions.

Lufthansa Technik uses supply-and-demand modeling to forecast future gaps in the workforce and take the appropriate countermeasures.

*Supply modeling* identifies the impact of personnel aging and retirements, employees moving among company divisions, and employees leaving the company, as well as other parameters that influence staff capacity at the job cluster level.

*Demand modeling* requires precise knowledge of influencing factors and strategies; these insights result from discussions among HR, the business units, and the finance function. At Lufthansa Technik, these conversations re-
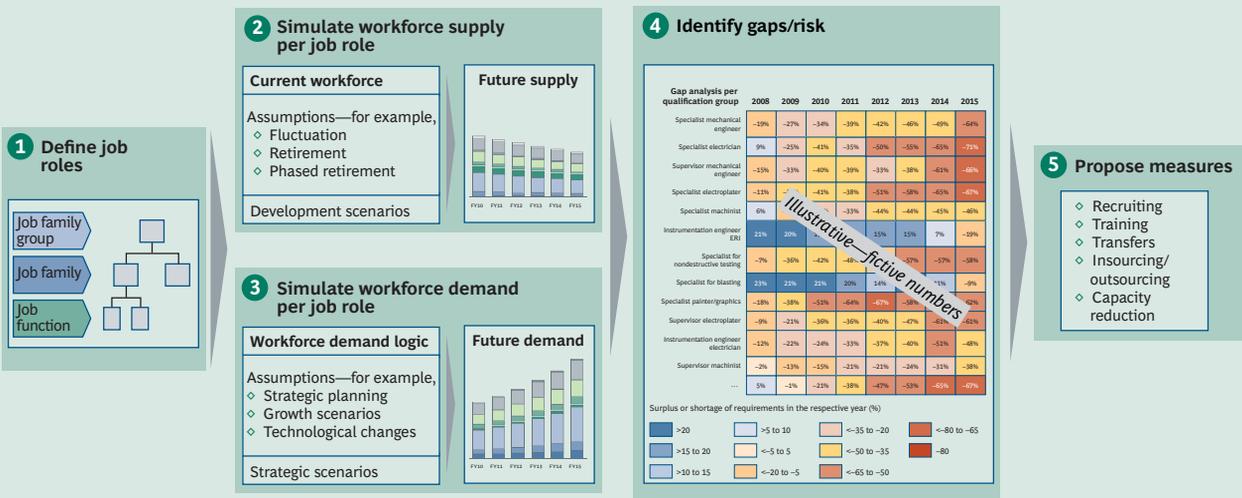
sulted in the maintenance services demand model being based on drivers such as aircraft type, year of construction, maintenance measures, and efficiency increase.

The degree of uncertainty that is always inherent in supply-and-demand modeling makes the simulation of scenarios indispensable. Through scenario simulations, market developments can be reflected in the strategic workforce plan along with the impact of corporate decisions, such as the introduction of new aircraft types, on the workforce.

Results from the supply-and-demand simulations are combined in a gap analysis to calculate the difference between the existing and the required workforce for each job cluster over a set period. The gap analysis provides a meaningful, quantitative foundation for taking actions to reduce Lufthansa Technik's capacity risk.
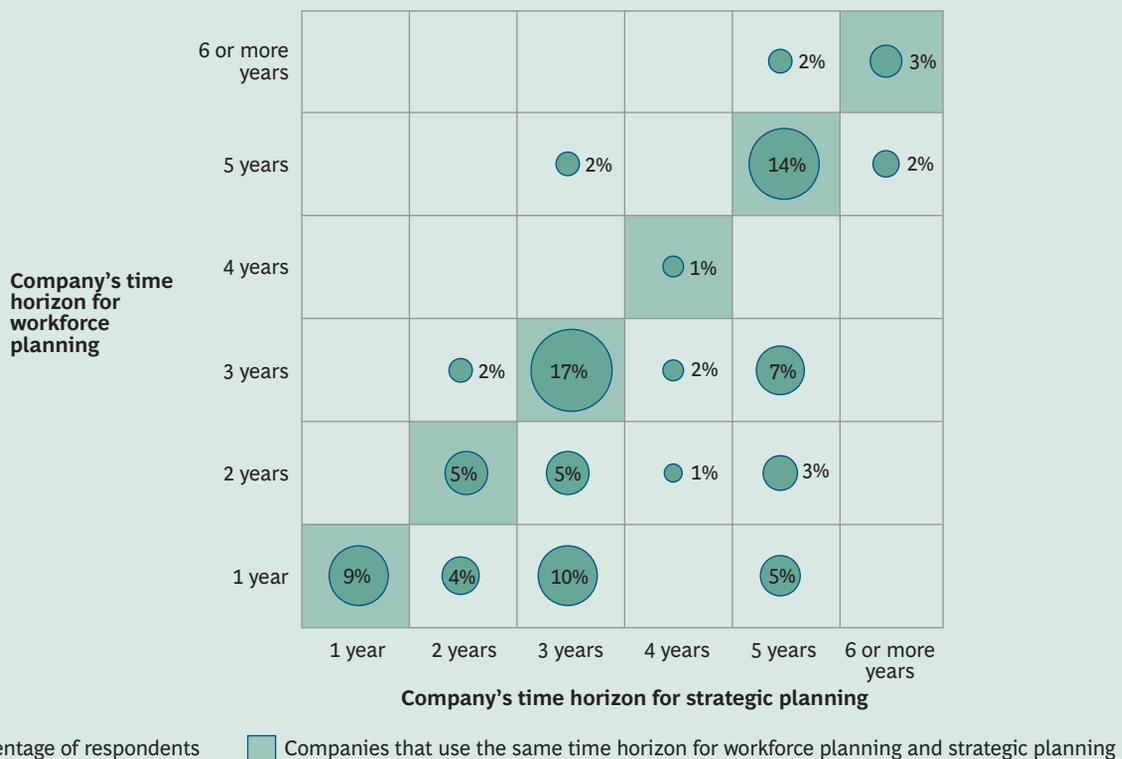
For example, maintenance employees undergo five to six years of training beyond the vocational level so that they can be certified for aircraft maintenance work. This investment offsets the risk associated with underestimating demand and suffering a critical capacity shortage in this job function that cannot be addressed on short notice—or, if it can, only at great effort and expense.

### Strategic Workforce Planning at Lufthansa Technik



**Sources:** Lufthansa Technik; BCG analysis.

**Company's time horizon for workforce planning**

| | 1 year | 2 years | 3 years | 4 years | 5 years | 6 or more years |
|---|---|---|---|---|---|---|
| **6 or more years** | | | | | 2% | 3% |
| **5 years** | | | 2% | | 14% | 2% |
| **4 years** | | | | 1% | | |
| **3 years** | | 2% | 17% | 2% | 7% | |
| **2 years** | | 5% | 5% | 1% | 3% | |
| **1 year** | 9% | 4% | 10% | | 5% | |

**Company's time horizon for strategic planning**

● Percentage of respondents   ▢ Companies that use the same time horizon for workforce planning and strategic planning

**Sources:** Proprietary Web survey with 5,561 responses; 833 responses in this section; BCG/WFPMA analysis.
**Note:** Values below 1% not shown.

In line with the previous global survey, our current survey results show that companies primarily use quantitative input-related KPIs that are relatively easy to calculate—such as *cost of personnel* and *training time per employee.* (See Exhibit 11.) Output-related KPIs are harder to derive and therefore are used less often: only 27 percent of the companies surveyed track *value added per person,* for example. Yet these output KPIs are essential for measuring true performance—both of people and of a business.[2] (See the sidebar "Workonomics: A More Useful Way to Calculate Profit.")

To improve employee performance, companies must not only measure but also take action on the performance KPIs they select. (See the sidebar "Total Workforce Management at Deutsche Telekom.") This involves setting predefined values for their human resources KPIs and establishing efficient processes to improve disappointing scores. Fewer than 40 percent of surveyed companies have targets and follow-up processes in place for input-

related KPIs, and fewer than 20 percent for output-related KPIs. And only rarely do companies motivate employees and hold middle managers accountable for reaching goals by linking performance, measured against KPIs, to compensation.

2. For more information, see Felix Barber and Rainer Strack, "The Surprising Economics of a 'People Business,'" *Harvard Business Review,* June 2005.

## Exhibit 11. Companies Rely More on Basic Input-Related KPIs and Often Lack Efficient Follow-up Processes

**Input-related KPIs are used much more widely than output-related KPIs (% of respondents)**

**Target values, processes to improve results, and compensation linkage to KPIs are rarely used (% of respondents)**

**Input-related KPIs**
- Employee head count — 68
- Cost of personnel — 62
- Training time per employee — 46
- Training costs as percentage of total budget — 41

**Output-related KPIs**
- Value added per person — 27
- ROI of training — 14
- ROI of recruiting — 13
- Percentage of new hires receiving top performance ratings — 12

Legend: ■ Use of metric   ▲ Target value   ● Process to improve results   ◆ Compensation link

**Sources:** Proprietary Web survey with 5,561 responses; 833 responses in this section; BCG/WFPMA analysis.

## Workonomics
### A More Useful Way to Calculate Profit

At many companies, personnel costs exceed capital-related costs, which skews the relevance of traditional capital-oriented performance metrics such as return on capital. A company with few hard assets on its books can post seemingly high returns but nonetheless be struggling. Alternatively, it can post volatile returns when the underlying business is sound. Another approach, which we call *workonomics,* shifts the focus from capital to people and thereby provides a more accurate indication of the fundamentals of the business. (See footnote 2 on page 24.)

The standard calculation for earnings can be reformulated in a few quick steps to achieve this shift, in which people become a source of value rather than just a cost factor. Start with the calculation of earnings before interest and taxes (EBIT):

$$EBIT = R - MC - D - PC$$

Earnings before interest and taxes | Material costs | Personnel costs

Employees are at the core of the value chain, so restate the equation to show the contribution per employee. Algebra is used to factor in the number of people employed (P):

$$= \left[ \frac{R - MC - D}{P} - \frac{PC}{P} \right] P$$

Value added per person (VAP)[1]   Average cost per person (ACP)   People employed (P)

The equation determines an average personnel cost per person employed (ACP) and the value added per person (VAP). What exactly does VAP reveal? To answer this question, consider the following simple graphic:

$$MC \rightarrow \boxed{\text{👤👤👤}} \rightarrow R$$
$$\uparrow$$
$$D$$
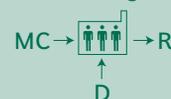
Employees generate revenues (R) from their customers, so the simplest productivity metric is revenues per person (R/P). Many companies use this metric. But to generate

## Workonomics (continued)
### A More Useful Way to Calculate Profit

revenues, employees need materials, which are represented by MC (material costs), and they use machines and other assets that are accounted for through depreciation (D). They add value by leveraging these inputs. So a more sophisticated productivity metric recognizes material costs and depreciation through the following equation:

$$(R - MC - D) / P$$

This term in the second equation is referred to as value added per person. Therefore, EBIT can be written as:

$$= (VAP - ACP) P$$

In this restated version, EBIT is expressed through three people-oriented metrics as the difference between productivity per employee and the average personnel cost per employee, multiplied by the number of employees. This equation links the control of HR performance with the key financial metric. If a company uses a financial metric other than EBIT (such as economic profit), the equation could be readily adjusted.

These new HR metrics are easy to calculate for companies or business units. Value added per person can be the starting point for understanding the productivity of business units and for adequately compensating value-added performance, as well as for controlling personnel costs and head counts. The resulting insights into people performance will enable companies to make smarter and better-balanced decisions, especially if their goal is to cut costs wisely in times of crisis.

## Total Workforce Management at Deutsche Telekom

Deutsche Telekom, the global telecommunications group, rolled out a successful implementation of strategic workforce planning in two-thirds of its German business units in 2008 and 2009. By 2010, the company was ready to widen the scope of the program to launch Total Workforce Management (TWM). Alongside the existing quantity and cost dimensions, Deutsche Telekom added skill, demographic, and quality dimensions, and then rolled out the new program internationally. Concurrently, HR integrated itself not only in the planning process but also throughout the entire management cycle, including strategic and financial planning, monitoring, and controlling processes.

The program has three goals:

◇ To develop a systematic approach that will optimize medium-term internal and external capacities

◇ To derive strategic HR initiatives from a comprehensive and detailed view of all relevant workforce dimensions

◇ To enable HR business partners to better support—but also challenge—the businesses

The TWM measures derive directly from specific business challenges, whether related to location, demography, or other variables. For each challenge, the company defined a "use case" that detailed the steps required to address the HR issue at hand. Next, a set of the most relevant quantitative, qualitative, and process-related KPIs could be derived and made accessible in a TWM online "cockpit," tailored to the specific needs of the business partners. As a result, transparency on these KPIs can be provided instantaneously as executives sort out the strategic-use cases and HR challenges.

One early outcome from TWM has been Deutsche Telekom's labor-cost management pilot, spanning labor cost issues from collective bargaining and strategy development to systematic labor-cost monitoring and benchmarking across foreign assets. The company thus has gained an effective instrument to identify and counteract negative cost developments on an international scale. A second early outcome was the skills-based restructuring of the company's systems-integration business.

By tying HR's activities closely to the strategic business challenges, TWM has made HR professionals even more relevant for the business side, shifting their role from executing strategy to being independent challengers and true strategic partners.

# Building Flexibility in the Workforce

*T*o maintain a lean, agile workforce, high-performing companies favor measures that increase flexibility, such as job mobility or streamlining processes. By contrast, low-performing companies tend to rely on layoffs and other cutback measures to weather crises. Cutback measures destroy morale and ultimately are less effective than flexible approaches. A creative, balanced approach toward these workforce measures gives companies the tools to help them emerge from economic crises stronger than before.

The global economic recession of the last few years has underlined the importance of a flexible workforce. Flexibility enables agility in both strategy and execution—for example, allowing companies to move quickly into a new market or shut down an underperforming product line. Building flexibility into the strategic workforce plan is thus critical to success in a volatile world.

*Cutback measures destroy morale and are less effective than flexible approaches.*

## Flexibility Measures: A Longer Runway but Greater Lift

Flexibility measures center on work organization such as *streamlined processes, flattened hierarchies,* and *outsourced work.* (See Exhibit 12).

These measures may take months or years to implement—but they are clearly worth the investment. Surveyed executives described these measures as considerably more effective than the average. *Flexible work time,* with reduced compensation for reduced work hours, received high marks, with an effectiveness ranking 10 per-cent above the average. (See the sidebar "Short-Time Work in Germany: Using a Flexibility Measure to Avoid Layoffs.")

Three other flexibility measures were also touted as highly effective. *Reinforcing job mobility* allows companies to respond to economic vicissitudes without laying off employees. At Oracle Corporation in the Philippines, for instance, employees from one office that had excess capacity would help at another office that was quite busy, said Judith Rivera, HR director. *Tightening hiring criteria* typically results in the hiring of fewer, but higher-potential, employees, while *streamlining processes* allows more work to be done with less effort.

Flexibility measures are sustainable, both during and after crises. Nearly two-thirds of companies with flexibility measures in place in 2009 planned to maintain these measures—which is approximately twice the number planning to rely on cutback measures in their longer-term strategic workforce plans. Rather than waiting to react to the next economic crisis, companies would be wise to implement flexibility measures now as a sustainable approach to building agility.

## Cutback Measures: Quick Results but Big Downside

Workforce cutback measures such as *layoffs* or *ending overtime pay* are pervasive during times of crisis, particularly among lower-performing companies that need to reduce labor costs. During the recent recession, for example, nearly one-half of respondents *laid off employees* and
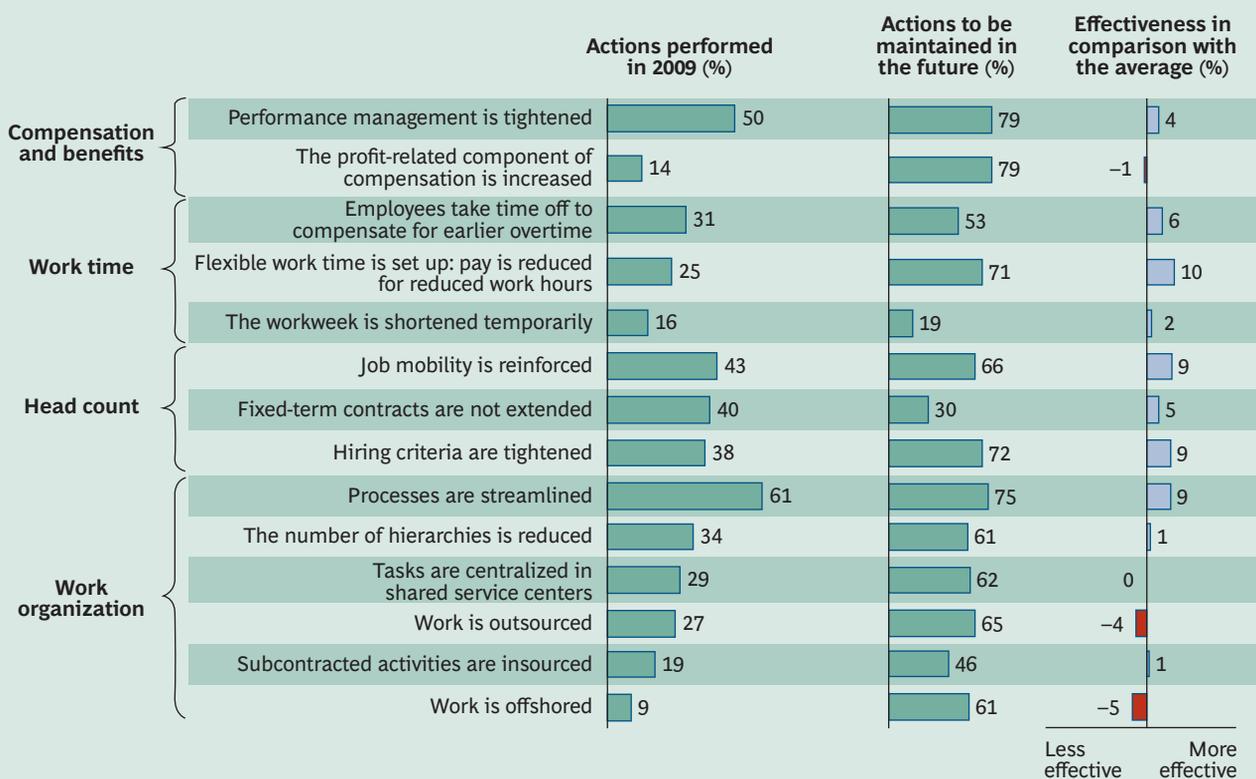
## Short-Time Work in Germany
Using a Flexibility Measure to Avoid Layoffs

Against all expectations, overall unemployment in Germany rose only slightly during the recent financial crisis, to a high of 8.3 percent in mid-2009. Companies were able to keep their experienced employees—and employees their jobs—because of economic stimulus packages from the government that funded so-called short-time work. Through this flexibility measure, companies reduce employees' work hours, and their pay, instead of laying them off.

To soften the blow, either individuals or companies can apply for short-term allowance to local employment agencies—up to 67 percent of the forgone net wage for up to 24 months. Because of this benefit, employees even at hard-hit companies were less anxious about losing their jobs. Many used the drop in hours as an opportunity to improve their skills through training or certification courses.

While costly to the government, short-time work compensation is potentially less expensive than funding unemployment. Furthermore, particularly in the engineering sector, German companies that used this flexibility measure and, as a result, kept their workforce together are now in a good position to serve soaring demand in their markets.

## Exhibit 12. Flexibility Measures Tend to Be More Effective

| | Actions performed in 2009 (%) | Actions to be maintained in the future (%) | Effectiveness in comparison with the average (%) |
|---|---|---|---|
| **Compensation and benefits** | | | |
| Performance management is tightened | 50 | 79 | 4 |
| The profit-related component of compensation is increased | 14 | 79 | −1 |
| **Work time** | | | |
| Employees take time off to compensate for earlier overtime | 31 | 53 | 6 |
| Flexible work time is set up: pay is reduced for reduced work hours | 25 | 71 | 10 |
| The workweek is shortened temporarily | 16 | 19 | 2 |
| **Head count** | | | |
| Job mobility is reinforced | 43 | 66 | 9 |
| Fixed-term contracts are not extended | 40 | 30 | 5 |
| Hiring criteria are tightened | 38 | 72 | 9 |
| **Work organization** | | | |
| Processes are streamlined | 61 | 75 | 9 |
| The number of hierarchies is reduced | 34 | 61 | 1 |
| Tasks are centralized in shared service centers | 29 | 62 | 0 |
| Work is outsourced | 27 | 65 | −4 |
| Subcontracted activities are insourced | 19 | 46 | 1 |
| Work is offshored | 9 | 61 | −5 |

Less effective        More effective

**Sources:** Proprietary Web survey with 5,561 responses; 731 responses in this section; BCG/WFPMA analysis.

an even larger percentage adopted measures such as *cutting back company events* and *cutting back recruiting.* (See Exhibits 13 and 14.)

Despite the prevalence of cutback measures as a quick reaction to crises, most of these measures turn out to be notably ineffective and demoralizing—and therefore act as barriers to building lean, flexible workforces. *Cutting back training,* a measure adopted by almost half of respondents in 2009, is the least effective in this category, with negative effects rippling out across companies.

## Tempering Harsh Measures with Up-Front Honesty

Honest communication, transparency, and fairness lessen the damage inflicted by any workforce measure. *How* a measure is implemented matters.

Companies should take the time, for example, to put the right layoff processes in place, always with an eye to the future. Talk to the top performers, explaining the steps required to move forward and ensuring them that their jobs are not in danger. Furthermore, choose which people to lay off on the basis of performance rather than on less significant criteria such as longevity. Doing so allows a company to keep its best people, regardless of length of service, and therefore protects the future as much as possible while the company navigates the current crisis. Of course, leaders should not wait for a crisis-induced restructuring to confront poor performers; that should be part of their ongoing role.

In 2009, more than 50 percent of respondents took steps to ensure that top performers were actively retained. That measure was perceived as 12 percent more effective than the average measure, and three-quarters of the companies using this measure said they planned to retain it. The large share of companies that intend to carry forward

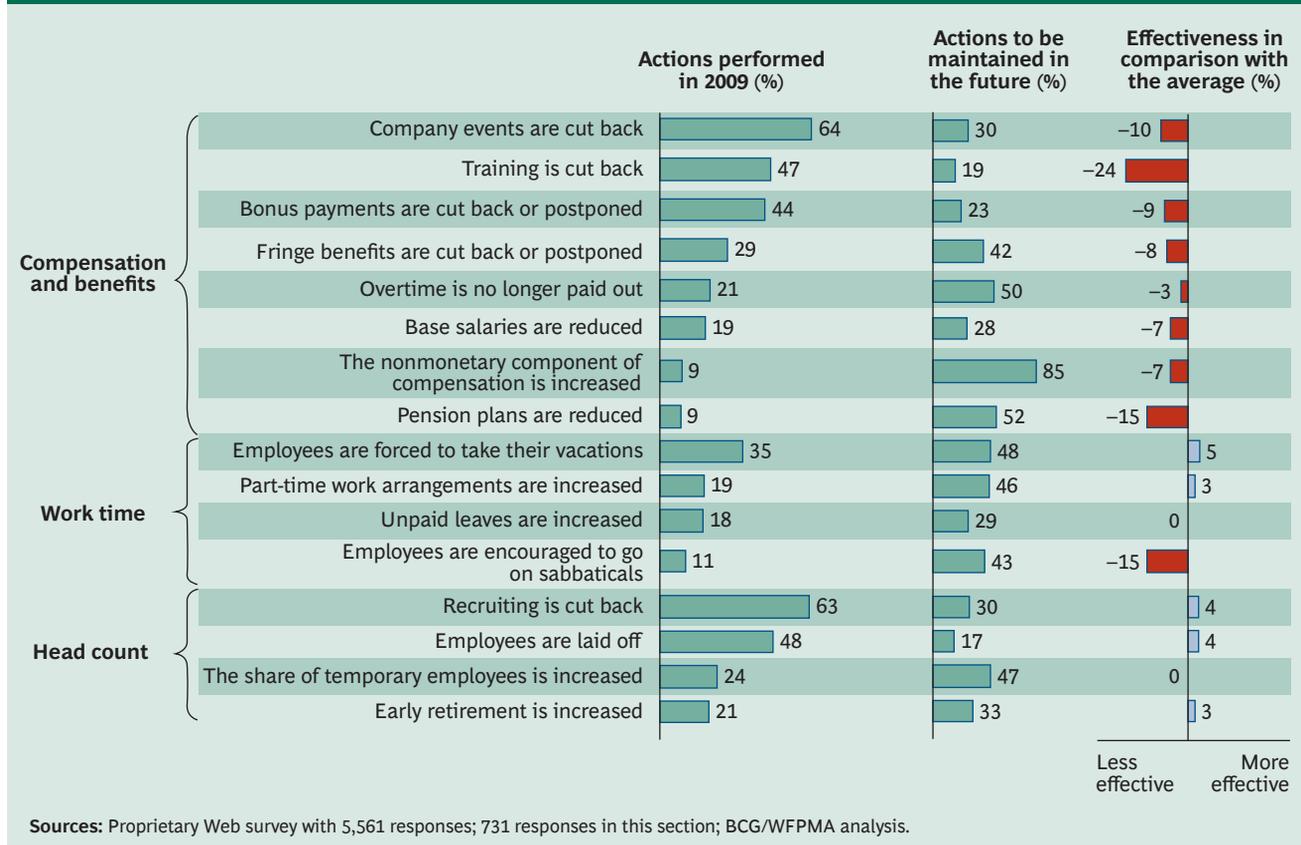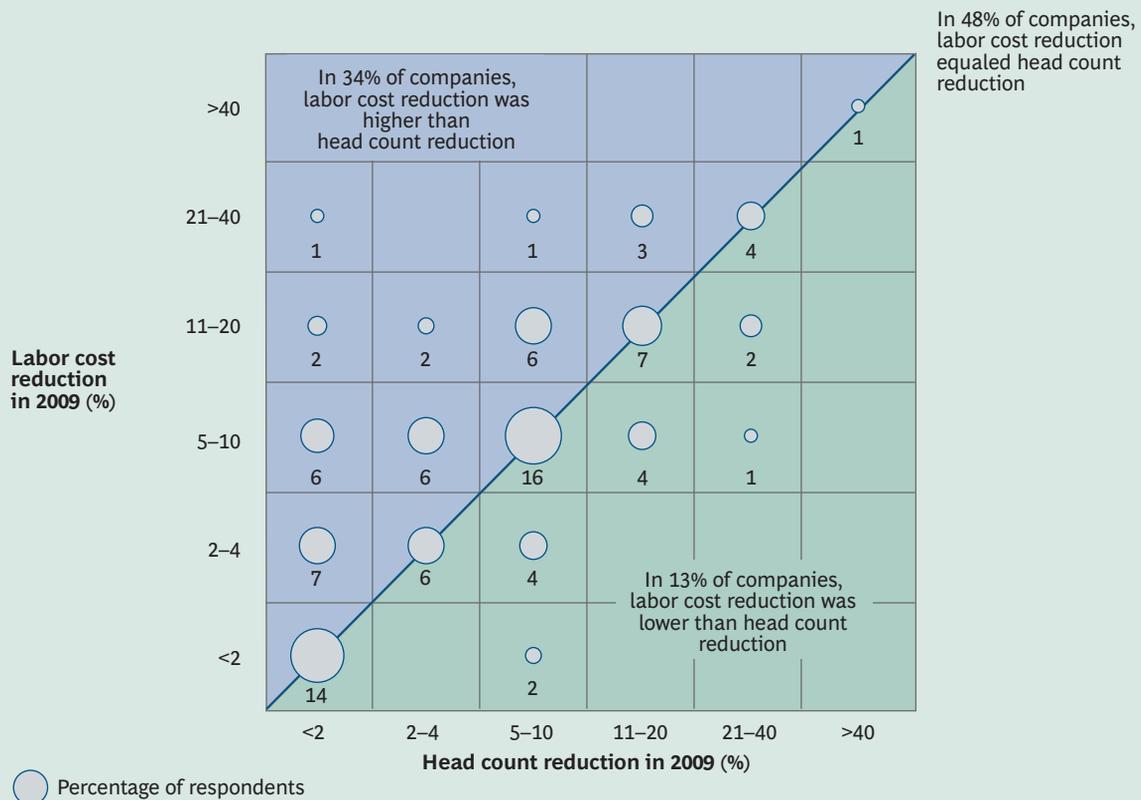## Exhibit 13. Cutback Measures Tend to Be Less Effective

| | Actions performed in 2009 (%) | Actions to be maintained in the future (%) | Effectiveness in comparison with the average (%) |
|---|---|---|---|
| **Compensation and benefits** | | | |
| Company events are cut back | 64 | 30 | −10 |
| Training is cut back | 47 | 19 | −24 |
| Bonus payments are cut back or postponed | 44 | 23 | −9 |
| Fringe benefits are cut back or postponed | 29 | 42 | −8 |
| Overtime is no longer paid out | 21 | 50 | −3 |
| Base salaries are reduced | 19 | 28 | −7 |
| The nonmonetary component of compensation is increased | 9 | 85 | −7 |
| Pension plans are reduced | 9 | 52 | −15 |
| **Work time** | | | |
| Employees are forced to take their vacations | 35 | 48 | 5 |
| Part-time work arrangements are increased | 19 | 46 | 3 |
| Unpaid leaves are increased | 18 | 29 | 0 |
| Employees are encouraged to go on sabbaticals | 11 | 43 | −15 |
| **Head count** | | | |
| Recruiting is cut back | 63 | 30 | 4 |
| Employees are laid off | 48 | 17 | 4 |
| The share of temporary employees is increased | 24 | 47 | 0 |
| Early retirement is increased | 21 | 33 | 3 |

Less effective · More effective

**Sources:** Proprietary Web survey with 5,561 responses; 731 responses in this section; BCG/WFPMA analysis.

## Exhibit 14. Labor Cost Reduction Was Often Achieved by Reducing Head Count

In 48% of companies, labor cost reduction equaled head count reduction

**Labor cost reduction in 2009 (%)**

In 34% of companies, labor cost reduction was higher than head count reduction

| Labor cost reduction in 2009 (%) | <2 | 2–4 | 5–10 | 11–20 | 21–40 | >40 |
|---|---|---|---|---|---|---|
| >40 | | | | | | 1 |
| 21–40 | 1 | | 1 | 3 | 4 | |
| 11–20 | 2 | 2 | 6 | 7 | 2 | |
| 5–10 | 6 | 6 | 16 | 4 | 1 | |
| 2–4 | 7 | 6 | 4 | | | |
| <2 | 14 | | 2 | | | |

In 13% of companies, labor cost reduction was lower than head count reduction

**Head count reduction in 2009 (%)**

◯ Percentage of respondents

**Sources:** Proprietary Web survey with 5,561 responses; 731 responses in this section; BCG/WFPMA analysis.
**Note:** Values below 1% not shown.

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similar approaches, such as communications programs, underlines their importance.

## Using Effectiveness and Engagement to Stay Lean and Become Flexible

During economic crises, low-performing companies react by implementing a vast array of cutback and flexibility measures, relying heavily on the former. (See Exhibit 15.) High-performing companies use a more selective and balanced approach—which is better suited to sustaining the strength of the workforce as a competitive differentiator.

These results underscore the importance of developing a workforce strategy that can carry a company through good times and bad. A critical task in developing such a strategy is selecting which combination of workforce

measures to implement, using two criteria: *effect on employee engagement* and *effectiveness.*

As a general principle, cutback measures are relatively ineffective and erode employee engagement. By contrast, flexibility measures tend to be more effective, and engagement is higher in companies that rely on them. Taking a closer look at the differences among the measures, however, will help companies select the right mix.

Exhibit 16 organizes the measures according to their effectiveness and the employee engagement they foster. The upper-right quadrant represents the ideal, including relatively effective measures that also drive the highest engagement. Virtually all of the choices in this quadrant are flexibility measures: *job mobility, streamlined processes, tightened hiring criteria,* and *flexible work arrangements.* (See the sidebar "KLM: Keeping the Family Together" for an example of job mobility.)

## Exhibit 15. High-Performing Companies Are More Selective in Their Use of Specific Measures

**Flexibility measures**

- Processes are streamlined
- Job mobility is reinforced: employees are trained to perform different jobs
- Fixed-term contracts are not extended
- The number of hierarchies is reduced and the span of control is increased
- Performance management is tightened
- Hiring criteria are tightened
- Flexible work time is set up: pay is reduced for reduced working hours
- Employees are compensated for earlier overtime
- Tasks are centralized in shared service centers
- Work is outsourced
- Subcontracted activities are insourced
- The workweek is shortened temporarily
- The profit-related component of compensation is increased
- Work is offshored

**Cutback measures**

- Company events are cut back
- Recruiting is cut back
- Employees are laid off
- Training is cut back
- Employees are forced to take their vacations
- Bonus payments are cut back or postponed
- Fringe benefits are cut back or postponed
- Part-time work arrangements are increased
- Overtime is no longer paid out
- The share of temporary employees is increased
- Early retirement is increased
- Base salaries are reduced
- Unpaid leaves are increased
- Pension plans are reduced
- Employees are encouraged to go on sabbaticals
- The nonmonetary component of compensation is increased

● High performer  ● Low performer  ▬ Less often  ▬ More often
(usage of methods by low performer in comparison with high performer)

Seldom — Often
**Usage of measure**

**Sources:** Proprietary Web survey with 5,561 responses; 731 responses in this section; BCG/WFPMA analysis.

## KLM
### Keeping the Family Together

From oil price shocks to avian flu to terrorism, few industries work as close to the edge of the next crisis as the airline industry. KLM, the Dutch arm of the Air France–KLM Group, recognized the importance of developing a less reactive approach to crisis management. Under the theme "Keeping the Family Together," this initiative has changed the mindset of KLM employees, employee representatives, and managers.

Flexibility in the form of occupational mobility represents a pillar of the new initiative. As Wim Kooijman, KLM's executive vice president for HR and industrial relations, put it, "Being a KLM family member means that everyone in the firm is willing to work where they are needed the most, that they are willing to develop new skills, look after themselves, and stay healthy."

In return for a no-layoff commitment, KLM's management asked employees to be willing to step out of their current roles and temporarily transfer to other positions.

"We had pilots handling baggage or doing quality and maintenance checks. Or we had cabin crew members working with the ground staff. All this happened on a voluntary basis," Kooijman said. Besides the direct savings associated with hiring fewer temporary workers, KLM benefited from engaging the workforce in taking on these challenges.

The alternative offered only temporary relief, since forced layoffs come with high direct and indirect costs. Even worse, Kooijman pointed out, "You paralyze the organization for a long time beyond the actual crisis. Employees freeze their effort when they expect redundancies and only slowly unfreeze when the situation improves. Trust is killed and the probability of social unrest rises, which makes the crisis even worse. After layoffs in the 2000 and 2004 crises, we learned that this is not the right way. It also ruins your image as an employer—something we need to avoid in the extremely tight labor market for pilots and expert technicians."

## Exhibit 16. Flexibility Measures Tend to Rank Higher on Perceived Effectiveness and Employee Engagement



**Examples of cutback measures**

1. Employees are laid off
2. Early retirement is increased
3. Base salaries are reduced
4. Bonus payments are cut back or postponed
5. Company events are cut back

**Examples of flexibility measures**

6. Performance management is tightened
7. Job mobility is reinforced: employees are trained to perform different jobs within the company
8. Processes are streamlined
9. Hiring criteria are tightened
10. Flexible work time is set up

○ Cutback measure   ○ Flexibility measure   ○ Average cutback   ○ Average flexibility

**Sources:** Proprietary Web survey with 5,561 responses; 731 responses in this section; BCG/WFPMA analysis.
**Note:** Size represents the percentage of companies using the measure during the crisis.

The lower-left quadrant highlights measures that poison a company in the long run. Companies that rely on measures such as *reducing base salaries, cutting back bonus payments,* and *eliminating company events* will rapidly experience a drain of high-potential and highly valued employees.

The upper-left quadrant includes measures that may be bitter medicine but work relatively effectively, at least in the short term: *layoffs, shortening of the workweek,* and *early retirement* all fall here. The lower-right quadrant contains a single flexibility measure—*increasing the profit-related component of compensation.*

# Developing Capabilities for HR to Partner with the Business Units

*HR is increasingly positioned as a strategic partner of the business units in adding value to the company. At many companies, however, neither HR professionals nor business managers have developed all the skill sets required for this partnership to flower. While both groups recognize the need for training and other developmental initiatives, the differences in their perceptions of the gaps must be addressed.*

*For example, business managers view HR professionals' HR expertise as less important than their skills in business planning and conflict resolution. And, while both groups agree that business managers' handling of poor performers is their most important people-management skill, business managers see a far smaller gap in their own performance than HR professionals do.*

Companies have adopted a variety of initiatives as part of ongoing efforts to transform the HR function. "HR today is at the center of the business, just like finance, procurement, or marketing," explained Hallstein Moerk, former executive vice president of HR at Nokia. "As such, HR is not just a strategic partner—it is in the business itself."

Respondents rated the most common of these initiatives, *introducing or enhancing the role of the HR business partner,* as highly effective. (See Exhibit 17.)

However, with the workforce now front and center in the creation of sustainable competitive advantage, the bar has been raised for HR professionals filling this role. They now need strong consulting skills and business acumen, paired with people management expertise. Raising the bar means that "an internally focused HR for HR is need-

ed," said Thomas Wessel, chief HR officer of the Degussa chemicals business of Evonik Industries of Germany. HR should focus on questions such as, "How can we attract the right talent to HR?" and "How can we develop the necessary skills among existing HR staff?" HR is adept at this line of questioning for other functions, but less so for itself. "The HR function is much better at identifying talents outside its own function than within," Wessel said.

Just as a capabilities gap exists for HR personnel filling the business partner role, there is a gap in people management skills (such as recruiting and training) among business managers. As Exhibit 17 shows, respondents rated the second most common transformative initiative, *integrating HR activities into line management,* as highly ineffective. It is the responsibility of HR to support business managers in becoming better people managers instead of acting as a substitute for them.

## Identifying Gaps in HR Business Acumen and Consulting Skills

Regarding the specific competencies required for HR business partners, the survey uncovered some significant differences in perception between HR professionals and business managers. (See Exhibit 18.) A striking finding is that HR professionals perceive *HR expertise* as the most important skill that a business partner should bring to the table. By contrast, business managers ranked *HR expertise* fifth in importance.

Grouping skills and capabilities helps in the effort to define a set of requirements for anyone moving into an HR business-partner role. For example, the HR business partner needs to be able to talk to business managers about
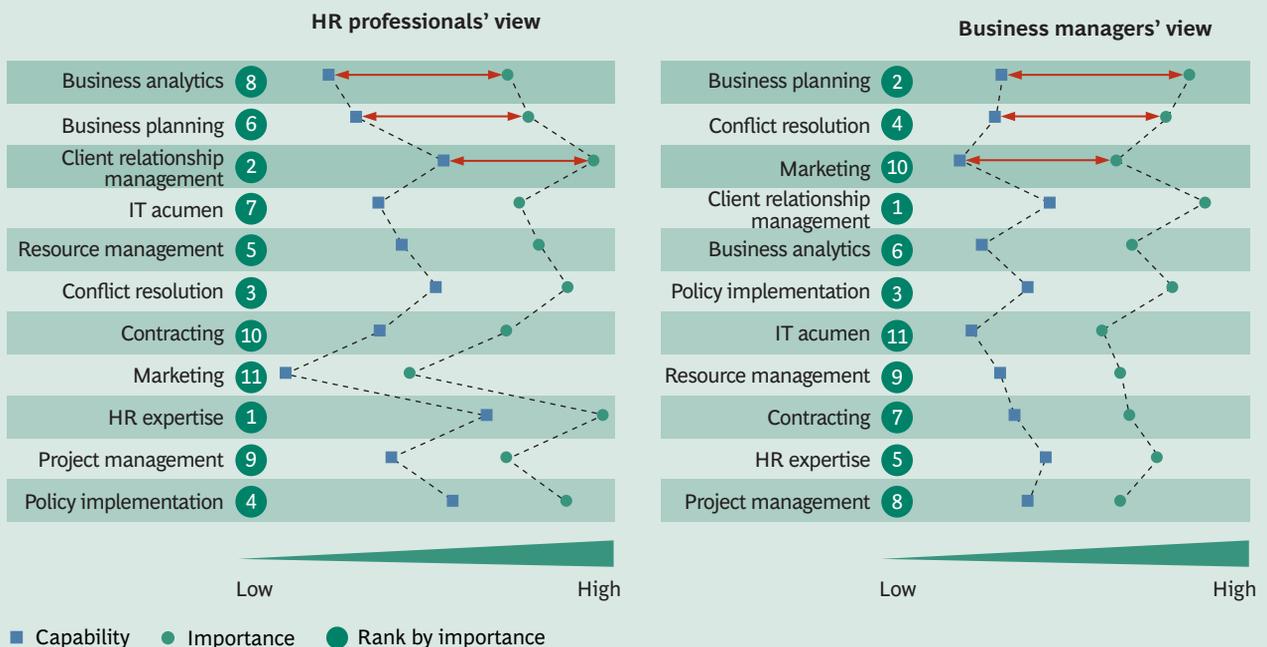
## Exhibit 17. HR Is Enhancing Its Role as a Business Partner, but Integrating HR Activities into Line Management Is Proving Ineffective
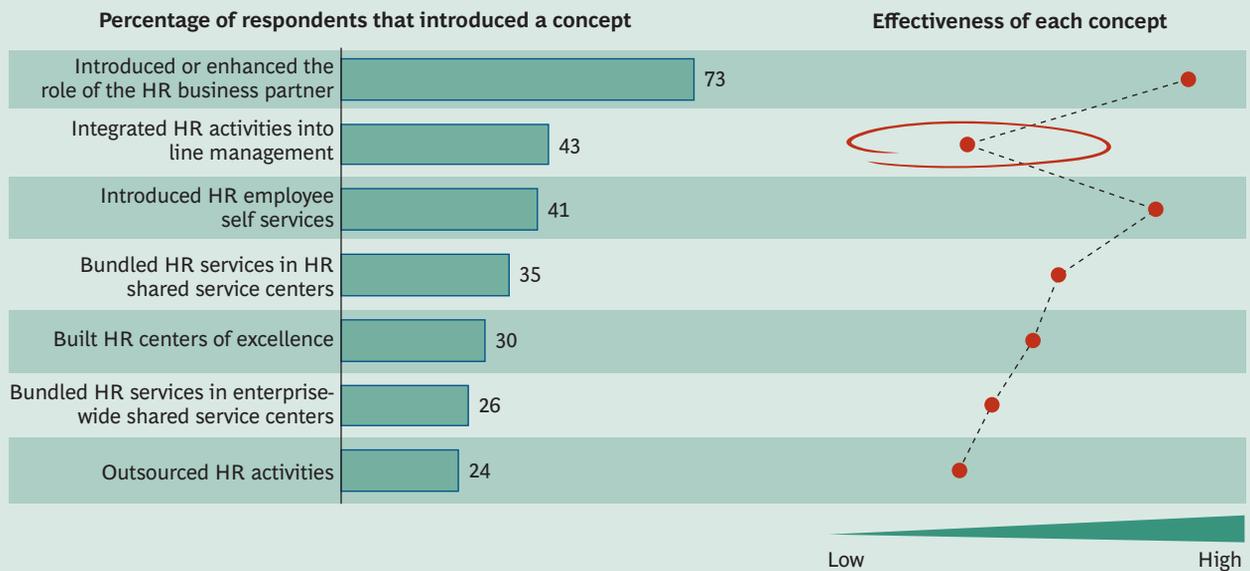
**Percentage of respondents that introduced a concept**

**Effectiveness of each concept**

| | |
|---|---|
| Introduced or enhanced the role of the HR business partner | 73 |
| Integrated HR activities into line management | 43 |
| Introduced HR employee self services | 41 |
| Bundled HR services in HR shared service centers | 35 |
| Built HR centers of excellence | 30 |
| Bundled HR services in enterprise-wide shared service centers | 26 |
| Outsourced HR activities | 24 |

Low ———— High

## Exhibit 18. Business Planning and Analytics Rank as High Priorities, but Capabilities Lag

### HR Business-Partner Skills: Differences in Importance and Capabilities Ranked by Gap

**HR professionals' view**

| | |
|---|---|
| Business analytics | 8 |
| Business planning | 6 |
| Client relationship management | 2 |
| IT acumen | 7 |
| Resource management | 5 |
| Conflict resolution | 3 |
| Contracting | 10 |
| Marketing | 11 |
| HR expertise | 1 |
| Project management | 9 |
| Policy implementation | 4 |

Low ———— High

**Business managers' view**

| | |
|---|---|
| Business planning | 2 |
| Conflict resolution | 4 |
| Marketing | 10 |
| Client relationship management | 1 |
| Business analytics | 6 |
| Policy implementation | 3 |
| IT acumen | 11 |
| Resource management | 9 |
| Contracting | 7 |
| HR expertise | 5 |
| Project management | 8 |

Low ———— High

■ Capability ● Importance ● Rank by importance

personnel issues and be a strategic partner (*business analytics, business planning,* and *client relationship management*) to the business. In addition, the business partner needs to have the skills to act as a change agent and driver of transformation *(conflict resolution, resource management,* and *policy implementation).*

Laszlo Bock, vice president of people operations at Google, explains how the Internet giant thinks about the blend of skills needed for HR to excel in its broader role. In an interview with BCG, Bock said, "One-third of the people come from traditional HR backgrounds. They're outstanding HR generalists and outstanding compensation-and-benefits folks.

"The second third come out of strategy-consulting firms. We don't really pursue folks from the HR consultancies as much, because we are looking for two things: great problem-solving skills—the ability to take a really messy problem, disaggregate it, and drive to data-driven answers—and really deep business sense, a deep understanding of how business actually works in the different

functions. What we have found is that when you put those two together, the HR folks learn a tremendous amount about business and problem solving from the consultants, and the consultants get very quickly up to speed on the pattern recognition you need to be successful on the people side."

The other third, Bock said, "are people with advanced degrees in various analytic fields—PhD's and master's degrees in operations, physics, statistics, and psychology. They let us run all kinds of interesting experiments and raise the bar on everything we do."

## Identifying Gaps in Business Managers' People Skills

Currently, business managers participate actively in the eight people-management activities identified in Exhibit 19. In virtually every instance, business managers get involved in *recruiting, making promotion decisions,* and *dealing with low performers.* Even for the activities in which



**Exhibit 19. Dealing with Low Performers Is a Development Priority for Both Groups**

**Business Managers' Skills: Differences in Importance and Capabilities Ranked by Gap**

**Sources:** Proprietary Web survey with 5,561 responses; 641 respondents in this section; BCG/WFPMA analysis.
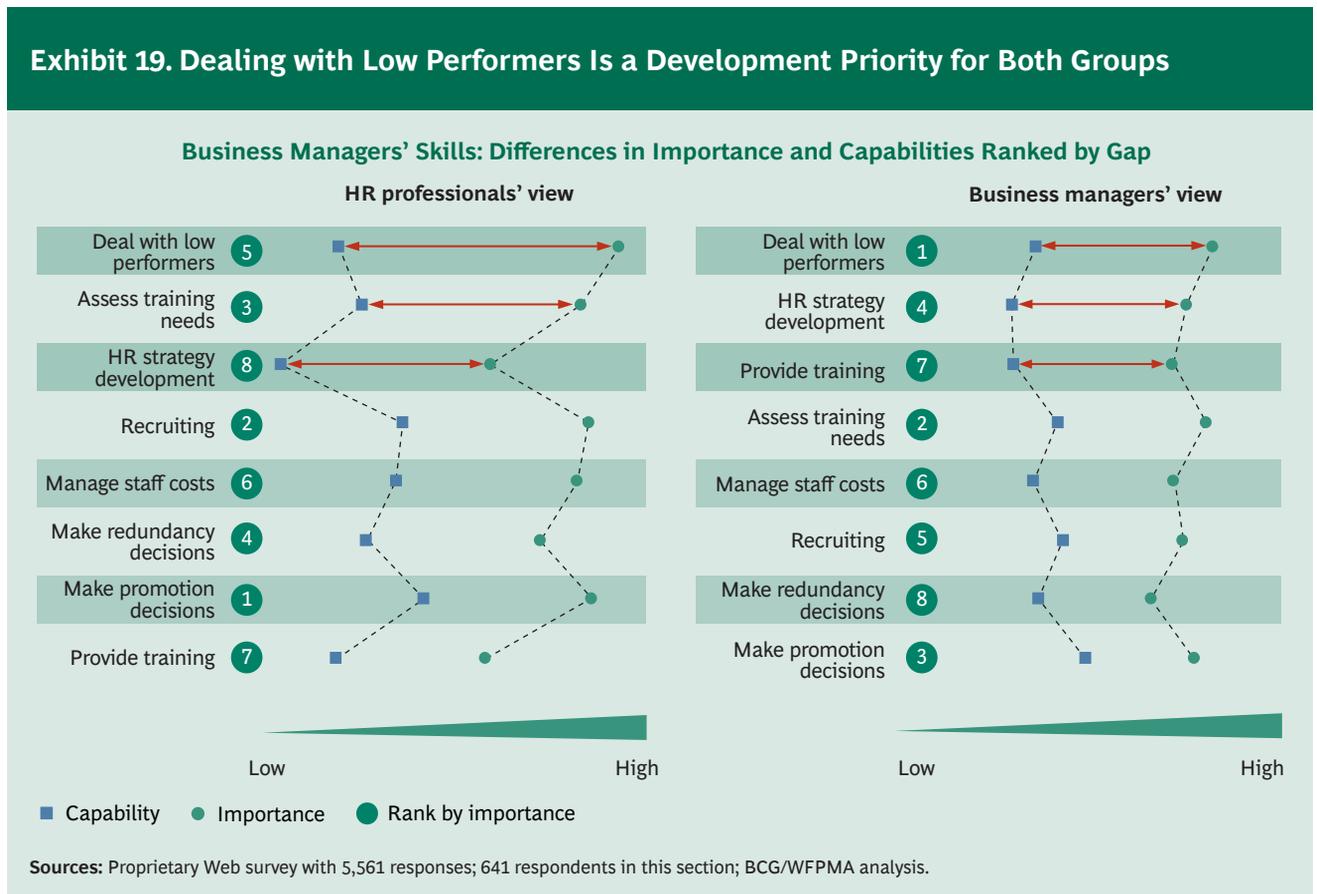
they are the least involved—*providing training* and *HR strategy development*—participation still exceeds 50 percent. Furthermore, the majority of business managers expressed a desire to be more involved in these activities.

However, as the exhibit highlights, business managers do not yet have the people management skills to support their active involvement in these activities. By their own assessment, their skills are relatively undeveloped. HR professionals agreed with that evaluation—although the two functions prioritized the skills differently, just as they did with the skills required for HR business partners.

In their self-assessment, business managers' largest skills gaps lie in *dealing with low performers, HR strategy development,* and *providing training;* and again HR professionals largely concurred with that selection. Both groups identified the appropriate handling of low performers as the most important people-management activity for business managers—a priority that may reflect the recent economic crisis.

HR professionals, who are often less senior than their business-manager partners, may have difficulty pointing out failings and enabling business managers to develop their people skills. It is notable that HR professionals identified a far broader gap in business managers' handling of low performers than did the business managers themselves.

As a solution, HR professionals need to mentor business managers—for example, in how to weed out lower-performing employees respectfully, with a tone and approach that the business managers can practice. If low performers are dismissed ruthlessly, the "survivors" will be unlikely to commit fully to the company. Survivors need to believe that layoffs are necessary and that they have been carried out fairly. Those beliefs can be shaped not only by hard facts—such as the amount of notice, the kind of support, and the size of the severance packages terminated employees receive—but also by more qualitative judgments. For example, were the layoffs evenly distributed across all levels of the organization? Were promises kept?

> Handling low performers is the most important people activity for business managers.

## Training and Development to Support Strategic Partnerships

Relatively few organizations have deployed the right measures to develop the capabilities of their HR business partners on business expertise. (See Exhibit 20.) Less than half of the respondents offer training on business expertise—and current curricula are focused on HR expertise and people management, reflecting the past rather than the future of the function.

The good news is that virtually all of the measures displayed in Exhibit 20 were rated as highly effective. That trend is tempered by the scant deployment of these measures, which has not matched demand for the skill sets. (For an example of closing this gap, see the sidebar "Credit Suisse: Developing HR Business-Partner Capabilities.")

Just as development paths for HR business partners hew too close to the old paradigm, development measures for business managers still focus on classical management skills. (See Exhibit 21.) Training in specific HR skills is rare. Furthermore, less than one-quarter of business managers are measured or given incentives on their performance as people managers—and even fewer companies select HR knowledge and experience as key criteria when hiring new managers from outside.

Overall, business manager respondents gave poor ratings to the training and development measures available to them. We find that business managers are, in general, more skeptical of the value of training than HR is; after all, training is at the crux of the HR function. And business managers are particularly skeptical when the training is on a topic outside their comfort zone.

Therefore, time and passionate reinforcement will be required in order to convince business managers of the value of HR. The more frequently hard facts are integrated into their training, the easier it will be for business managers to accept a sea change in HR's role as a partner with them in creating business value.

## Exhibit 20. Only 40 Percent of Respondents Offer Training on Business Expertise to HR Partners

| Activities performed (% of respondents)[1] | | Effectiveness of activities |
|---|---|---|
| Offer training on HR expertise | 57 | |
| Offer training on leadership and managing people | 56 | |
| Develop change management capabilities | 41 | |
| Offer training on business expertise | 40 | |
| Measure and provide incentives on the basis of business performance | 37 | |
| Prioritize business knowledge and capabilities in hiring | 34 | |
| Employ people from outside HR (such as business managers) | 29 | |
| Build financial acumen | 27 | |
| Offer rotational programs outside the HR function | 15 | |

Low                                                                              High

**Sources:** Proprietary Web survey with 5,561 responses; 641 responses in this section; BCG/WFPMA analysis.
[1]Includes only companies that have introduced the HR business-partner position.

## Credit Suisse
### Developing HR Business-Partner Capabilities

The Zurich-based banking giant Credit Suisse has been actively investing to develop the capabilities of its HR business partners. A customized program aims to improve partners' consulting skills in advising business managers and, more generally, to help them think and act with the business in mind. The goal is for HR professionals to become more strategic partners to the corporate decision-makers in developing, challenging, and implementing the business strategy.

Credit Suisse identified three levels of consulting skills—essential, advanced, and expert—and then detailed which levels applied to 12 relevant consulting skills, ranging from *slide design* (essential), to *quantitative tools and analysis* (advanced), to *becoming a trusted advisor* (expert).

Credit Suisse launched a global blended learning program that combines entry tests and semiannual formal sessions with on-the-job training and e-learning. The formal training sessions employed a case study approach that develops new skills in a highly interactive and business-oriented context. For instance, participants analyzed and

prepared recommendations for addressing underperformance and talent issues in a key regional market and business area, or developed a strategic workforce plan for a division. To track the impact of the program, Credit Suisse embedded the training in a broader process that includes recurring goal-setting as well as impact and skills assessment.

## Exhibit 21. Leadership Training Dominates Business Managers' Curricula

| Activities performed (% of respondents)[1] | | Effectiveness of activities |
|---|---|---|
| Offer training on leadership and managing people | 43 | |
| Offer training on HR expertise | 27 | |
| Offer training on business expertise | 27 | |
| Offer training on change management skills | 23 | |
| Measure and provide incentives on the basis of people management performance | 22 | |
| Prioritize HR knowledge and expertise in hiring decisions | 18 | |
| Offer training on HR information technology | 17 | |
| Employ former HR professionals as business managers | 7 | |
| Offer rotational programs that include a stay in the HR function | 6 | |

Low                                                                    High

**Sources:** Proprietary Web survey with 5,561 responses; 641 responses in this section; BCG/WFPMA analysis.
[1]Includes only companies that actually performed the activity.

# Appendix I
## Methodology

We started our original research in 2006 by compiling a list of 40 topics in human resources and subsequently focusing on the 17 most relevant topics. We narrowed the field by conducting an exhaustive literature search both in general business publications and in HR journals. In our literature search, we considered how the number of mentions for each topic had changed over time, and we ranked each topic according to whether interest in it had been increasing or declining. Next, in order to discover emerging topics whose importance might not have been captured in the literature search, we gathered input on the topics from HR experts within BCG and WFPMA.

The survey consisted of two parts: one mandatory part and a second part seeking responses in any of five optional sections. In the mandatory section, respondents were asked questions about themselves and their organizations. They were also asked to rate 21 topics, assessing current and future importance and rating their organization's current capabilities in the topics on a scale of 1 (low) to 5 (high).

To adjust for high- or low-scoring tendencies among online survey participants in particular countries and markets, we normalized the assessment of current capability, current importance, and future importance for each country and industry.

In the five optional sections, respondents could answer questions on developing future leaders of the company, staying lean and becoming flexible, engaging employees, hardwiring HR and corporate strategy, and building an HR function focused on value creation.

We conducted the online survey from December 2009 through March 2010, receiving 5,561 responses from executives in 109 countries. In conjunction with that survey, we interviewed 153 executives. In these one-on-one interviews, we explored HR topics and practices in greater depth, tried to understand how companies were making the transition from the recession to renewed growth, and discussed sustainable HR practices.

# Appendix II
## Executive Interviewees

In interviews, the following senior executives shared their insights and discussed our findings. We thank them for their valuable contributions. The list here consists of those interviewees who have agreed to have their names published.

### ARGENTINA

**Enrique Behrends**
Area Manager, Organizational
Development and HR
Banco Galicia

### AUSTRALIA

**Lynelle Briggs**
CEO
Medicare Australia

**Barbara Chapman**
Group Executive, Human Resources
and Group Services
Commonwealth Bank of Australia

**David Diment**
First Assistant Commissioner,
ATO People
Australian Taxation Office

**Joanne Farrell**
Vice President, Organisation Resources
Rio Tinto Iron Ore

**Susan Karson**
General Manager - People and Culture,
Wholesale Banking
National Australia Bank

**Liz Kavanagh**
Former HR Director Manager
Nationwide News

**Amber McDougall**
Former Director, HR
Coles Group

### BRAZIL

**Edna Bedani**
HR Development Manager
Accor Service Brazil

**Edécio Brasil**
Global HR Processes Director
Vale

**Diego Hernandes**
HR Executive Manager
Petrobras

**Gilberto Lara Nogueira**
Corporate Director, Human and
Organizational Development
Votorantim Industrial

**Marcelo Madarasz**
Manager of Development and
Leadership
Natura

**Roberto Menezes Dumani**
Executive Vice President,
Organizational Development
Cielo S.A.

**Ralf Piper**
HR and Governance Director
Sadia

### CANADA

**Sylvia Chrominska**
Group Head, Global Human Resources
and Communications
Scotiabank

**Teri Currie**
Group Head, Marketing, Corporate
and Public Affairs and People
Strategies
TD Bank Financial Group

**Zabeen Hirji**
Chief Human Resources Officer
Royal Bank of Canada

### CHILE

**Ramón Burr**
Vice President, HR
Antofagasta Minerals

**Alberto Lungenstras**
Manager, HR
Banco Itaú

**Victoria Martínez**
General Manager, Branches &
Distance Banking
Banco Estado

**Alejandro Mena**
Vice President HR
Anglo American Chile

**Jaime Piña**
Vice President HR
Codelco

**Ana Maria Rabagliati Grunwald**
Corporate Director, HR
Masisa

### CHINA

**William Chan**
HR Director
MTR Corporation

**Harding Shen**
HR Director
Sanofi-aventis China

### COLOMBIA

**Cielo Liliana Muñoz Noreña**
Profesional Adscrita a la División de
Talento Humano
Universidad de Manizales

### FINLAND

**Hallstein Moerk**
Former Executive Vice President of HR
Nokia

### FRANCE

**Laurent Choain**
HR Director
Caisse Nationale des Caisses d'Epargne

**Karen Ferguson**
Executive Vice President, Global HR
Schneider Electric

**David Ford**
Global Head of Executive Talent
Management
Sanofi-aventis

**Marc Janssens de Varebeke**
Performance Director, Executive
Manager Department
GDF Suez

**Anne Marion-Bouchacourt**
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# Appendix III
## Supporting Organizations

The following member organizations of WFPMA helped with or were responsible for the preparation, distribution, and collection of the online survey. Without their assistance, this report would not have been nearly so comprehensive and insightful.

### NORTH AMERICA

North American Human Resource Management Association (NAHRMA)

Canadian Council of Human Resources Associations (CCHRA), Canada

Asociación Mexicana en Dirección de Recursos Humanos (AMEDIRH), Mexico

Society for Human Resource Management (SHRM), United States

### CENTRAL AND SOUTH AMERICA

Federación Interamericana de Asociaciones de Gestión Humana (FIDAGH)

Asociación De Recursos Humanos de la Argentina (ADRHA), Argentina

Asociación Boliviana de Gestión Humana (ASOBOGH), Bolivia

Associação Brasileira de Recursos Humanos (ABRH-Nacional), Brazil

Federación Colombiana de Gestión Humana (ACRIP), Colombia

Asociación Costarricense de Gestores de Recursos Humanos (ACGRH), Costa Rica

Asociación Dominicana de Administradores de Gestión Humana (ADOARH), Dominican Republic

Asociación de Gestión Humana del Ecuador (ADGHE), Ecuador

Asociación de Gerentes de Recursos Humanos de Guatemala (AGRH), Guatemala

Asociación Nacional de Profesionales de Recursos Humanos de Panamá (ANREH), Panama

Asociación de Profesionales Uruguayos en Gestión Humana (ADPUGH), Uruguay

Asociación Venezolana de Gestión Humana (ANRI), Venezuela

### EUROPE

European Association for People Management (EAPM)

Österreichisches Produktivitäts- und Wirtschaftlichkeits-Zentrum (ÖPWZ), Austria

Personnel Managers Club (PMC), Belgium

Bulgarian Human Resources Management and Development Association (BHRMDA), Bulgaria

Cyprus Human Resource Management Association (CyHRMA), Cyprus

Czech Society for Human Resources Development (ČSRLZ), Czech Republic

Personnel Managers in Denmark (PID), Denmark

Estonian Association for Personnel Development (PARE), Estonia

Finnish Association for Human Resource Management (HENRY), Finland

Association Nationale des Directeurs des Ressources Humaines (ANDRH), France

Deutsche Gesellschaft für Personalführung e.V. (DGFP), Germany

Greek People Management Association, Greece

Hungarian Association for Human Resources Management (OHE), Hungary

Chartered Institute of Personnel and Development (CIPD Ireland), Ireland

Associazione Italiana per la Direzione del Personale (AIDP), Italy

Latvian Association for Personnel Management, Latvia

Macedonian Human Resource Association, Former Yugoslavian Republic of Macedonia

Foundation for Human Resources Development (FHRD), Malta

Dutch Association for Personnel Management & Organization Development (NVP), Netherlands

HR Norge, Norway

Polish Human Resources Management Association (PHRMA), Poland

Associação Portuguesa dos Gestorese e Técnicos dos Recursos Humanos (APG), Portugal

HR Management Club, Romania

National Personnel Managers' Union (ARMC), Russia

Association of Human Resource Professionals, Serbia.

Slovak Association for Human Resources Management (ZRRLZ), Slovak Republic

Slovenian Association for Human Resource Management and Industrial Relations (ZDKDS), Slovenia

Asociación Española de Dirección y Desarrollo de Personas (AEDIPE), Spain

Sveriges HR Förening, Sweden

HR Swiss—Schweizerische Gesellschaft für Human Resources Management; Société Suisse de Gestion des Ressources Humaines, Switzerland

Türkiye Personel Yönetimi Derneği (PERYÖN), Turkey

Chartered Institute of Personnel and Development (CIPD), United Kingdom

### AFRICA

African Federation of Human Resource Management Associations (AFHRMA)

Association Africaine des formateurs du personnel (AFDIP)

Association Algérienne des Ressources Humaines (ALGRH), Algeria

Talents Plus Conseils, Benin

Institute of Human Resource Management (IHRM), Botswana

Association Nationale des directeurs et cadres du personnel (ANDCP), Senegal

Institute of People Management (IPM), South Africa

Association des Responsables de Formation et de Gestion Humaine des Entreprises (ARFORGHE), Tunisia

Human Resource Managers' Association of Uganda (HRMAU), Uganda

Institute of People Management of Zimbabwe (IPMZ), Zimbabwe

## ASIA-PACIFIC

Asia Pacific Federation of Human Resource Management (APFHRM)

Australian Human Resources Institute (AHRI), Australia

China International Intellectech Corporation (CIIC), China[1]

Human Resource Association for Chinese and Foreign Enterprises (HRA), China

Hong Kong Institute of Human Resource Management (HKIHRM), Hong Kong

Confederation of Indian Industry (CII), India[1]

Japan Society for Human Resource Management (JSHRM), Japan

Recruit Management Solutions (RMS), Japan[1]

Malaysian Institute of Human Resource Management (MIHRM), Malaysia

Human Resources Institute of New Zealand (HRINZ), New Zealand

People Management Association of the Philippines (PMAP), Philippines

Singapore Human Resources Institute (SHRI), Singapore

HR MAX, South Korea[1]

Institute of Personnel Management (IPM), Sri Lanka

Chinese Human Resource Management Association (CHRMA), Taiwan

Personnel Management Association of Thailand (PMAT), Thailand

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1. This organization is not a member of WFPMA.

# Note to the Reader

This report, the fourth installment in our research on current and future HR challenges, presents new and detailed results on the global situation. It is based on a close collaboration between The Boston Consulting Group (BCG) and the World Federation of People Management Associations (WFPMA).

BCG has worked closely with leading companies around the world on a wide range of HR issues, helping with HR strategy, management, KPIs, and strategic workforce planning. BCG has assisted its clients in managing talent, organizing HR functions, managing performance, redeploying the workforce, and managing demographic risk. It has also helped companies establish shared service centers and outsourcing arrangements.

WFPMA and its member associations have worked to enhance the quality of HR management and to develop and elevate professional standards. Through its programs, HR executives have opportunities to garner insights and exchange ideas that enhance corporate and personal capabilities in HR.

We believe that our findings will appeal to HR professionals and senior business executives alike. On the basis of the positive feedback from our previous reports, we plan to continue our regular research in HR issues.

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