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Creating People Advantage 2011

Time to Act: HR Certainties in Uncertain Times

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Executive Summary

In a globalizing economy marked by uncertainties, one thing is certain: talent and effective leaders grow scarcer every day. People stand at the heart of business strategy and execution, and there are many proven solutions and tools to develop human capital. Human resources executives thus have an extraordinary opportunity to distinguish themselves as business partners at the decision-making table.

Many HR executives aim to make the HR function more strategic, beyond providing services and support. But becoming a trusted voice in the C-suite will require HR executives to step up their game on several fronts. It will hinge on defining coherent people strategies in line with business objectives, subjecting consistent personnel data to rigorous analysis, embracing the HR challenges of globalization, and having the self-confidence to counsel other executives on people imperatives. That's a tall order for HR departments carrying a legacy of being underresourced and defaulting to a less analytical, soft-skill approach. HR's willingness to change itself in these ways is a prerequisite for creating people advantage.

Good things won't come to HR executives who wait. It's time to act.

This European survey is the third conducted by BCG and the European Association for People Management; the first was completed in 2007. BCG has also partnered with the World Federation of People Management Associations on two global surveys.

- ◇ The online survey generated 2,039 responses from executives in 35 European countries and a broad range of industries and government bodies. We also interviewed 58 executives, including board and executive committee members of multinational companies.
 - ◇ The report presents our findings and analysis of 22 HR topics covered by the survey. We also feature short case studies on individual company initiatives or relevant research, and we have produced a BCG Focus, *Hard-Wiring Diversity into Your Business*, inserted at the back of this report, on how companies can foster diversity in their workforce for *business* reasons—not only legal or social reasons—such as serving specific customer segments better, improving innovation, or making the organization more agile.
- This year, four HR topics stand out as the most critical for our respondents—exhibiting high future importance yet relatively low current capabilities.**
- ◇ *Managing talent* is the top priority in Europe overall and in most individual countries. Recruiting, developing, and retaining talent have ranked high on the agenda over the past five years.
 - ◇ *Improving leadership development* remains a high priority for HR. This topic shows stronger capabilities, mostly in large companies.
 - ◇ *Transforming HR into a strategic partner* has risen in importance. However, there is a significant gap between the capability ratings of HR respondents and the lower ratings of business managers.
 - ◇ *Strategic workforce planning*—the ability to quantify and simulate future capacity and skill demands—has become a high priority. Few companies have a coherent approach to it, leading to low capability ratings.
 - ◇ In addition, although *enhancing employee engagement* has dropped out of the red zone, perhaps because

many companies have introduced better programs and metrics on the issue, engagement remains a challenge in all HR domains.

- ◇ Executives demonstrate a readiness to change regarding these topics. But their capabilities are lagging, which suggests that they have not yet actively embraced the challenges.

In contrast to the business and financial uncertainties that companies now face, the major trends in HR remain quite clear. Several megatrends shaping the senior management agenda have a direct bearing on the HR function. To start, the growing scarcity of key skills and people, and the complexity of businesses, raise the stakes for talent management and leadership development.

- ◇ By 2030, an additional 45 million employees will be needed in Western Europe in order to sustain economic growth. In light of current population growth rates, this number will be difficult to reach.¹ At a time of growing talent gaps, when human capital is among the most valuable assets for gaining competitive advantage, too few companies actively manage talent with a sharp focus. Instead, most take big risks by relying on serendipity to address talent scarcity.
- ◇ By contrast, high-performing companies differ from low performers in this regard: they fill far more senior manager positions internally than do low performers.² They are more likely to have a dedicated talent-management unit, and their top executives invest more time in reviewing and sourcing talent. They understand that a robust talent strategy gives them “option value”—the option to develop talent rather than buy it at ever-rising prices.

The rise of online social media changes how HR will interact with prospects and employees of all generations, not just younger ones.

- ◇ Social media have become a mass phenomenon, as 80 percent of Internet users aged 16 to 24 are posting messages to social networks, chat sites, and blogs.³ Usage is already substantial and rising rapidly among older generations as well.⁴ HR executives view the main opportunities presented by social media technologies to be employer branding, recruiting, and knowl-

edge sharing. They're also concerned about the risks—particularly breaches of confidential data, lack of control over posted content, and headhunting of employees.

- ◇ As companies expand their social media activities, they should take care to integrate them at every step of the recruiting process and to align them with the overall HR and business strategies, because any dissonance will be quickly spotted and criticized online. They can mitigate risks by making clear who is responsible for social media tasks, budgets, and progress, and by setting down guidelines for communication.

Customer segments and supply chains are globalizing, which requires HR to adapt its delivery model and manage the workforce in a global fashion.

- ◇ Between 2003 and 2008, the 50 largest globally active European companies created more than 500,000 jobs abroad, while their workforce in domestic markets declined by almost 300,000 employees. Thus, global transparency, international frameworks and standards, and globally installed services are the hallmark of a superior HR function today.
- ◇ Globalization raises the bar for becoming a true business partner, but HR now has the opportunity to help plan and execute cross-border mergers, carve-outs, and organic expansion abroad. To realize that partnership globally, HR will have to standardize and professionalize more of its activities, and HR staff will also need to augment their international experience and expertise.

Workforce diversity can yield strategic advantages when it's hard-wired into the business.

- ◇ An analysis of 40 randomly selected Euro Stoxx 50 companies showed that 93 percent of board members

1. *Global Talent Risk—Seven Responses*, World Economic Forum in collaboration with BCG, 2011.

2. *Creating People Advantage 2010: How Companies Can Adapt Their HR Practices for Volatile Times*, BCG report, September 2010.

3. Data in *Internet Usage in 2010—Households and Individuals*, Eurostat (the statistical office of the European Union), December 14, 2010, available at <http://ec.europa.eu/eurostat/ict> under “Data.”

4. Pew Research Center's Internet & American Life Project surveys, September 2005 to May 2010.

are male, 49 percent are between 51 and 60 years old, and 86 percent are of European origin. Those same companies generate an average 40 percent of their revenues outside Europe, and the share of female customers is steadily increasing.

- ◇ Organizations staffed exclusively with similar-looking and similar-minded employees lack the broad range of

insight and experience needed to meet the challenges of globalization and varied customer segments. Companies must fish for talent in new waters and use diversity *strategically* to deliver better products, enhance innovation, and make the organization more agile. The BCG Focus attached to this report offers advice on how best to achieve diversity for business.

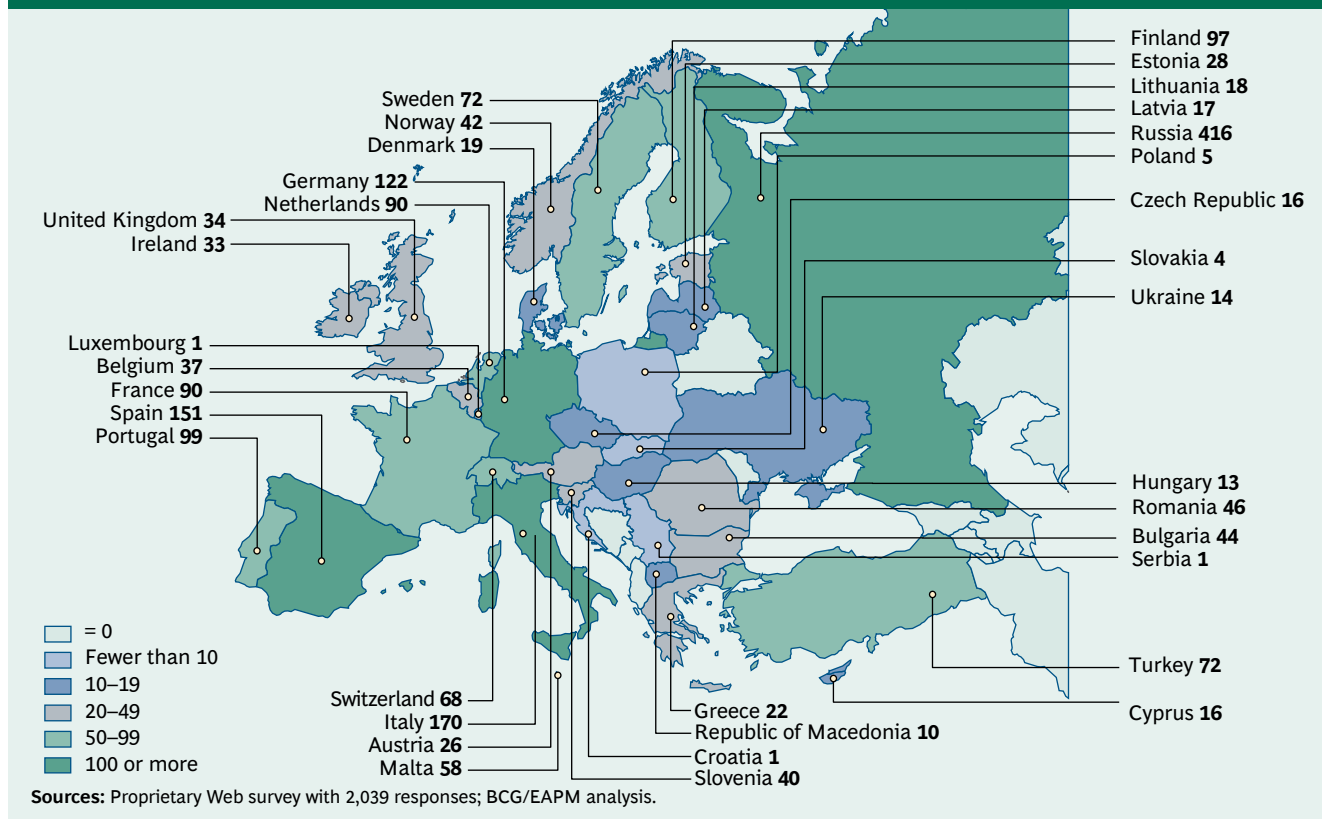
European Trends in Managing People

This report analyzes how HR challenges have been changing over time through survey responses and interviews on 22 topics. Our online survey generated 2,039 responses from executives in 35 European countries. (See Exhibit 1.) The top 5 responding countries were Germany, Italy, Portugal, Russia, and Spain. Respondents came from a broad range of industries and government bodies.

Among the industries generating the most responses were business services, industrial goods, the public sector, technology and communications, and health care. We also interviewed 58 executives, including board and executive committee members of multinational companies.

To start, we asked executives to rate their organization's current capability in each topic and tell us whether they

Exhibit 1. More Than 2,000 Executives from 35 European Countries Responded to the Survey



foresee the topic becoming more or less important in the future. In general, the most pressing issues this year involve more future-directed, strategic challenges, in contrast to our past surveys, in which the top issues concerned present challenges. This year's issues are among the red-zone topics shown in Exhibit 2. For example, *Transforming HR into a strategic partner* entered the red zone in 2011.

The Most Critical HR Topics

The cluster of future-directed challenges in the red zone suggests that executives are extending their field of view and demonstrating a readiness to change regarding these topics. However, the corresponding capabilities rank low to mid-dling, suggesting that companies have not yet actively embraced the challenges. Here's what the red zone looks like:

Managing talent, which includes issues such as identifying talent pools and effectively staffing leadership positions, continues to be the most critical topic for executives and has been in the red zone for several years, consistently being viewed as having high future importance across many countries. (See Exhibit 3.)

Improving leadership development follows managing talent. It ranks slightly higher than other red-zone topics in capability, driven mostly by large companies.

Transforming HR into a strategic partner has risen in future importance. There is a significant gap between the capability ratings of HR respondents and the lower ratings of business managers.

Strategic workforce planning was viewed by many respondents as fairly important for the future, but current capa-

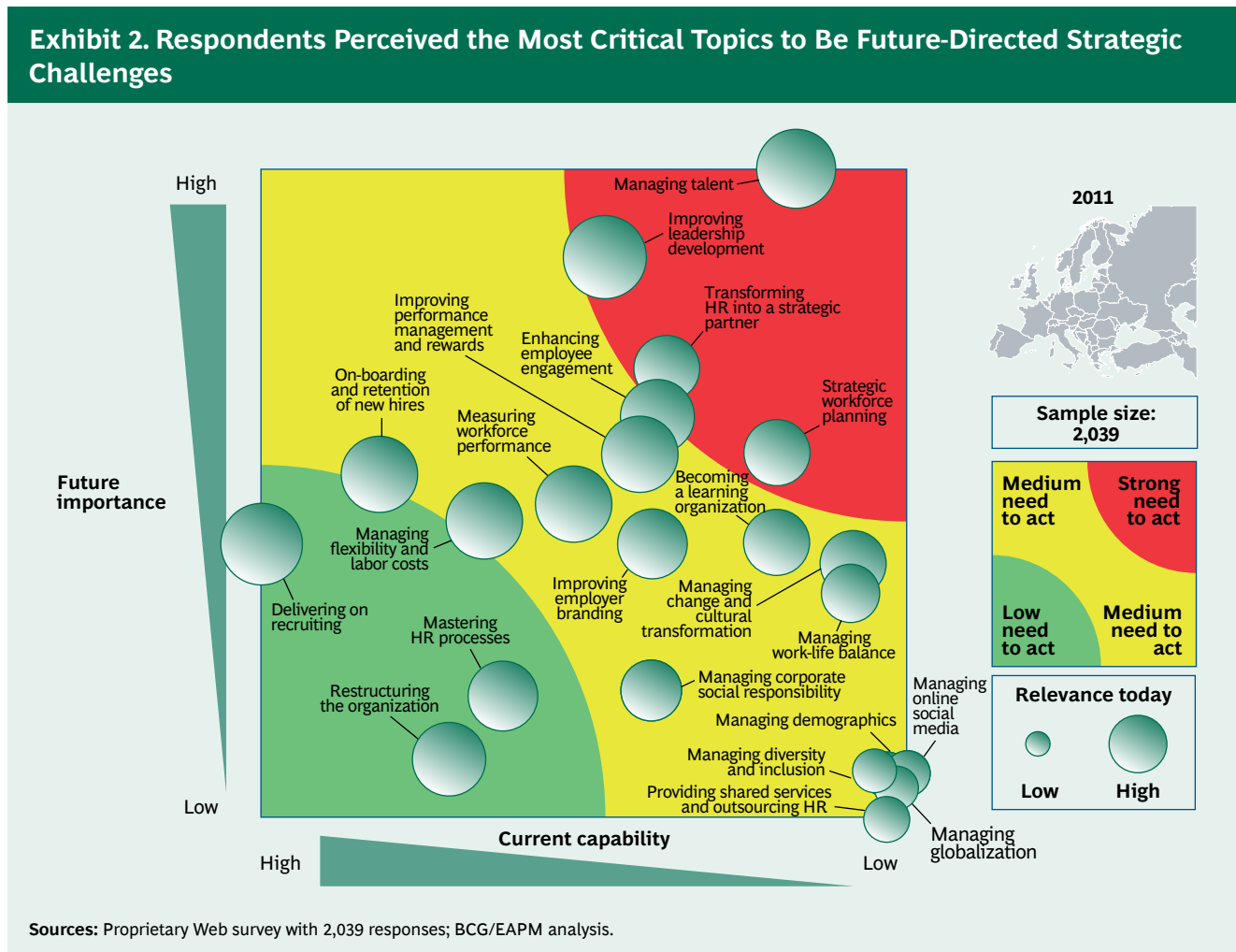


Exhibit 3. Managing Talent Ranked Highest in Importance in Most Countries

Matrix Analysis*



Topic \ Country	Bul-garia	Finland	France	Ger-many	Italy	Neth-er-lands	Norway	Portu-gal	Roma-nia	Russia	Spain	Sweden	Switz-erland	Turkey	Mentions in top 5 ¹
Managing talent	2	1	1	1	3	1	1	1	1	3	2	1	1	1	14
Improving leadership development	1	2		2		2	4	3	2	2	1	4	2	2	12
Transforming HR into a strategic partner		3			1	5	2	2	3		4	5	3	3	10
On-boarding and retention of new hires		4	4	4		4	3			5		2			7
Enhancing employee engagement			5		2				5		3				4
Improving performance management and rewards	4				5				4	1					4
Strategic workforce planning				5		3							5		3
Managing change and cultural transformation			2		4									5	3
Measuring workforce performance	3									4					2

Sources: Proprietary Web survey with 2,039 responses; BCG/EAPM analysis.

Note: This exhibit shows countries with more than 35 respondents.

*Ranking based on future importance.

¹Of the 35 countries that had respondents, the number of countries that cited the topic in the top 5 for future importance.

bilities were rated low. In our experience, many executives have not yet adopted the tools and mindset required to plan the workforce over the long term. Instead, they react to short-term trends and adjust their workforce capacities on an ad hoc basis. The HR function, however, should be equipped with sophisticated models to predict supply-and-demand dynamics that are closely aligned with an evolving company strategy.

Our survey data indicate that high-performing companies (defined on the basis of a combination of revenue growth and profitability over a three-year period) conduct a larger number of strategic-workforce-planning projects than do their low-performing counterparts. As Roberto di Bernardini, HR head of emerging markets/EMEA for Janssen, explained, “Strategic workforce planning allows us to understand the talent challenges in the context of tremendous change in pharma markets. It has also helped us make some counterintuitive moves.”

Trends Shaping the Senior Management Agenda

Turning to the yellow zone, several HR topics clustering low on both dimensions relate to megatrends that are high or rising on many companies’ agendas. Despite the importance of these areas, the relevant capabilities were among those rated lowest by respondents, so companies face a tough task in addressing the issues. (See Exhibit 4.)

Demographics. It is a statistical certainty that the coming waves of baby-boomer retirements will create huge talent gaps in most industrialized countries.⁵ By 2020, the median age will exceed 47 in Germany and Italy.⁶ “More than one thousand colleagues will be retiring in our group over the next five years. Replacing their experience is a crucial

5. *Stimulating Economies Through Fostering Talent Mobility*, World Economic Forum in collaboration with BCG, 2010.

6. Various national statistical institutes; BCG analysis.

Exhibit 4. Capabilities Are Lowest in Areas Shaping the Senior Management Agenda



challenge,” said László Szócs, director of HR for Hungary’s largest oil and gas company, MOL Group. “The key is to identify a reserve of passionate natives and help them to survive in the new world. They need to enable the integration of the new generation’s competencies,” explained Monica Possa, director of HR and organization for RCS Media Group. Even nations with large cohorts of young people are not immune to workforce risk. Rapidly developing economies show very high workforce demand yet are wrestling with the issue of low employability of many citizens, and that affects European companies doing business in those markets. Companies will have to address such demographic problems through better strategic workforce planning and better recruiting.

Social Media. The growing talent gap in developed countries means that power is shifting to employees and recruits. At the same time, several generations of people have grown accustomed to more technology-intensive ways of interacting with colleagues and potential employers. Talent management is thus becoming democratized and decentralized. Companies that don’t master online social-media technologies soon will struggle to keep pace in the talent race.

Globalization. Globalization of customer segments and supply chains, together with the return of economic

growth in many countries over the past two years, have led to an increasing number of cross-border activities. But international growth seems to have outpaced HR’s participation. Although core business and HR operations have become synchronized in some companies, the majority of companies have neither built an international operating model for HR nor prepared their professionals to think and act on a global scale.

Diversity. Competitive markets today are characterized by globalization, talent scarcity, and increasingly distinct customer segments. Companies staffed exclusively with similar-looking and similar-minded employees lack the broad range of insight and experience needed to meet those challenges. They must fish for talent in new waters and use diversity *strategically* to deliver better products, enhance innovation, and make the organization more agile.⁷

Work-Life Balance. This topic currently receives little attention from companies. However, as the balance of power shifts from employers to skilled employees, the demand for a work life that meshes well with one’s private life—a preference strongly expressed by the millennial generation—will become more important. “Younger people, in

7. For more information, see *Hard-Wiring Diversity into Your Business*, BCG Focus, June 2011, attached to this report.

particular, look for more in a job than just salary and position these days in choosing an employer,” said Christian G. Machate, head of HR for private banking and Switzerland at Credit Suisse. “They consider work-life balance, the company’s culture, and engagement with society. It’s about a partnership, and that’s what Credit Suisse focuses on. I strongly believe that’s why people approach us.”

By addressing these topics, HR can substantially improve organizational performance and increase its value added. HR executives at large companies seem to recognize this: respondents from companies with more than 5,000 employees perceive a significantly higher future importance for *managing diversity and inclusion*, *managing demographics*, and *strategic workforce planning*. In addition, they report higher capabilities in *managing globalization* and *managing diversity and inclusion*.

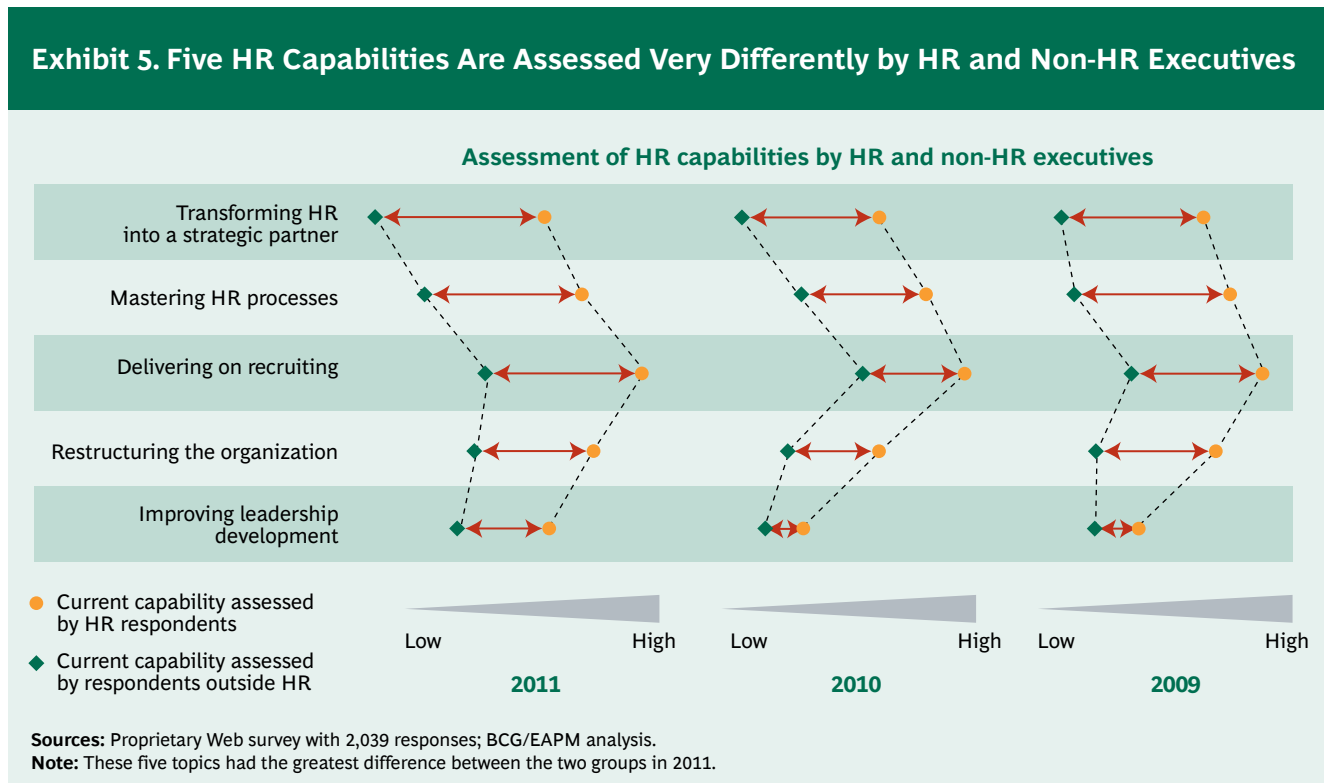
But HR will first have to overcome its perceived role as strictly a service provider, which contributes to the ongoing gap in perspective between HR and non-HR executives about HR’s capabilities and performance, both in basic service areas and in the strategic dimension. (See Exhibit 5.) “The businesses often tend to see HR merely as a body provider,” said Pierangelo Scappini, director for

organizational development and planning for Poste Italiane. “HR needs to adopt the culture and skill set of the business functions to overcome that perception.”

Excellence in HR thus encompasses both solid execution of basic HR activities for the present and active preparation for future challenges. In particular, we would highlight four trends and the areas for development that they entail:

- ◇ Demographic changes and the attendant talent scarcity, with implications for talent and leadership development
- ◇ Technological shifts that increase the importance of mastering social media for use in recruiting, engagement, and communications
- ◇ Globalization and the new role for HR, including development of a global delivery model
- ◇ The growing diversity of customer segments, which, combined with scarcity of talent, demands greater diversity in the workforce

The remainder of this report discusses how HR can deal with these challenges and turn them into opportunities.





Make Talent, Not War

Building a Strong Talent and Leadership Advantage

The growing shortage of talent will become acute in most industries, as well as in nations that lack favorable demographics or strong educational systems. Many companies frame their response to that shortage in the context of a “war for talent.” We view this approach as undermining good talent strategy, because it sets up a corrosive dynamic: focus on cloning the usual suspects (such as young, male, home-country MBAs), bid up the price for their services, promise them anything to get them, and then watch them job-hop to follow the money and opportunities after their compensation has outpaced their capabilities.

There are alternate avenues to building a strong bench of current and future talent, powered by a well-crafted approach that relies on the development of “homegrown” talent. In reality, however, few companies report having any talent strategy in place. It’s not an exaggeration to say that they’re relying on serendipity to meet their current and future talent needs, incurring unnecessary business risk.

This is the fourth year in a row that *managing talent* falls in the red zone in our survey. Yet roughly 60 percent of respondents said they lack a real strategy to source talent or to address their succession challenges. Indeed, more than one-third ranked their company as having no strategy at all, and only 2 percent cited a strong, comprehensive strategy.

Digging deeper, only 30 to 40 percent of respondents have structured “on-boarding” activities to welcome specific talent segments into the company once hired, and very few companies manage international talent pools. About 60 percent of respondents said they leave

their employer value propositions to chance—neither customizing their brands to match talent segments’ needs nor regularly measuring the attractiveness of their brands.

And as for 360-degree performance assessments and other sophisticated approaches, they are common practice among 57 percent of responding companies but are used with very few employee groups.

The Dangers of Relying on Serendipity

These survey responses show that in a time of growing talent gaps, most companies are not actively managing talent with a clear focus. Several factors account for the haphazard approach.

First, for all the rhetoric about how “people are our greatest asset,” senior executives devote very little time to talent issues. On average, our respondents said, their CEO and other senior executives spend less than 9 days a year on activities related to talent management—far fewer than the 20-plus days spent at best-practice companies. It’s easier for senior leaders to ignore the issue if the talent shortage has not yet hit the company hard. Some HR departments, meanwhile, may be stretched thin and so busy fighting fires that they don’t have time to step back and present a cogent argument to senior management in favor of a more comprehensive talent strategy.

Another complicating factor is the relatively narrow scope of talent management at many companies. For example, HR focuses more on high-potential employees (69 percent) than on senior leaders (54 percent) or their successors (52 percent), or on the most promising junior

employees (35 percent), whom we call “emerging potentials.” Each of those groups requires HR’s attention in order for the company to build a talent pipeline.

More than half of respondents lack a dedicated talent-management unit and end up managing talent in piecemeal fashion through different pockets of the organization. It would be far more effective to take an end-to-end view that has the latitude and resources to see the big picture and try alternative approaches.

Related to the piecemeal approach is a tendency to consider talent only in the short term. When asked whether talent plans are embedded in and aligned with the company’s business-planning cycle, only 1 percent of respondents said they were aligned. Yet adequate planning for talent sourcing and development in new markets or new regions takes time. Absent a real talent strategy, many companies will face a rude awakening when shortages or other talent problems surface.

A Talent Strategy Provides Option Value

These problems can and should be overcome. We would argue that a comprehensive talent strategy offers “option value”: it gives companies the option to develop their own talent in an environment of increasing scarcity. The sooner a company starts, the less expensive and disruptive that option will be. (See the sidebars “GarantiBank: Moving from Basics to Best Practice” and “Société Générale: Talent Management Overhaul.”)

Consider several data points from the survey that support the “build versus buy” case. High-performing companies (again, as defined by revenue growth and profitability over the past three years) fill 60 percent of their senior manager positions internally, compared with a mere 13 percent for low-performing companies.⁸ Some 53 percent

8. *Creating People Advantage 2010: How Companies Can Adapt Their HR Practices for Volatile Times*, BCG report, September 2010.

GarantiBank

Moving from Basics to Best Practice

Over the past ten years, GarantiBank of Turkey has experienced sharp growth rates, with the number of branches and employees almost tripling. From 2001 through 2006, the bank’s executives devoted time and resources to building a solid talent-management and leadership-development framework in order to sustain long-term growth.

With that foundation firmly in place, Garanti is refining its approach to strive for best-practice levels in several areas of talent management:

- ◇ *Recruiting.* Garanti rose to the top of Turkey’s most-desired-employer list in 2008, in part because of its innovative “talent camp” designed to tighten relationships with key universities. At the camp, potential recruits work on cases that they present to a senior management jury. The camp and its accompanying website and Facebook page have helped to build the employer brand and to expand the recruiting pipeline at leading schools.
- ◇ *Planning and Segmentation.* “Currently the cohort of high-potential talent covers about 6 percent of the workforce,” explained Osman Tüzün, HR coordinator for Garanti. “Different groups get different support from HR. For instance, one focus for junior talent is career guid-

ance, while management talent gets assignments for various projects that will stretch their skills.” Meanwhile, talent strategy focuses mainly on increasing the spatial and functional mobility of staff, as well as on senior executive succession planning.

- ◇ *Developing Talent and Leadership.* With 95 percent of Garanti’s management positions filled internally, young, talented employees have excellent opportunities to develop into managers at the bank. Although there are many young employees at the management level, high performance and at least seven years of experience in the banking sector are required for advancing into senior positions. Junior talent-development programs, for both headquarters and the regions, play a big role in preparing these employees to be managers. Using a model dubbed Yıldız (“star”), Garanti senior managers gather once a year to discuss the top talent company-wide at all levels—their strengths, skills, and potential for career growth and greater responsibilities.

Talent challenges never stand still, and Garanti constantly adjusts to new situations. For instance, as its hierarchies became flatter, vertical staff movement diminished. In response, Garanti is working to enrich and expand certain positions, and to promote cross-functional transfers that will yield new career opportunities.

Société Générale Talent Management Overhaul

Don't let the perfect become the enemy of the good. That concept guided French bank Société Générale in 2009 as it articulated a growth plan that included an overhaul of how it managed talent and leadership. The bank launched its ambitious effort on many fronts simultaneously, over the course of one year.

Talent targets were derived from the bank's strategic plan and adopted by the divisions. The talent life-cycle process—performance reviews, succession plans, and mobility management—was revised to get closer to industry best practices, with a much higher level of consistency and adoption. Talent governance, moreover, was standardized internationally to break through divisional silos and encourage international mobility.

On the leadership front, a group leadership model has been incorporated into most HR processes and systems. Performance evaluations and bonuses now hinge not just on individual results but also on behaviors that contribute to those results, which affect how people collaborate.

Development programs for executives were augmented and folded into a corporate university. Each group, from emerging talent to potential senior executives, received customized individual and team coaching and modules to expand their ways of thinking about business issues. "Some modules are mandatory, while others are adapted

to each executive," said Veronique Poulard, global head of leadership and talent management.

Société Générale believed it was necessary to adjust its employer value proposition to meet increasingly demanding expectations from the staff. What the bank settled on was a simple promise, "Career, care, agility"—care for employees, help to boost their careers, and encouragement of agile teamwork at all levels. This was expressed through a series of concrete actions, such as an overhaul of mobility and diversity policies, tailored local actions to improve work-life balance, and tools to measure both employee engagement and the company's attractiveness to job candidates.

Because the HR staff was being stretched by its more demanding roles, the bank also began to upgrade skills among HR business partners and to improve delivery through HR systems and shared-service centers.

Although this effort is not complete, the bank has already seen remarkable improvements. Talent pools have increased sharply, and engagement levels have risen as well, especially for the employee groups that received the greatest investments. As Anne Marion-Bouchacourt, head of group human resources, said, "You shouldn't wait to have it all perfect before implementing. If anything, I would go even further and faster."

of high performers have a strategy to address talent sourcing and succession problems, versus 27 percent of low performers. High performers are also more likely to have a dedicated talent-management unit, do 360-degree reviews, and cover emerging potentials in their talent programs. (See Exhibit 6.)

How can companies move from serendipity to effective talent management and leadership development? We recommend a holistic approach that is grounded in business strategy, treats human capital with the same rigor as a capital asset investment, and looks for opportunities throughout the employee's life cycle. It consists of six dimensions. (See Exhibit 7.)

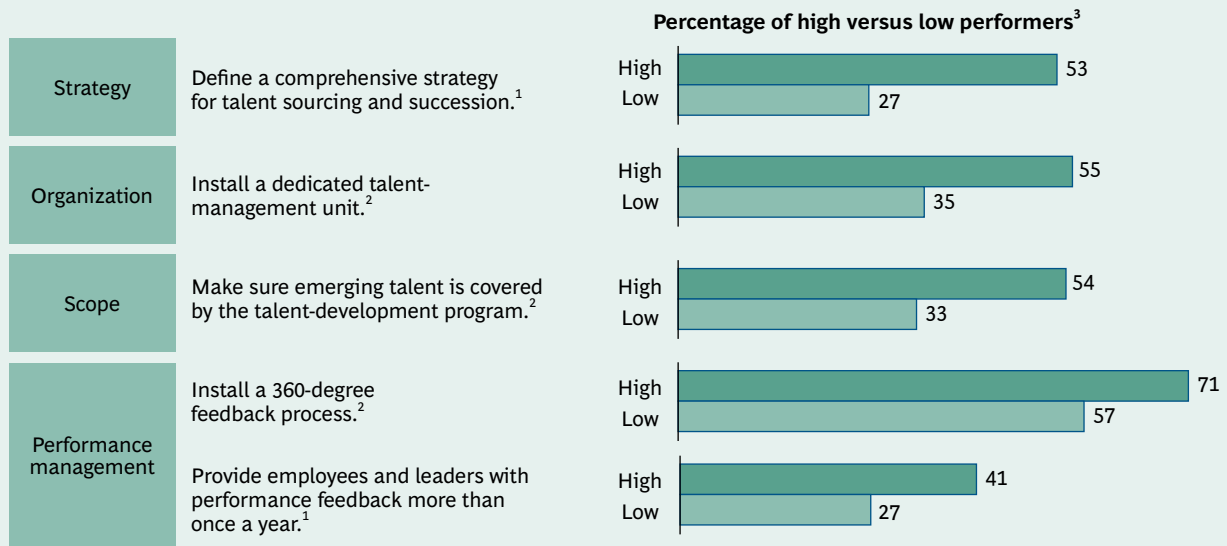
Talent Strategy and Returns Tracking. This involves, first of all, defining a talent strategy that fits with the business strategy and external market conditions. It asks where the company is now and where it wants to be in the future,

identifying the gaps in talent quantity and quality. Very few companies have a systematic strategy in place to meet their sourcing and succession challenges; only 8 percent of respondents said their company was at or near a best-practice level. (See Exhibit 8.) "Investments in people should be considered just like investments in assets, and their returns should be tracked as such," said Shafie Shamsuddin, executive director of global talent management and organization development for Carrefour.

Thus, one could tally the total expenditure to hire, train, and develop an engineer, and also estimate the individual's value through performance scores, record of meeting targets, and upward feedback. (See Exhibit 9.)

Leadership Model. Hierarchical, command-and-control approaches do still address the basic needs of many organizations, but they should be complemented by new behaviors that promote the fluid and collaborative nature

Exhibit 6. What High-Performing Companies Do Differently Regarding Talent



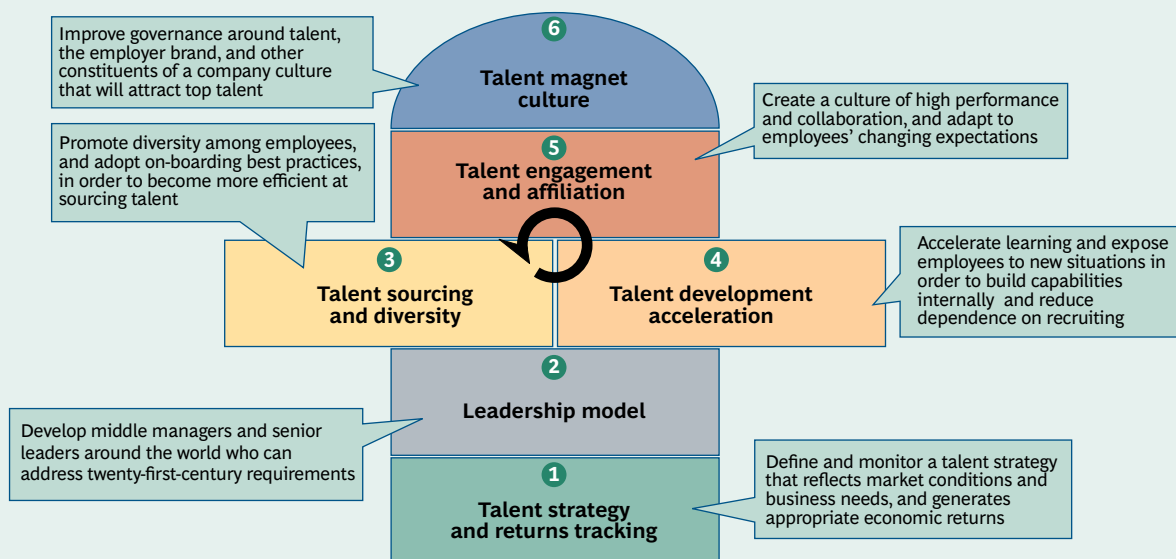
Sources: Proprietary Web survey with 2,039 responses; 270 respondents in this section; BCG/EAPM analysis.

¹Percentage of respondents who chose 4 or 5 on a 5-point scale.

²Percentage of respondents who said that they do this.

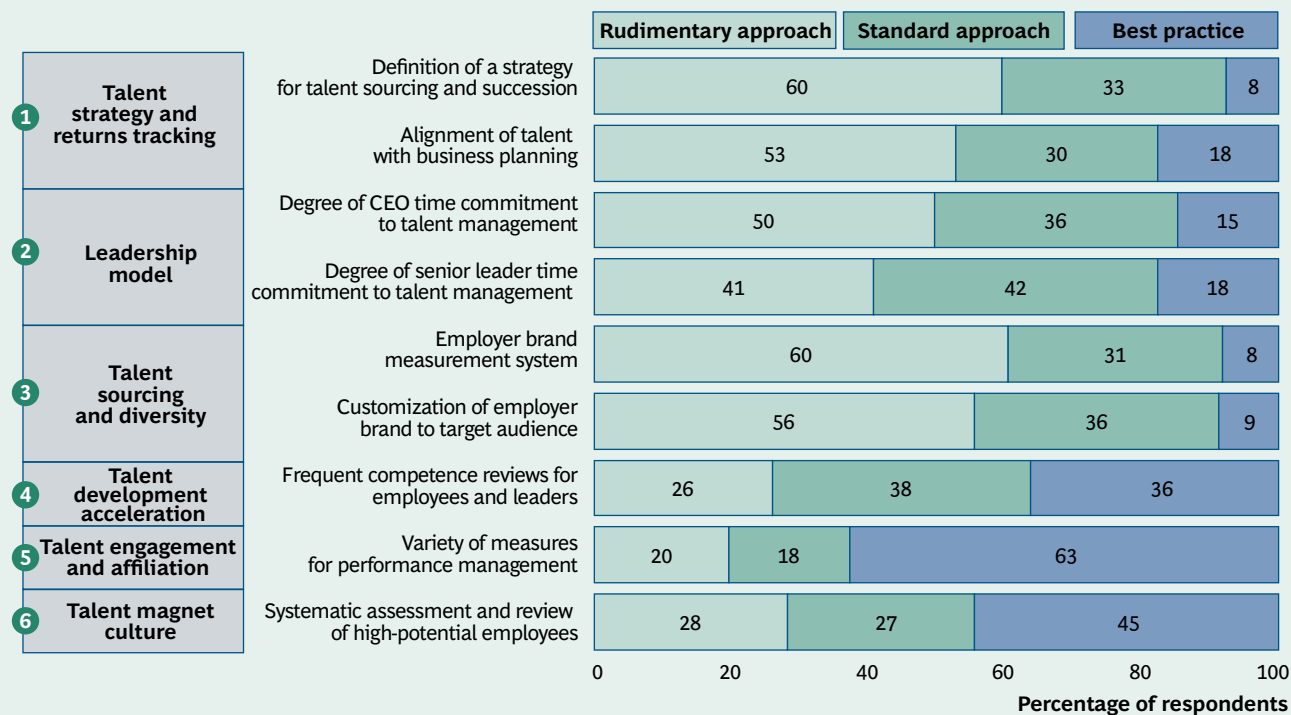
³Performance based on revenue growth and profitability over the past three years.

Exhibit 7. A Framework for Building Talent



Source: BCG analysis.

Exhibit 8. Best Practices Remain Rare in Talent Management



Sources: Proprietary Web survey with 2,039 responses; 270 respondents in this section; BCG/EAPM analysis.

Note: Respondents were asked to rate their organizations on a five-point scale. “Rudimentary approach” includes those who chose 1 or 2; “standard approach” includes those who chose 3; “best practice” includes those who chose 4 or 5. Because numbers were rounded, not all percentages total 100.

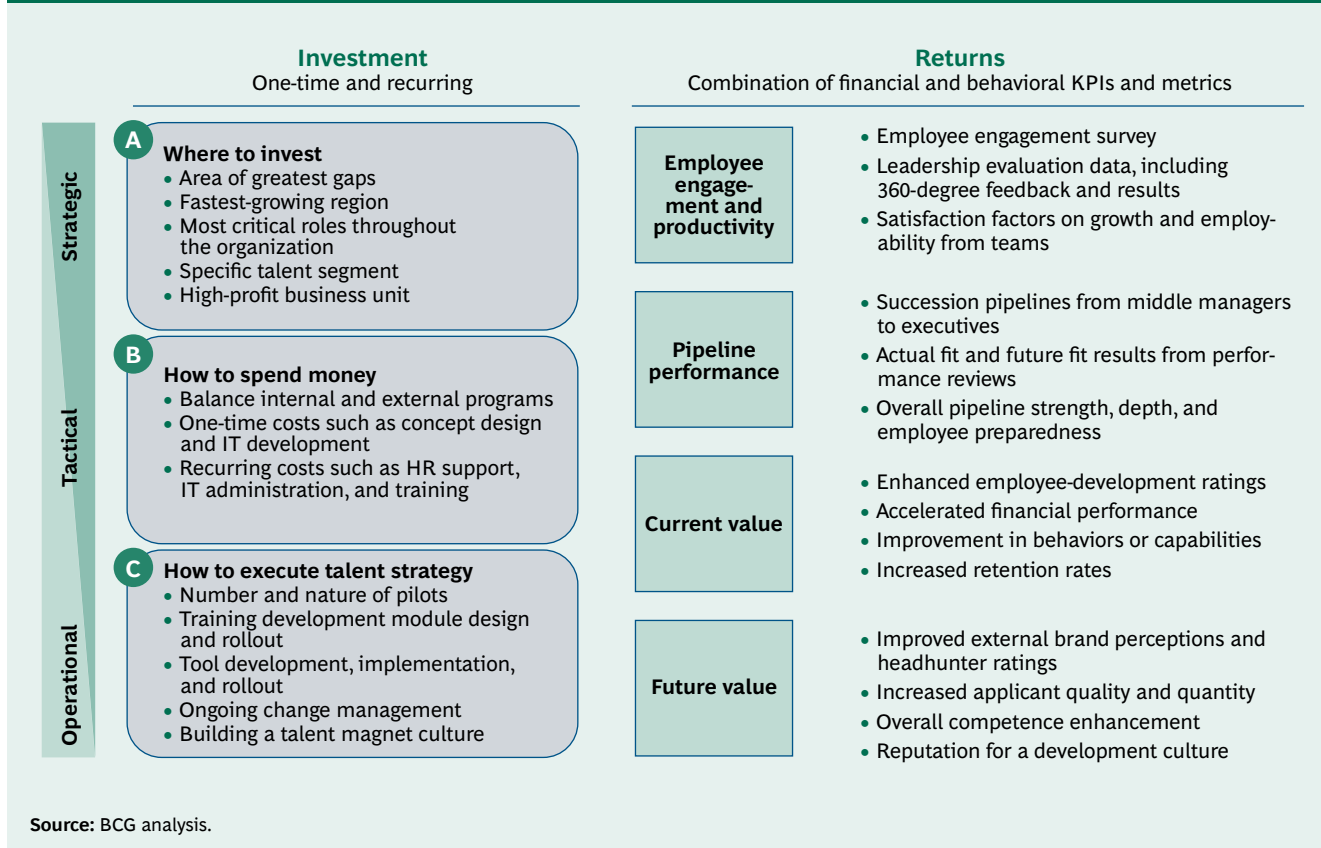
of work today. More volatile business environments call for adaptive leaders who embrace uncertainty and experimentation and can empathize with the perspectives of other stakeholders. Effective talent management measures leaders along those dimensions. Compensation and performance reviews, for instance, could incorporate dimensions of how well leaders engage employees, manage teams, promote the employer’s brand, and build the talent pipeline, at both the global-leadership and middle-management levels.

Talent Sourcing and Diversity. Competitive markets today are characterized by globalization, talent scarcity, and increasingly distinct and demanding customer segments. Companies staffed exclusively with similar-looking and similar-minded employees lack cognitive diversity—that is, the broad range of insight and experience needed to meet those challenges. By contrast, organizations that tap into the full spectrum of capabilities offered by a diverse workforce are better equipped for today’s dynamic envi-

ronment. Even in companies with more than 5,000 employees, almost half of respondents said that they lack any staff dedicated to diversity—and only about one-quarter said that their company has internal diversity targets. Banco Santander strategically recruits individuals from markets of future growth and includes them in its talent pool. “Our group has strategic agreements with 1,200 universities around the world, including China. We see this as a clear competitive advantage to have preferential access to new talent,” explained José Luis Gómez Alciturri, executive vice chairman of Banco Santander and director of the human resources division.

Talent Development Acceleration. Many employees, particularly younger ones, increasingly prefer a career *trellis* offering multiple options rather than a career *ladder* oriented only vertically. A trellis model gives employees more options for the speed and direction of their careers. Allowing employees to adjust their job to their personal life will enhance the company’s value proposi-

Exhibit 9. Tracking Returns from Investments in Talent



tion among high-potential employees. For those employees who want to accelerate their experience and competencies, companies can immerse them in unfamiliar markets, temporarily assign them to external groups, or provide limited-authority experiences like joint-venture positions.

Talent Engagement and Affiliation. Executives and managers play a big role in establishing norms and expectations around what constitutes superior performance and how employees should collaborate. Management incentives should include metrics related to culture and engagement, holding managers accountable for developing their teams and ensuring that employees feel engaged in their work. It's not sufficient for a manager to meet her numbers and deliver on deadline if in the process she beats up her team so that they all quit or seek a transfer.

Talent Magnet Culture. Companies need to build strong employer brands to attract and retain top talent. The tac-

tics can be quite varied, including one-week "engineering camps" at Royal Dutch Shell, three rotations over 15 months at Nike Europe, or active mentorship for women at Goldman Sachs. High-potential employees who see their company being flexible are more likely to go the extra mile both in their own jobs and in singing the company's praises to people outside the company.

Managing Three Tiers of Talent in an Economic Crisis

For at least four years, executives have said that talent management and leadership development are top concerns, now and in the future. Yet they have a long way to go in meeting those concerns with the right capabilities. The recent financial crisis and recession, which spurred high levels of unemployment, perhaps lulled executives into thinking that the shortage of talent was no longer a pressing problem. That's a false sense of security.

The top tier of talent—the “excellent” group—obviously needs to be nurtured. These people are always in high demand, even during the worst period of an economic crisis.

But companies should not neglect the “adequate” or “fragile” tiers, either, as growing scarcity raises their potential value in the long run. Companies can improve the mix of talent internally by raising the skill levels and engagement of both groups—for example, through investments in corporate universities. Even during tough economic times, then, companies should be investing in

training and development programs, not treating them as discretionary spending to be cut.

Whatever the coming years hold on the economic front, key talent will become even scarcer and more important. Companies should start preparing now in order to have the option to build and keep the best team possible.



A Technology Platform for All Ages

Why Social Media Are a Game Changer for HR

Many HR executives believe that Facebook, video sharing, and mashups are phenomena limited strictly to Millennials and their younger siblings. And they doubt that online social media have serious import for HR activities. Recent trends show that they should reconsider both assumptions.

Internet penetration has reached more than 2 billion people and continues to increase worldwide. And while social media use is highest among younger “digerati,” it’s already substantial and rising rapidly among older generations as well.⁹ Throughout 27 European Union countries during the first quarter of 2010, 80 percent of Internet users aged 16 to 24 posted messages to social networks, chat sites, and blogs; 42 percent of users aged 25 to 54 did so, along with 18 percent of users in the 55-to-74 age group.¹⁰ LinkedIn, the world’s largest professional network, reports that a plurality of its members, at 36 percent of total membership, is in the 35-to-54 age group.¹¹

Social media site Facebook alone has more than 750 million users, averaging more than a half-hour every day on the site. And the three largest professional networks claim 145 million members—LinkedIn with 100 million, France-based Viadeo with 35 million, and Germany-based Xing with 10 million. And, of course, social media never stand still: Google+ attracted more than 10 million new members in just two weeks.¹²

Social media have become woven into the lives of many employees, no matter what their age. More and more people blur the lines between work life and personal life, and between virtual and face-to-face communication. HR executives need to adjust accordingly, maintaining the

traditional channels but mastering the new ones as well—the applications that facilitate user-generated content and social interactions, as distinct from websites where users are passive viewers. As Rupert McNeil, HR director for Aviva UK, said, “This way of interacting will become pervasive with all generations of employees. Make sure you work out how to use it.”

Like it or not, employers are being discussed in very public online forums. In German-speaking countries, for example, young employees and recent graduates use the website Kununu to gain insights into companies through employees’ own evaluations and commentary on subjects like work-life balance.

Opportunities and Risks Presented by Social Media

Many executives do seem aware of the opportunities afforded by social-networking sites. Almost nine out of ten respondents to our survey have an account in a social network. And more than three-quarters of their companies are active in some form of social media. Half of the respondents maintain corporate pages on Facebook, and 41 percent on LinkedIn.

9. Pew Research Center’s Internet & American Life Project surveys, September 2005 to May 2010.

10. Data in *Internet Usage in 2010—Households and Individuals*, Eurostat (the statistical office of the European Union), December 14, 2010, available at <http://ec.europa.eu/eurostat/ict> under “Data.”

11. LinkedIn Demographics presentation, January 2011, at <http://www.slideshare.net/amover/linkedin-demographics-and-statistics-2011>.

12. Larry Page, CEO of Google, posted this number on his Google+ profile on July 14, 2011.

As for specific opportunities, almost three-quarters of respondents cited employer branding as the leading one. (See Exhibit 10.) Next came attracting young professionals (half of respondents), skilled workers (almost one-third), and graduates (about one-quarter). Most respondents did not think that other target groups, such as executives and interns, could be reached effectively through the same channels. At the same time, executives are concerned about a variety of risks that arise from social-networking sites. Breaches of confidential data are the greatest risk, cited by 47 percent of respondents, followed by the scant influence companies have on posted content. Several concerns relate to the potential head-hunting of employees by competitors: 37 percent cited the threat of easier access to employee information, and 32 percent said they worry about competitors actively poaching staff.

Despite those risks, companies have more to gain than they do to lose—if they use social media in thoughtful, effective ways. Current usage tends to favor more traditional applications such as corporate websites, which re-

main the cornerstone of a company’s Web presence. Few companies consider themselves highly effective in most of the associated activities. For classic activities such as job search engines, 57 percent of respondents regard themselves as effective, and even fewer, 38 percent, rated themselves effective in career networks. Although half of the companies use social media, only 19 percent rated themselves effective in these networks. More broadly, respondents cited relatively low capabilities in social media—certainly lower than the perceived future importance of the activities. (See Exhibit 11.)

Like many initiatives, the success of social media programs will depend in part on having sufficient budgets and senior management commitment. Fully half of all social-media “champions” (companies that assess their social-media capabilities as being strong) dedicate resources to social media, compared with only 16 percent of all social-media “novices” (companies that rank their capabilities as low). Similarly, 74 percent of champions report strong senior-management commitment, compared with 44 percent of novices.

Exhibit 10. The Opportunities and Risks Presented by Online Social Networks



Sources: Proprietary Web survey with 2,039 responses; 528 respondents in this section; BCG/EAPM analysis.

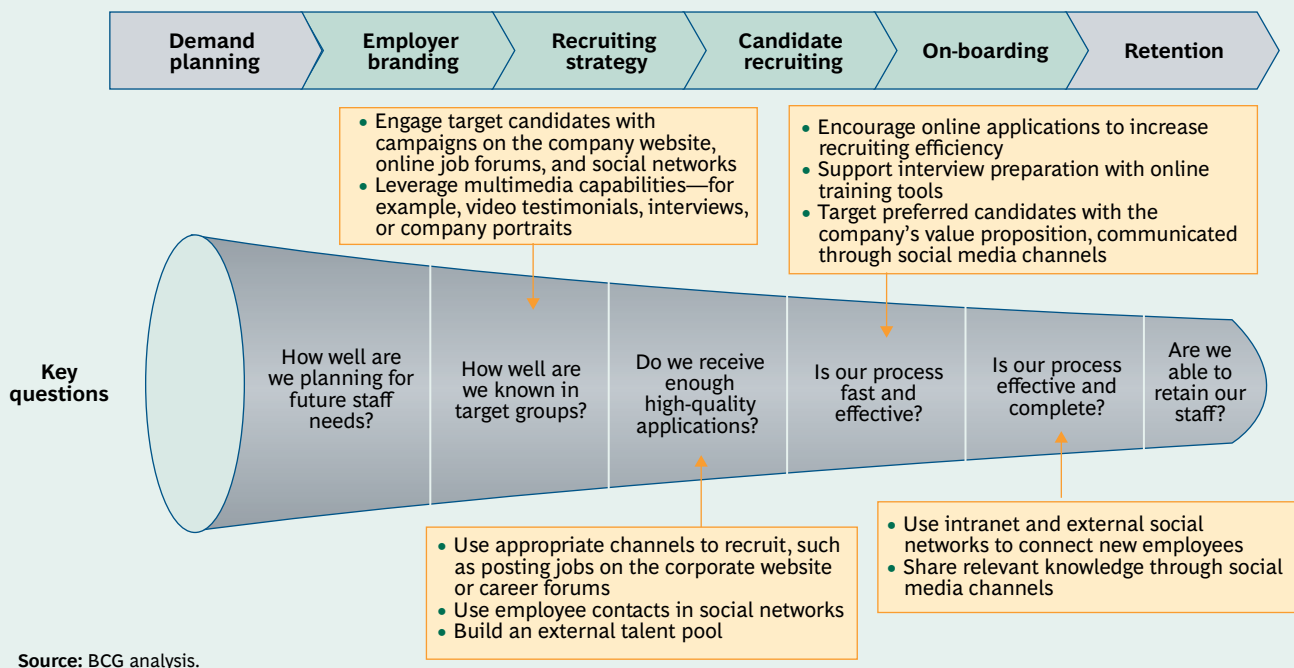
How Can Companies Organize Their Online Social-Media Activities?

Social media technologies are less than a decade old and have caught fire only within the past four or five years, but we have already identified three broad stages of organizing for these online activities. Typically a company starts with an *informal* approach to social media, with no dedicated responsibilities and no established policies. Sixty-one percent of the companies we surveyed are conducting social media activities in this manner. Next is a more *centralized* approach, in which a small unit or team conducts or coordinates social media efforts. Forty-four percent of social media “champions” in our survey (companies that rank their capabilities as high in social media) give certain employees responsibility for Web 2.0, in contrast to just 22 percent of “novices” (companies that rank their capabilities as low). This approach can be extended to a *cross-functional* model, which uses teams across business units to support the central social-media unit. Here all employees are encouraged to take an active part, within the bounds of clear policies. But many companies don’t yet have such policies. While 37 percent of the champions in our survey have social media policies in place, only 18 percent of novices do.

The airline Lufthansa takes a mostly centralized approach: HR runs all recruiting-oriented social-media activities, and the public Be-Lufthansa website is the external interface for online recruiting. Be-Lufthansa has received 115,000 applications for 4,000 posted jobs and is a convenient channel for the airline to answer questions and guide applicants through the recruiting process.

Lufthansa’s platforms also include Facebook, StudiVZ, LinkedIn, and Xing; the company’s Facebook page, which is being used for HR purposes, recently had more than 17,000 fans. The corporate intranet, meanwhile, supports applications that extend the advantages of social media internally. The general experience with social media to date has convinced Lufthansa executives that the benefits outweigh the risks and that the risks are manageable. “Executives have to discard the idea of perfect control over communication,” said Martin Schmitt, senior vice president of corporate personnel policy. “Because if we don’t act, we are going to lose even more control.”

Exhibit 12. The Web Should Be Integrated into Each Stage of the Recruiting Funnel



suitable candidates. Qualified individuals who are not actively looking for a job can be targeted as well—a practice known as *passive recruiting*. As career networks grow their membership, even lower-level positions can be filled through online channels. However, it's important to learn which sites are used by each target group, because they vary by region and academic focus. (See the sidebar “Connecting Talent with Opportunity on a Massive Scale: An Interview with LinkedIn’s CEO, Jeff Weiner.”)

Becoming adept at this kind of recruiting “may require building an internal headhunting team that knows Web communities well,” noted Volker Stephan, head of human resources in Switzerland and Central Europe for ABB Switzerland. That can be a difficult task, he said, since “the bottleneck is experienced people.” A company’s own employees should not be overlooked as a convenient, knowledgeable channel to prospects. Employees can be a great source of referrals because they often know people with a high likelihood of having the right qualifications and a good fit with the company culture. Such “peer to peer” recruiting can spur candidates to take action, such as sending an application. The network multiplier effect means that a company’s employees could know tens or hundreds of thousands of potential candidates. If a Web team has sifted good candidates from the social media platforms, the team could approach employees who know some of the prospects and devise a personal minirecruiting campaign.

Once a potential candidate is interested in the company, Web-based technologies can streamline the application process through online screening tools, interview simulations, and a central portal that aggregates all the job postings. This portal should be highly visible and well connected through search-engine optimization techniques, corporate blogging, and traditional online advertising.

Similarly, the process of on-boarding employees can benefit from social media technologies with respect to online training, technical forums, and internal networks to connect new hires and existing groups of employees. Asset management company Amundi uses online networks to allow participants in leadership seminars, conducted for executives of two merged companies, to continue sharing ideas after the seminars. Jean-Paul Mazoyer, deputy CEO and global chief operations officer, explained, “The collaborative Web tool allows members to share and discuss management challenges, which encourages individual de-

velopment and ensures access to other executives.” Alcatel-Lucent uses a proprietary internal social network to promote knowledge sharing among its employees, with more than two-thirds of employees being present on the platform. “This is truly an enabler for innovation,” said Victor Agnellini, senior vice president of transformation learning and accreditation for Alcatel-Lucent.

Guidelines for the Virtual World

For companies considering where to begin with social media, or how to expand their capabilities, our experience suggests the following guidelines:

- ◇ *Align the social media strategy with the overall business and HR strategies.* An online video clip or any other tool should be consistent with the company’s goals for its employer brand and with the overall corporate brand. Dissonance among the employer brand, the realities of the workplace, and the overall corporate brand will quickly be spotted and criticized online by employees and other stakeholders.
- ◇ *Secure senior management support.* Web tools will be most effective if senior management takes an active role in promoting the tools and even participating as users. Wolfgang Goebel, the head of human resources for McDonald’s Germany, blogs two or three times a month about employer branding.¹³ This improves the company’s credibility on this topic.
- ◇ *Make responsibilities clear.* The organization must be clear about who is responsible for social media tasks and budgets, and who is accountable for measuring progress.
- ◇ *Develop policies on Web conduct.* To minimize risks, especially regarding malevolent staff postings or breaches of confidential information, corporate policies should set guidelines for communication. Our survey shows that 29 percent of companies lack a social media policy that addresses the risks noted earlier.
- ◇ *Understand the nuances of different channels and their users.* Some channels, such as job search engines Monster and StepStone, resemble classic one-way recruit-

13. www.employerbranding-blog.de.

Connecting Talent with Opportunity on a Massive Scale

An Interview with LinkedIn's CEO, Jeff Weiner



BCG spoke recently with Jeff Weiner, CEO of LinkedIn, which has become the world's largest business-related social-networking site since it was launched in 2003. Weiner joined LinkedIn in late 2008 from his position running Yahoo!'s network division. Here's a condensed version of the interview.¹

Jeff, what's your perspective on the importance of talent for organizations?

For LinkedIn, it's not just about recruiting a world-class team; it's also about ensuring that the people you already have in place are connected with the right tools, the right teams, and the right knowledge, so they can succeed in their roles. It means making sure every one of our employees can optimize their career paths for the things that they're best at and most passionate about.

How are LinkedIn and social media in general transforming the ability of organizations to grow a great team?

LinkedIn connects talent with opportunity at massive scale. We now have access to massively scaling infrastructure that connects hundreds of millions of people around the world in milliseconds. Even more important are the behavioral changes that the infrastructure has empowered—the ways in which people share their identity, build and manage their networks, and share information and ideas.

On the recruiting side, companies can now recruit passive candidates—people who are not actively looking for a job—in a way that was never possible before. This happens by virtue of the fact that, more likely than not, these people regularly update their LinkedIn profile.

Have you seen organizations that have homed in on passive recruitment?

ing channels such as newspaper ads. Others are more interactive, but with different degrees of privacy. User expectations regarding response time and other features will vary greatly, as will the characteristics of users themselves. Interaction with each group must be tailored to its needs, without stretching resources so

SABMiller has done a wonderful job of recruiting through these tools, saving substantial money by conducting recruitment searches more effectively and efficiently. Another example is Invensys, a technology group based in the U.K. that saved \$770,000 in nine months.

Recruiters no longer need to sift through thousands of resumé's, constantly saying no. They're now in the position to identify the ideal candidate and then do a search for specific variables. They can spend most of their time conducting the perfect search.

We've heard a lot about peer-to-peer recruiting, which typically has always been a bit of a challenge to pull off. How are organizations adopting that?

These tools do empower individuals throughout the organization to get involved. Along with that, one common question I hear is, Will a platform like LinkedIn ultimately do away with executive recruiters, or will HR departments still play the same role? I think we'll be as reliant as ever on executive recruiters and HR professionals, because there's an art and a science to this world. Recruiters have developed an intuition over time about the chemistry between an individual recruit and the companies he or she will work for. Our platform enables them to operate at a far greater scale and with greater speed, efficiency, and effectiveness.

What would you say to companies that get it but balk at putting more control of their brand in the hands of employees?

Embrace it and lean into it. Explicitly state your objectives with regard to how you can best leverage this brave new world. Your social-media strategy should mirror the organization's broader objectives and strategy, and it should help the organization achieve those objectives in a more effective and faster way.

1. To see the complete interview, please go to bcgperspectives.com.

much that the company can't reach all chosen groups.

The good news is that social media tools make it feasible to keep close tabs on how any pilot initiative is working before rolling it out companywide. For a new recruiting

campaign on a social network site, one can track the number of views and click-throughs, and see user comments. Real-time feedback allows companies to make midcourse adjustments quickly and to compile data on their own and their competitors' activities. An incremental approach, centrally managed, will allow companies to familiarize themselves with the many channels and tools

available and refine a strategy that is right for their business. Given the speed of change on the Internet, companies can't afford to delay using the Web to build a strong employer brand.



HR Without Frontiers

Pathways for HR to Add Value on a Global Scale

The acceleration of international expansion among European companies, together with the volatility of these new markets, raises the bar for HR to become a strategic partner with the business units. Our survey shows that fewer than half of HR professionals think that HR has reached a strategic level in their company; more than one-fifth believe HR is still only a service delivery function.

A globalizing environment demands even more from HR: balancing a global steering model with local flexibility, and professionals who can think and act internationally. HR needs to play a prominent role in helping the organization plan and execute cross-border mergers, carve-outs, and organic expansion abroad. (See the sidebar “Gas Natural Fenosa: HR’s Role in Making Mergers Work.”)

For instance, PepsiCo announced plans in early 2011 to acquire a majority stake in Russian dairy and juice company Wimm-Bill-Dann. The deal, one of the largest foreign acquisitions in Russia outside the energy sector, meant adding 18,000 employees in a relatively unfamiliar region and product line. PepsiCo’s HR staff conducted due diligence on the organization structure, HR processes, and cultural fit of Wimm-Bill-Dann and prioritized topics on the basis of their urgency and complexity. That due diligence was critical to a successful integration of the two organizations and an accelerated pace for creating value.

A look at the profiles of the 50 largest European multinational companies (based on their foreign assets) shows the magnitude of the globalization challenge. (See Exhibit 13.) On average, 66 percent of employees in those companies work outside the local market; in five companies,

the share reaches 90 percent or more. The foreign workforce of a single company can reach almost 300,000 employees.

Furthermore, from 2003 through 2008, labor growth happened almost exclusively outside these companies’ home markets. Data available for 38 of the top 50 companies show that they added a total of about 524,000 employees abroad over those five years and subtracted about 293,000 at home.

As a result, HR’s traditional emphasis on managing the workforce of the home market has become too narrow. Global transparency, international frameworks and standards, and globally installed services are the hallmark of a superior HR function today. For most companies, this transition will entail a significant shift in resources and management attention.

Value First, Cost Savings Second

The rationale for HR to go global is, first and foremost, to support and add value to the company’s strategic plans. Undoubtedly, because HR should be a role model in the constant search for efficiency, the cost perspective is also important. Merely reducing costs, however, should be a secondary goal. Given that the HR function typically comprises just a very small percentage of labor costs, even a large reduction in HR costs won’t yield large savings, and it carries the risk of creating substantial turmoil.

Going global will require more resources devoted to strategic activities—more than the 2 to 5 percent of capacity that traditionally has been dedicated to strategic activities (compared with 60 percent devoted to service activi-

Gas Natural Fenosa

HR's Role in Making Mergers Work

Even the best-laid merger plan can be derailed if the people and cultures don't mesh. HR can improve the odds of success by stepping up to be a true transformation partner with the two businesses.

Case in point: the 2009 merger of Gas Natural and Unión Fenosa, two Spain-based utilities with more than 16,000 employees in 20 countries. HR was given the difficult assignment of capturing cost synergies in the merged workforce while retaining key talent and keeping morale and engagement high. "Our task was to capture as much savings as possible, minimizing the potential negative impact on morale and keeping a reasonable budget for employee exits," explained Miguel Angel Aller, HR director for Gas Natural Fenosa.

To augment HR's interactions at the business unit level during and after the merger, the company created the role of HR business partner with a vertical reporting line to corporate HR. The company also set up a shared-service center for transactional activities such as payroll and benefits, as well as HR IT-systems subsidiaries in Europe and Latin America.

HR took the lead in managing the integration. Besides offering early-retirement incentives, HR designed an aggressive three-part mobility program to balance jobs with available personnel:

- ◇ *Reallocation of staff* into existing vacancies, according to skills and geographical fit
- ◇ *Strategic insourcing* of previously outsourced work for high-value-added activities, such as a director overseeing network construction and expansion
- ◇ *Tactical insourcing* of external jobs, such as administrative services, on a temporary basis

Two dedicated units in the shared-service center oversaw the mobility program, tracking progress in workforce size and structure, updating forecasts of personnel costs, and managing the insourcing initiatives. Governance of the mobility program fell to a committee that met regularly.

In two years, HR has generated substantial success with the mobility program, covering 1,000 positions in Spain.

ties). This entails a shift in mindset away from administrative transactions to acting as expert consultants on how talent can advance the business goals in every foreign market. Instead of viewing HR staff as jacks-of-all-trades, HR will require analytically proficient experts in areas such as workforce planning and leadership development to work side by side with the business leaders. And the more basic activities such as payroll should be optimized through centralized technology-intensive processes. Becoming true strategic partners can add tremendous value by advising the businesses on where to invest in talent, how to recruit the right people, and how to retain and develop them for fruitful careers. (For an example of how HR is becoming more global, see the sidebar "PSA Peugeot Citroën: HR Transformation for a Global World.")

How Centralized and Standardized Is HR?

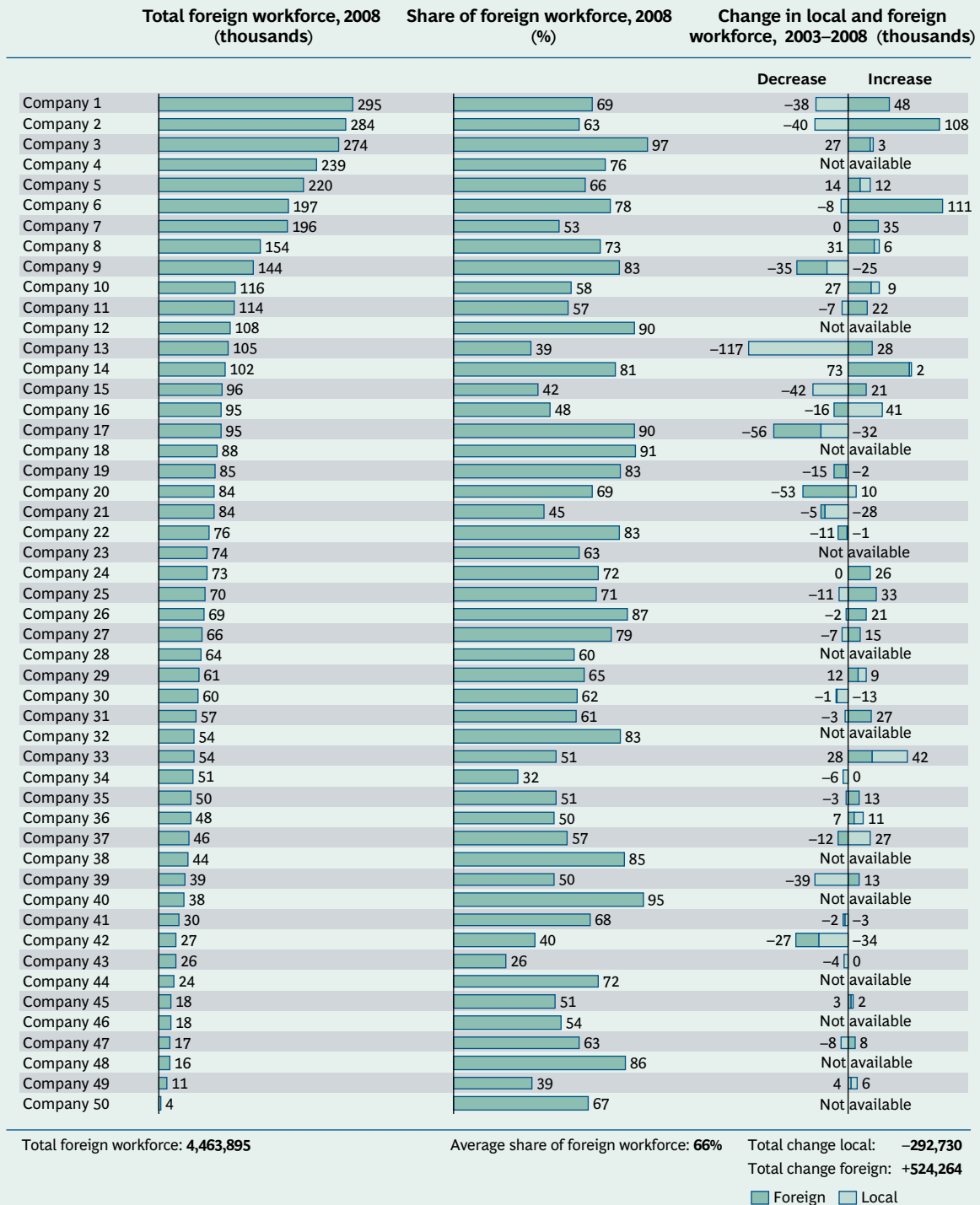
As a prelude to discussing how HR can best go global, let's assess the current state of HR in terms of depth of guidance and degree of process standardization. We ana-

lyzed 16 core HR activities within large companies and clustered them into strategic, functional, and administrative activities. (See Exhibit 14.) The survey suggests that no common model has emerged for organizing HR across borders. In 11 of 16 activities, at least 15 percent of respondents fall in *both* the lowest category (not involved in the activity) and the highest category (central execution of concepts). And no activity has been standardized globally by a majority of respondents.

There is one common denominator, however, in the categories of strategic and functional HR activities: a plurality of respondents said the degree of central guidance lies between setting guidelines and creating concepts. Among the 12 activities in this category, 4 stand out in terms of central guidance: people strategy, talent management, compensation, and performance management. For all 4, at least 40 percent of respondents said they create concepts centrally.

Other strategic or functional activities are managed locally or have not yet been rolled out internationally. To be sure, some activities, such as on-boarding and labor

Exhibit 13. Large European Multinationals Have Been Expanding Their Foreign Workforces



Source: United Nations Conference on Trade and Development.

Note: Foreign workforce refers to the workforce outside the country in which the company is headquartered.

PSA Peugeot Citroën

HR Transformation for a Global World

Like many automakers, PSA Peugeot Citroën faces the substantial challenge of gaining market share in rapidly developing economies. This challenge, the HR unit decided, should translate into three specific objectives: making HR processes and structures far more international; becoming leaner and more efficient; and developing capabilities (in talent planning, sourcing, and development) to help the businesses prepare for imminent technological skill shifts and changes in location.

Based in France, the company employs roughly half its workforce of 198,000 people outside its home market, including 64,000 throughout Europe and 34,000 in other regions. But HR was starting with a strongly France-centric focus and little central steering of international activities, as most HR transactions occurred at the local level, leaving little room for HR to act as a consultant to the business heads. “We will have to recruit and on-board thousands of talented individuals every year,” said Rémi Boyer, the company’s head of HR development. “While this is only starting to be a challenge in France, it already is one in Russia, China, and Latin America.”

HR’s subsequent transformation involved three main initiatives.

First, HR established centers of excellence with a clear international mandate in eight expert-based activities, ranging from strategic workforce planning to career management. To underscore the global mandate, all HR responsibilities for the French operations were carved out from the corporate level and moved to subsidiary levels. The centers of excellence define guidelines and tools in their respective areas for international use but explicitly do not execute activities locally.

Second, the company bundled transactional activities into regional shared services, like payroll and labor relations, in order to reap efficiencies. Where possible, the activities are harmonized and offered internationally. The design of training programs is also bundled at a regional level, ensuring a high standard consistent with globally defined job and skill requirements.

Third, HR aimed to become a true partner with the business units. To do so, it reduced the amount of local transactional activities, especially staffing and career management, by adjusting the missions and tasks of HR business partners. At the same time, HR strengthened certain skills, such as HR strategy formulation.

relations, are mostly local by nature. By contrast, others, such as HR controlling and employer branding, benefit from global standards and should be steered by the center, yet only 33 percent and 28 percent, respectively, do so.

As for administrative activities such as payroll, fully one-third of the respondents manage them centrally, and few have rolled out globally standardized processes. Activities that support employees, such as answering requests, remain highly local, meaning that companies are not taking advantage of communication technologies to centralize and standardize. Among all respondents, only 21 percent use online “self-service” portals where employees can get responses to their inquiries.

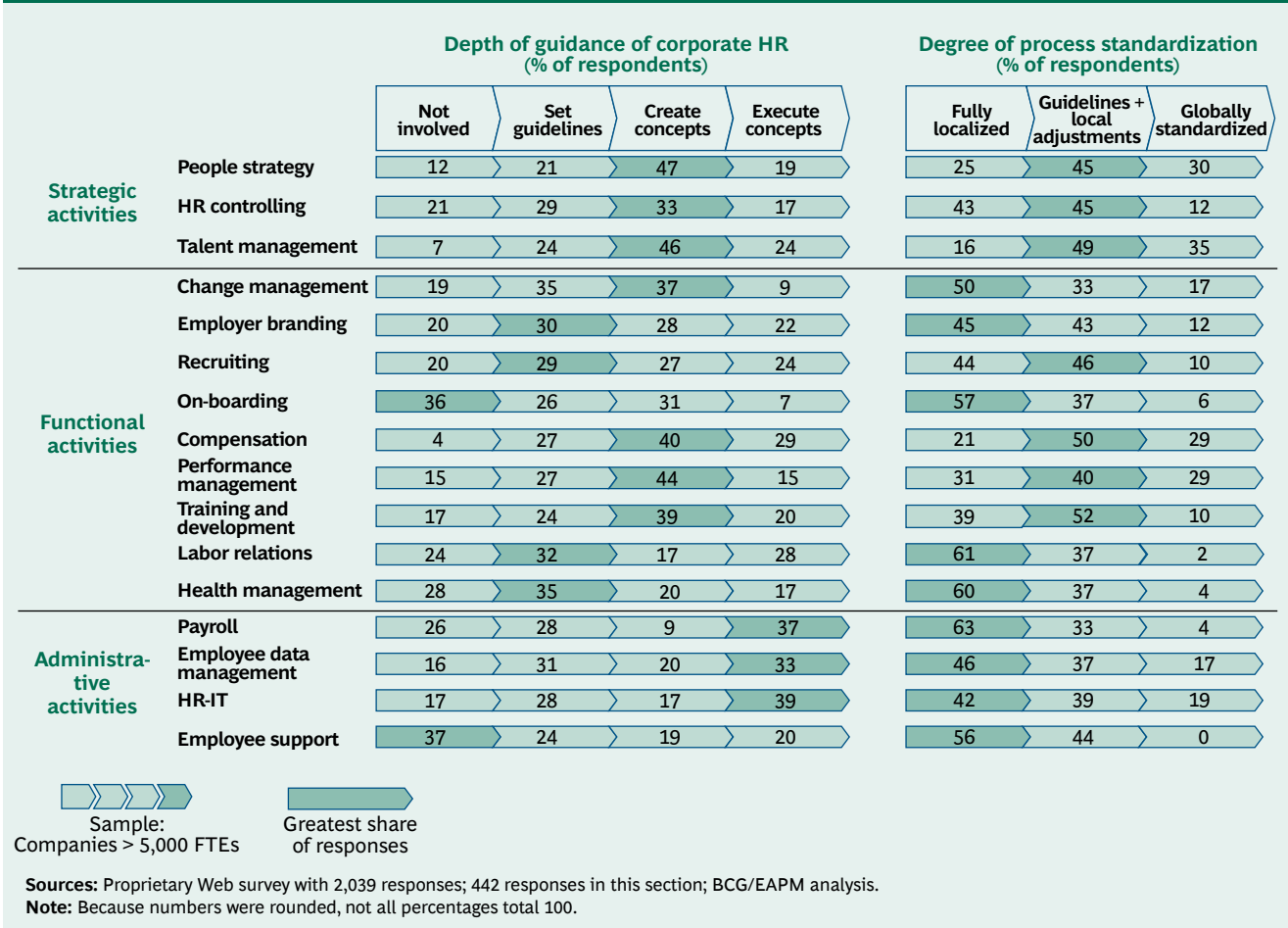
Given the current situation, creating a successful global HR regime will involve several changes. The first is to gain a clear view of who does what for whom. Global transparency about capacities and accountabilities in the HR function is currently more the exception than the rule. Because of mergers and divestments, organizations

often don’t know how many people actually work in HR or which people handle which function in a particular foreign market. (See the sidebar “Getting a Line on Who Does What for Whom.”)

The second change needed is to define and prioritize the activities that will create the most value when expanded to a global scale. Our survey analysis shows that people strategy, talent management, performance management, and compensation and benefits currently stand out as the most global activities. In these areas, HR leaders should be addressing several issues:

- ◇ *People Strategy.* Define the HR controlling data that should be assembled in a globally consistent format to plan the supply and demand of workforce skills.
- ◇ *Talent Management.* Define the right size and international scale for the talent pool that should be attracted and developed. Create policies and tools to manage talent centrally.

Exhibit 14. Despite a Relatively High Degree of Guidance by Corporate HR, Many Activities Have Not Been Standardized



- ◇ *Performance Management.* Design the right approach for a performance management system to work globally. Determine the degree of globally identical objectives, performance criteria, and appraisal processes.
- ◇ *Compensation and Benefits.* Determine the characteristics required for a global job-grading system and the guidelines needed to define compensation levels. Balance central guidance with local flexibility for subsidiaries to make individual compensation decisions.

For HR service activities, globalization involves maintaining the right balance between economies of scale that arise from standardizing and automating processes and the high quality of service demanded by each local inter-

nal customer. Quality measures such as correct payroll slips and fast response time to employee or management requests matter a lot, because HR's performance of these basic activities shapes the perception of HR throughout the organization.

One area ripe for improvement lies in creating global data warehouses and systems with globally compatible HR applications. HR has traditionally attracted people who have not focused on advanced quantitative or technical skills, and as a result few companies can produce detailed analysis of people issues that inform strategic decisions. Our survey shows that HR remains quite detached from managing the IT side of its activities: only 18 percent of respondents have a dedicated unit within the HR function that is accountable for HR IT, while 27 percent place accountability in the hands of the IT function.

Getting a Line on Who Does What for Whom

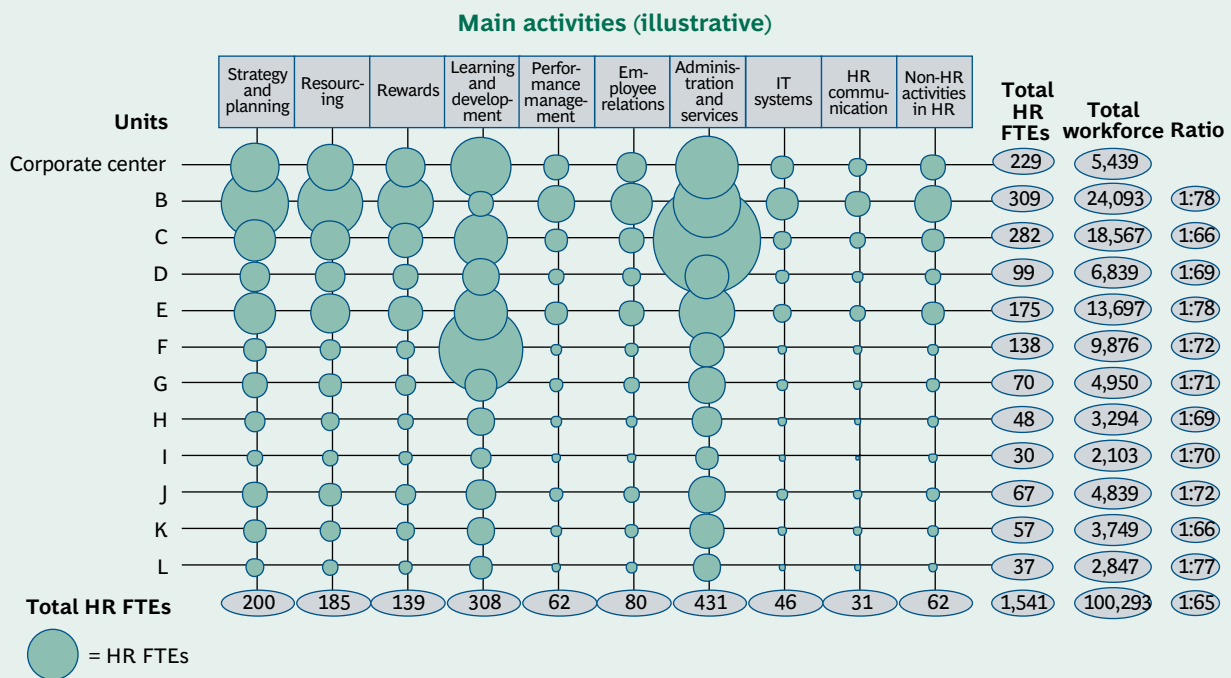
It's easy for multinational companies to lose sight of how HR activities are allocated across the organization. They don't know how many people inside and outside the HR function are involved in HR activities or for which group of internal customers. Before one starts to reshape the HR function for global operations, then, it's important to get a clear picture of its current state. (See the exhibit below.)

Companies will have to identify the capacities required to deliver key HR processes. This analysis should cover how many people—and at what level or in which unit—engage in specific HR activities. It can also define the current degree of standardization of the processes behind

these activities and the assigned responsibilities for each process.

Analysis of the status quo often reveals a reality in which HR activities are spread widely across the organization. A company with ten business units might have two or three employees in each unit investing 20 percent of their time in recruiting, even though none of them has a defined role or mandate for the activity. Quantifying such fragmentation at a detailed activity level is essential for prioritizing HR activities and identifying key improvement levers for going global.

A Clear Picture of HR Activities



Source: BCG analysis.
Note: Numbers are rounded.

In most cases, accountability is split between HR and IT, which raises the risk of HR reacting to, rather than directing, changes in IT systems. “The key is to create international standards for processes like talent management and performance measurement, which depend on a global HR-IT backbone,” said Volker Stephan of ABB Switzerland.

land. Gustavo Bracco, human resources and organisation director for Pirelli, noted that as more KPIs have been instituted to cover various HR dimensions, their value to the business units has increased. “Now we are more relevant to the businesses and our position is well considered in key decisions,” he said.

Beyond Structures, Creating a Global Mindset

Even the best global structure, process, and systems will fail without HR staff who have deep international experience, including employees who work with the business units and translate their business needs into global HR solutions. Sanofi implemented a global development academy for the top 200 HR people. Roberto Pucci, senior vice president of human resources, explained, “This includes exposure to best practices, action learning, and experimentation to develop management relationship skills and business problem-solving capabilities.”

What background and skills should HR business partners have in order to globalize the function? Our survey shows that the greatest gaps between the importance of certain backgrounds and the availability of HR professionals who have them lie in three areas: extensive work experience abroad, knowledge of international labor law, and an international education. (See Exhibit 15.)

Finding highly skilled HR professionals, especially recent graduates and young professionals, was judged difficult

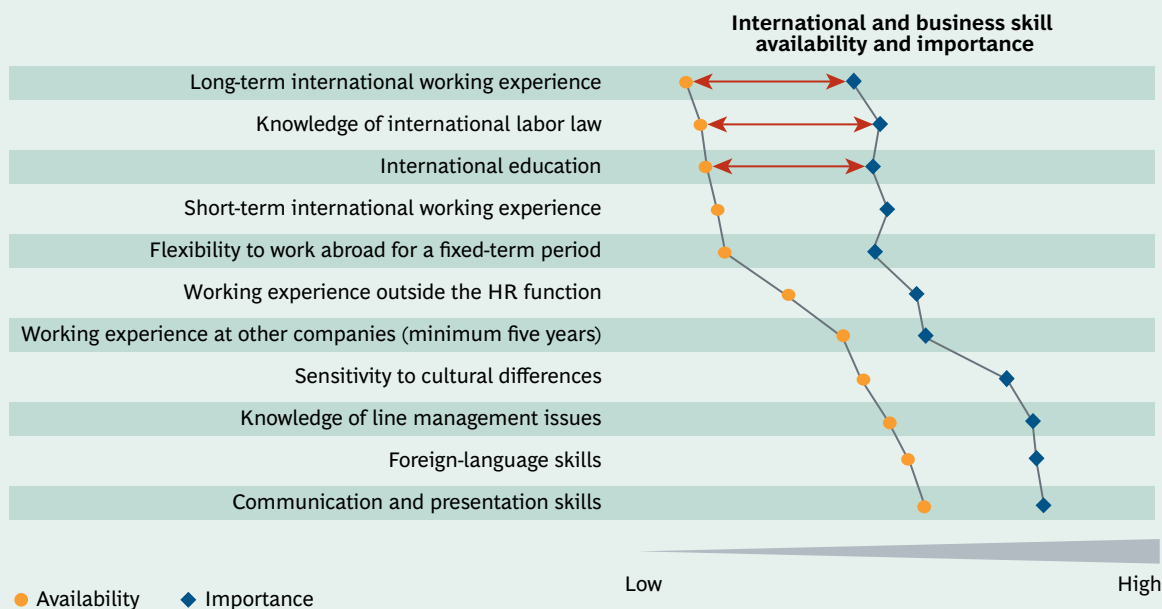
by 43 percent of respondents. Many respondents attributed this problem to a lack of career development opportunities and the poor image of HR among high-caliber potential recruits.

HR needs to become more attractive to high performers—a task that HR leaders can take on by promoting the function at universities, at business conferences, and in the media. Inside the company, HR leaders should more actively communicate how the function helps the business, using vignettes and descriptions of powerful analytic tools.

Sourcing such skills externally won’t be sufficient. HR will also have to invest more in its existing staff. An effective “HR for HR” program will use three levers to close the gaps:

- ◇ *Recruiting.* It is important to select the background and capabilities that future HR professionals will need in order to advance the business. Google, for instance has a “three-thirds” HR staffing policy: it hires one-third of employees with a classic HR background, one-third former management consultants, and one-third with

Exhibit 15. Few HR Professionals Have International Experience and Background



Sources: Proprietary Web survey with 2,039 responses; 442 responses in this section; BCG/EAPM analysis.

advanced degrees in analytical or experimental fields. Attracting high-potential candidates to HR may require investment to upgrade the function's "brand."

- ◇ *Developing.* Training programs and development opportunities should reach beyond HR topics to also build business acumen and leadership skills. Deutsche Telekom provides its HR business partners around the world with the analytical tools necessary to increase their strategic contributions. As part of the company's Total Workforce Management effort, it built an HR cockpit that shows financial and HR KPIs in seven categories, from productivity to workforce development, which helps HR professionals control strategically important processes. Deutsche Telekom reinforced the program through a major training session and knowledge exchange forums at the company's annual international HR conference, where HR professionals run through real-life case studies to discuss solutions.
- ◇ *Rotating.* Our survey shows that 57 percent of HR business partners have spent at least five years in their position, with 29 percent at nine years or more. That's too long a period without rotation through other posts. HR leaders should work in the field or in a different function and region for defined periods in order to expand their horizons and gain a new perspective on what internal customers need. Rotating non-HR managers, such as a business controller, into the HR function for a period is also valuable.

Besides background and skills, how should a company structure the role of HR business partner in reporting terms, to balance the needs of the individual business with the broader need of the enterprise to have consistent global approaches?

Roughly one-third of the organizations we surveyed have a solid, vertical reporting line to corporate, with another third having that line plus a dotted line to the head of the respective business unit. The final third use a model that focuses on the business side, with a solid reporting line between the HR business partner and the head of the business.

Any of these reporting lines can work, as long as the arrangement reflects the role the HR business partner will play. HR business partners with a clear mandate to act as consultants to the business heads should, for instance, have at least a dotted line into the business.

The transition to a global HR function will not be easy. It will inevitably disrupt certain services for a time and upset line managers if certain services take longer. HR leaders should pick their battles carefully. In general, they should first work on narrowly defined projects that prove that HR can deliver greater value, rather than focus on cost cutting. That will buy them some goodwill for possible disruptions down the road and will help open a seat at the decision-making table.

As Attilio Invernizzi, deputy general manager for the group human resources and organization area of the insurance company Generali Group, put it, "In the next few years, we will see much more cooperation between HR and the businesses, but you need open-minded managers and investment in special, even transformational projects that have the full involvement of both parties. True partnerships are born from substantial change, not the standard day-to-day stuff."



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 the EAPM. Reiterating this process in every annual installment, we developed 22 HR topics in 2011.

The survey of the current study consisted of two parts: one mandatory part and a second part seeking responses in any of four optional sections. In the mandatory section, respondents were asked questions about themselves and their organizations. They were presented with a list of 22 topics and asked to assess their current and future

importance and to rate 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 four optional sections, respondents could answer questions on HR globalization, diversity, talent management and leadership development, and social media in the context of HR.

We conducted the online survey from February 2011 through April 2011, receiving 2,039 responses from executives in 35 countries. In conjunction with that survey, we interviewed 58 executives. In these one-on-one interviews, we explored HR topics in greater depth and tried to gain insights into best practices.



Appendix II

Executive Interviewees

In interviews, many senior executives shared their insights and discussed our findings. We thank them for their valuable contributions.

Bulgaria

Marina Bancheva

HR & Communication Manager
Schneider Electric

Boris Tatchev

HR Director
Cosmo Bulgaria Mobile (Globul)

France

Victor Agnellini

Senior Vice President, Transformation Learning and Accreditation
Alcatel-Lucent

Anne Marion-Bouchacourt

Head of Group Human Resources
Société Générale

Rémi Boyer

Head of HR Development
PSA Peugeot Citroën

Pierre Deheunynck

Senior Executive Vice President, HR
Crédit Agricole

Roberto di Bernardini

HR Head of Emerging Markets/
EMEA
Janssen

Karen Ferguson

Executive Vice President, Global HR
Schneider Electric

Sylvie François

Head of Human Resources
La Banque Postale

Jean-Claude Le Grand

Human Resources Director,
Consumer Products; and Corporate
Diversity Director
L'Oréal

Jean-Paul Mazoyer

Deputy CEO and Global Chief
Operations Officer
Amundi

Marie-Hélène Mimeau

Director, Group Training & Talent
Development
Carrefour

Jérôme Nanty

Group Human Resources Director
Caisse des Dépôts

Eric Olsen

Group Executive Vice President,
Organisation and Human Resources
Lafarge

Veronique Poulard

Global Head of Leadership and
Talent Management
Société Générale

Roberto Pucci

Member of the Executive Committee
and the Management Committee;
Senior Vice President, Human
Resources
Sanofi

Shafie Shamsuddin

Executive Director, Global Talent
Management and Organisation
Development
Carrefour

Armand Sohet

Vice President, HR
Alcan Engineered Products

Christian Vie

Group Human Resources,
Organisation Development, Head
of Strategy, R&D and Metrics
AXA

Patricia Waldron

Senior Vice President, Human
Resources
France Telecom OBS

Germany

Alwin Fitting

Chief Human Resources Officer and
Member of the Management Board
RWE

Harald Krüger

Director of HR and Industrial
Relations and Member of the Board
of Management
BMW Group

Wolfgang Malchow

Member of the Board of Manage-
ment and Director of Industrial
Relations
Bosch

Martin Schmitt
Senior Vice President, Corporate
Personnel Policy
Lufthansa

Thomas Wessel
Chief Human Resources Officer
Evonik Industries

Hungary

Zsuzsanna Hevesi Tóth
Head of HRM Department
MAVIR Hungarian Transmission
System Operator Company

Szabolcs Lénárt
Vice CEO, Chief Operations Officer
KÉSZ Holding

Johanna Mezővári
HR Director
AstraZeneca Hungary

Éva Somorjai
Member of the Management
Committee, Chief Human Resources
Officer
Magyar Telekom

László Szócs
Director of HR
MOL Group

Italy

Gustavo Bracco
Human Resources and Organisation
Director
Pirelli & C.

Attilio Invernizzi
Deputy General Manager for the
Group Human Resources and
Organization Area
Generali Group

Mario Mairano
Director of Human Resources and
General Secretariat
Ferrari

Monica Possa
Director of HR and Organization
RCS Media Group

Pierangelo Scappini
Director for Organizational
Development and Planning
Poste Italiane

Spain

Miguel Angel Aller
HR Director
Gas Natural Fenosa

José Luis Gómez Alciturri
Executive Vice Chairman and
Director of the Human Resources
Division
Banco Santander

Susana Gutierrez
Director of Human Resources
General Optica

Luis Hidalgo
Corporate Director of HR
Sage Spain

Luis Massa
Director of Human Resources
AstraZeneca Spain

José Antonio Molleda
Group Chief Executive Officer of
Strategy and Corporate Resources
Multiasistencia

Marta Panzano
Head of HR EMEA
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Corporate Director of HR
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Helsana

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Sulzer

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Switzerland/Central Europe
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Groupama Pension & Insurance

Osman Tüzün
HR Coordinator
GarantiBank

United Kingdom

John Ainley
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Aviva Group

Celia Brown
Executive Vice President and Group
Human Resources Director
Willis Group

Angela Hamlin
Human Resources Director
Janssen

Rupert McNeil
HR Director
Aviva UK

Jill Shedden
Group Director, Human Resources
Centrica

Malcolm Swatton
Global Head of Human Resources
Universal Music Group

Keith Wilson
Global Director, Change
Management, HR Global
Commercial Organisation
AstraZeneca

Mike Winstone
HR Director
Homeserve

Appendix III

Supporting Organizations

The following member organizations of the EAPM 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 as comprehensive and insightful.

Austrian Center for Productivity and Efficiency / Österreichisches Produktivitäts- und Wirtschaftlichkeits-Zentrum (ÖPWZ), Austria

Personnel Managers Club (PM Club), Belgium

Bulgarian Human Resource Management & Development Association (BHRMDA), Bulgaria

Cyprus Human Resource Management Association (CyHRMA), Cyprus

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

Personnel Managers in Denmark, 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

German Association for Personnel Management / Deutsche Gesellschaft für Personalführung e. V. (DGFP), Germany

Greek People Management Association (GPMA), 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 (LAPM), Latvia

Macedonian Human Resource Association (MHRA), the Former Yugoslav Republic of Macedonia

Foundation for Human Resources Development (FHRD), Malta

Dutch Association for Personnel Management & Organization Development / Nederlandse Vereniging voor Personeelsmanagement & Organisatieontwikkeling (NVP), Netherlands

HR Norge, Norway

Polish Human Resources Management Association (PHRMA), Poland

Portuguese Association of Human Resources Managers / Associação Portuguesa dos Gestores 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 and Development (ZRRLZ), Slovak Republic

Slovenian HR Association (SHRA), 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



Note to the Reader

This report, the fifth installment in our research on current and future HR challenges, presents new and detailed results on the European situation. It is based on a close collaboration between The Boston Consulting Group (BCG) and the European Association for People Management (EAPM).

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.

The EAPM 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 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 on HR issues.

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We extend further thanks to the EAPM member organizations that supported this study. A complete list of these organizations is provided in Appendix III.

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