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Creating People Advantage

How to Tackle the Major HR Challenges
During the Crisis and Beyond

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Executive Summary

Like the sun and tide, economies rise and fall. But they are less predictable than nature and have their own rhythm. For senior executives, the trick is to manage a company through the downturns without destroying its long-term foundation.

Today most companies are understandably cutting costs, frequently through layoffs. While some companies undoubtedly need to reduce the size of their work force, others are following the crowd, expecting that they can rehire once the economy improves. They should not be so sure.

In less than ten years—as the demographic data tell us—people will be the scarcest resource for companies. As a result, many companies may be unable to secure the skills that they need in order to succeed. Others may find that their best talent has left—having either retired or been recruited by rivals. And yet others may find it difficult to hire good people, not necessarily because of a paucity of talented workers but because of their own reputation as poor managers of their staff. The reputations of many companies have already been damaged by how they have treated their employees in this recession: employees remember how they were treated in tough times, and many vote with their feet when the economy improves.

However, it is not enough merely to manage through—and survive—the downturn. Executives need to start preparing for when the economy experiences an upturn: they need to remember that the choices they make today could have unpleasant consequences tomorrow. In this regard, the human resources (HR) department has never before played such a critical role in ensuring the future prosperity of the company.

Creating People Advantage

On the following pages, we present our findings and analysis of a survey of 3,348 executives throughout Europe and of one-on-one interviews with more than 100 senior leaders, mostly board members of large companies. Our research focused on people challenges, both today's and those of the future.

A year ago, when we published *Creating People Advantage: How to Address HR Challenges Worldwide Through 2015*, we suggested that companies that successfully harnessed four people trends would develop what we call *people advantage*—a competitive advantage created through people strategies. Those trends are as relevant today as they were in 2008.

- ♦ *Talent and leadership are becoming even scarcer resources.* This trend continues, especially at those companies in which people are already the most important asset.
- ♦ *The work force, on average, is growing older, and people are having fewer children.* The baby boom generation is a year closer to retirement. Long-term demographic trends trump recessions.
- ♦ *Companies are becoming global organizations.* The recession may have temporarily dampened the global ambitions of companies and fanned protectionist fires. But globalization is here to stay. The reasons for companies to pursue global growth endure.
- ♦ *The emotional well-being of employees is more important than ever before.* Work-life balance is no longer an immediate priority. More than ever, however, companies—seeking to maneuver through these tough

times—need engaged employees. Farsighted companies are actively monitoring and managing the emotional well-being of their people.¹

Uniting Strategy, Metrics, and HR

Today the HR department sits at a pivotal place. It is—or at least should be—the link between a company’s long-term strategy and its people strategy. HR executives should be able to understand how their company’s overall strategy drives the demand for people—and how short-term reductions in the work force might threaten the achievement of long-term goals. Yet we found that only 15 percent of the companies covered by our survey strategically plan their work force more than three years in advance.

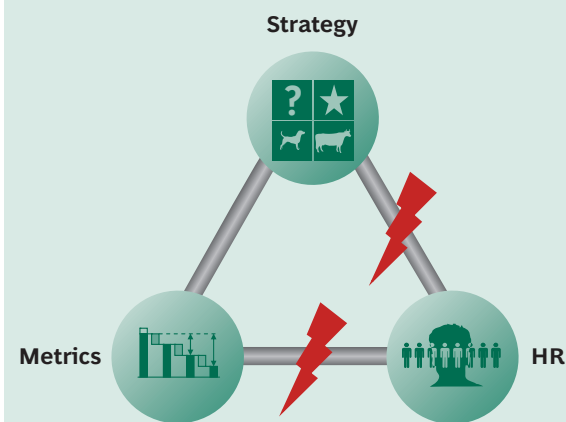
As we noted last year, if we view strategy, metrics, and HR as three points on a triangle, we find that at most companies, the links between HR and strategy and those between HR and metrics are broken or nonexistent. (See Exhibit 1.) Senior executives need to make sure that people are the cornerstone of their corporate strategy. This is easier said than done. Still, one of the most effective ways to integrate HR and strategy is through the creation of a strategic work force plan. Measuring the performance of people and the HR department is also key. Few companies, for example, track the quality of their HR processes. Even among those companies that do, fewer than half have targets and processes in place to improve results.

In this report, we offer guidance and support for companies that want to tighten the links that bind together strategy, metrics, and HR. In the next section, “Benchmarking the Scene,” we show how European executives assess current and future HR challenges. We also outline the state of the partnership between business executives and the HR departments. There is room for improvement.

HR and other executives in Europe identified the top future challenges in an online survey that covered 21 HR topics and that was conducted by The Boston Consulting Group (BCG) and the European Association for People Management (EAPM).² The following 7 topics emerged at the top of the overall HR agenda:³

- ◇ *Managing Talent.* The number-one topic in both 2007 and 2009, *managing talent* is viewed as critical in almost all industries and countries.

Exhibit 1. HR Needs to Be Connected to Strategy and Metrics



Source: BCG analysis.

- ◇ *Improving Leadership Development.* Many executives have led only during good times; now they have to steer their organizations through stormy weather.
- ◇ *Strategically Planning the Work Force.* By conducting strategic work force planning, companies can clearly assess supply and demand by job groups and make long-term recruiting, training, outsourcing, and layoff decisions.
- ◇ *Enhancing Employee Commitment.* This topic was not deemed critical in the 2007 survey, but executives now recognize the importance of employee morale and motivation. If they want to accelerate out of the downturn, they will need the support of their employees.
- ◇ *Measuring Work Force Performance.* Respondents are struggling to determine how to measure the value of each employee in order to create a more efficient and productive work force.
- ◇ *Managing Change and Cultural Transformation.* Change does not just happen. It requires sustained and rigorous program management and a clear change agenda—activities that today are more important than ever.

1. See “Talent Management: Nurturing the Egg,” BCG Opportunities for Action in Organization, October 2007.

2. For a full description of our methodology, see Appendix IV.

3. Our analysis also identified the top HR issues by country and industry. For this in-depth information, see Appendix I, Appendix II, and Appendix III.

- ◇ *Becoming a Learning Organization.* Companies need to retain both the explicit and the tacit knowledge of retiring employees, and they need to ensure that new employees have the knowledge and skills to perform their jobs.

After analyzing the 21 topics, the report next discusses five relevant HR concerns. The first section explains the importance of strategic work force planning. The second describes the effects of the crisis on HR. The third examines the best ways to prepare for growth, and the fourth makes the case for taking advantage of key performance indicators (KPIs). The final section examines sustainable people practices. Metaphorically, these five sections form a compass. At the center is strategic work force planning. Managing through a recession, preparing for growth, measuring people performance, and creating sustainable HR practices are four directions that companies should pursue simultaneously.

These sections highlight several key findings.

- ◇ Many companies still neglect strategic work force planning, the strongest tool for making difficult HR decisions. Companies should know how their work force will develop and which job categories will demand substantial numbers of new employees. Strategic work force planning can also yield valuable information for knowing where—and where not—to cut in times of crisis.
- ◇ About one-third of all the companies plan to lay off full-time employees in this recession. HR executives should take into account not only the likely effectiveness of their actions but also their probable impact on employee commitment. Other options, such as awarding employees time off to compensate for earlier overtime, are effective and help improve employee commitment. A 12-point action plan for HR can help companies succeed during the crisis and ensure that their value creation and business health rebound together with the economy. (See *Creating People Advantage in Times of Crisis: How to Address HR Challenges in the Recession*, the White Paper that is enclosed with this report.)
- ◇ Almost one-third of the respondents said that pursuing organic growth was one of the most important business issues facing HR executives. Some companies will have to adjust to a permanent mixture of restructuring

and growth: offense is often the best defense. For most of the remaining companies, growth will eventually return when the recession fades. In all cases, companies that excel at sourcing (or recruiting), developing (or training), and affiliating (or retaining) employees will outperform their less successful peers. Other companies should pay attention to the actions of the companies that are successful in these areas.

- ◇ Companies already collect a considerable amount of data on people and people processes, but few companies use KPIs that are more sophisticated, and few take concrete action based on the feedback that they receive from KPIs. A methodology, such as BCG's Workonomics, can help the HR department assess employee productivity and steer the organization in the right direction.⁴
- ◇ The financial crisis had many causes, including the sometimes unsustainable, short-term, and shortsighted business practices and compensation systems of financial institutions. HR can play a critical role in encouraging people practices and processes that are sustainable over the long term.

The HR department has an unprecedented opportunity to oversee the transformation of companies preparing for an era in which people will drive competition.

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

Benchmarking the Scene

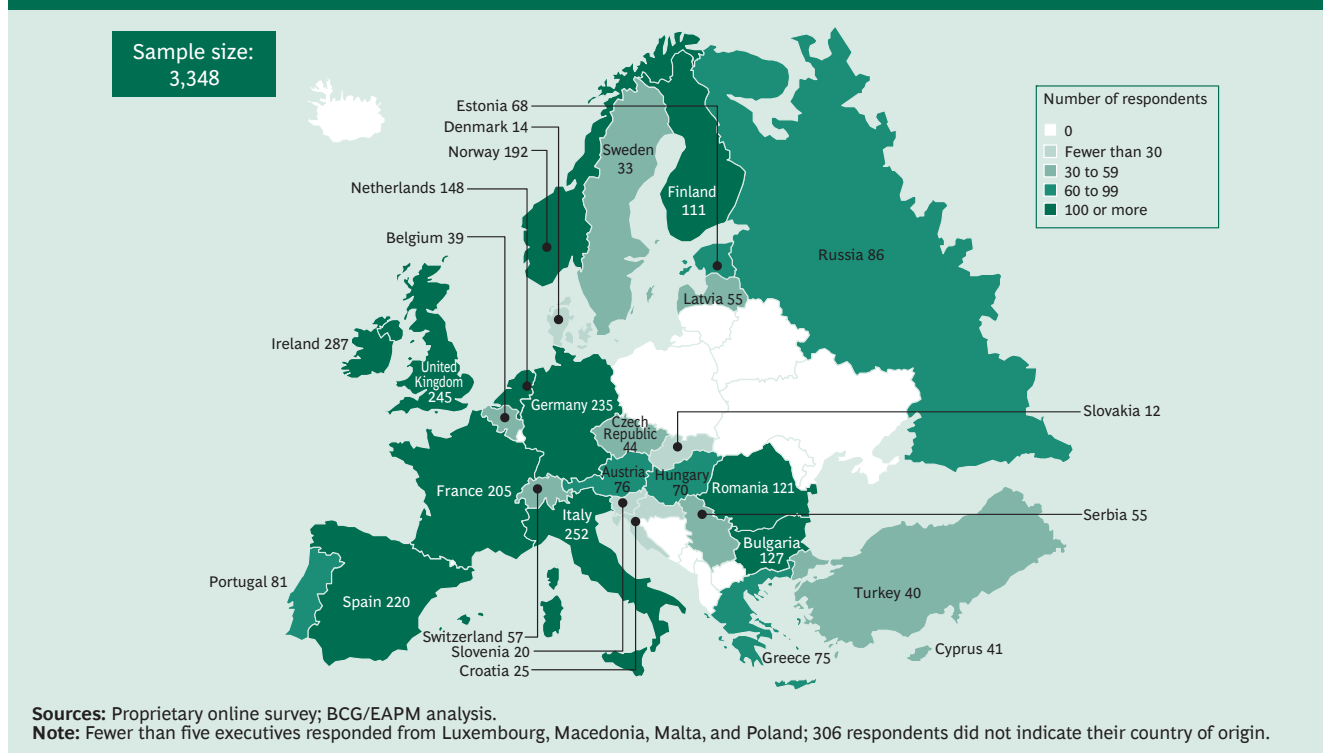
People will be the most critical corporate asset for the future. But as Europe heads into a deep recession, many companies are repeating the mistakes of the past. By letting go of current employees, those businesses will likely face dramatic people shortages in the next few years, when the baby boom generation retreats into retirement.

The key people issue for many companies is how to adjust their work force to the recession without sacrific-

ing their ability to execute long-term strategies. The long-term people challenges will remain well after the recession has faded and a stronger economy is creating fresh demand for a dwindling supply of working-age talent.

If they are going to survive the downturn and thrive during the upturn, companies need to understand and address the HR challenges of both today and tomorrow. Too few companies are prepared.

Exhibit 2. More Than 3,300 Executives Responded to the Survey



Understanding and Mapping the HR Landscape

For the third consecutive year, BCG has partnered with the EAPM to improve the understanding of people challenges.⁵ As part of our research, we again created a comprehensive online survey and conducted one-on-one interviews with senior leaders, mostly board members of large corporations.

The online survey, which was conducted from November 2008 through January 2009, elicited 3,348 responses—more than double the number of responses to our last European survey in 2007. (See Exhibit 2.) In the most recent survey, 29 percent of the respondents worked at companies with more than 10,000 employees; 31 percent, at companies with 1,000 to 10,000 employees; and 40 percent, at companies with fewer than 1,000 employees. A broad mix of industries was also represented. The service sector accounted for 23 percent of respondents, while the industrial goods, technology and communications, and public sectors were prominently represented with 11, 9, and 7 percent of respondents, respectively. (See Exhibit 3.)

We divided the survey into two parts. In the first part, as in previous years, we asked executives about current and future HR challenges. In the second part, we asked par-

ticipants to answer in-depth questions in three sections: HR in turbulent times, HR in fast-growth markets, and HR and metrics. We received 1,274 responses to the turbulent-times section, 864 to the fast-growth section, and 846 to the metrics section.

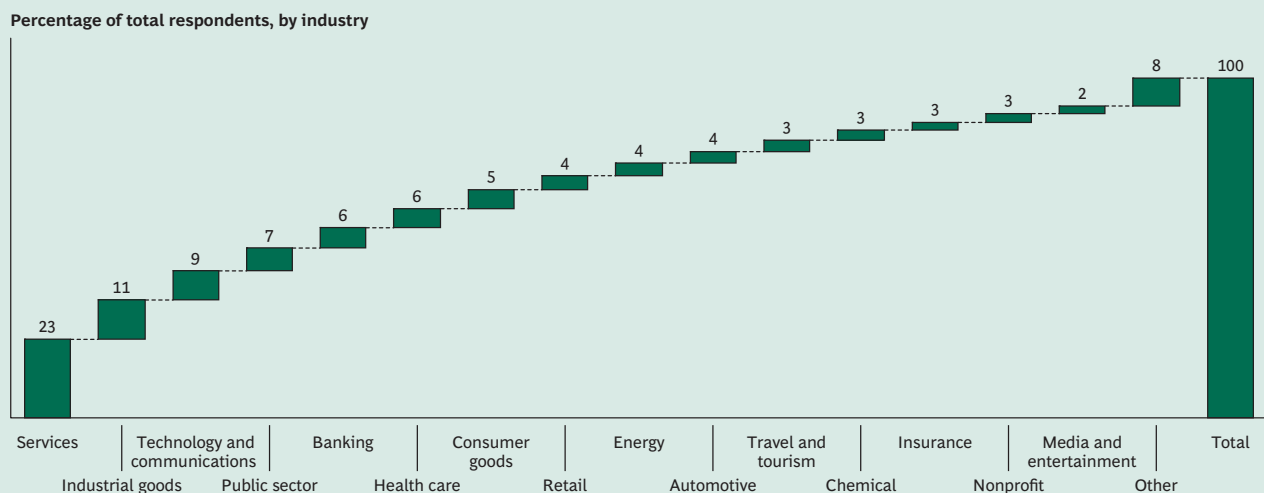
In conjunction with the online survey, we conducted one-on-one interviews with more than 100 senior HR and business leaders, addressing all the topics above as well as sustainability. (See Exhibit 4.) Those interviews took place from December 2008 through April 2009. (For a list of interviewees, see Appendix V.)

Creating a True Business Partnership

In recent years, many HR departments have endeavored to become strategic business partners with their companies, playing a central, supportive role. Speed, quality, competence, and efficiency are prerequisites for assum-

5. See *The Future of HR in Europe: Key Challenges Through 2015*, a report by The Boston Consulting Group and the European Association for Personnel Management, June 2007, and its global follow-up, *Creating People Advantage: How to Address HR Challenges Worldwide Through 2015*, a report by The Boston Consulting Group and the World Federation of Professional Management Associations, April 2008. The EAPM is a member of the World Federation of Personnel Management Associations, with which BCG partnered in 2008.

Exhibit 3. The Service and Industrial Goods Sectors Generated the Most Survey Responses



Sources: Proprietary online survey; BCG/EAPM analysis.

Note: The industrial goods sector comprised the industrial goods, agriculture, mining, and pulp and paper industries; 275 respondents did not indicate their industry affiliation. Percentages do not add up to 100 due to rounding.

ing this elevated position. But we have found that executives outside of HR believe that their HR departments need to do much more before they will be seriously considered for this role.

In our online survey, we asked executives both within and outside HR to react to several statements about the work of their company's own HR department. (See Exhibit 5.) Respondents from outside HR were much more critical of the departments than HR respondents were. For instance, 42 percent of respondents who worked outside the HR department disagreed with the statement "our HR department works fast," compared with only 16 percent of HR respondents. We found such differences in opinion for every element of HR performance.

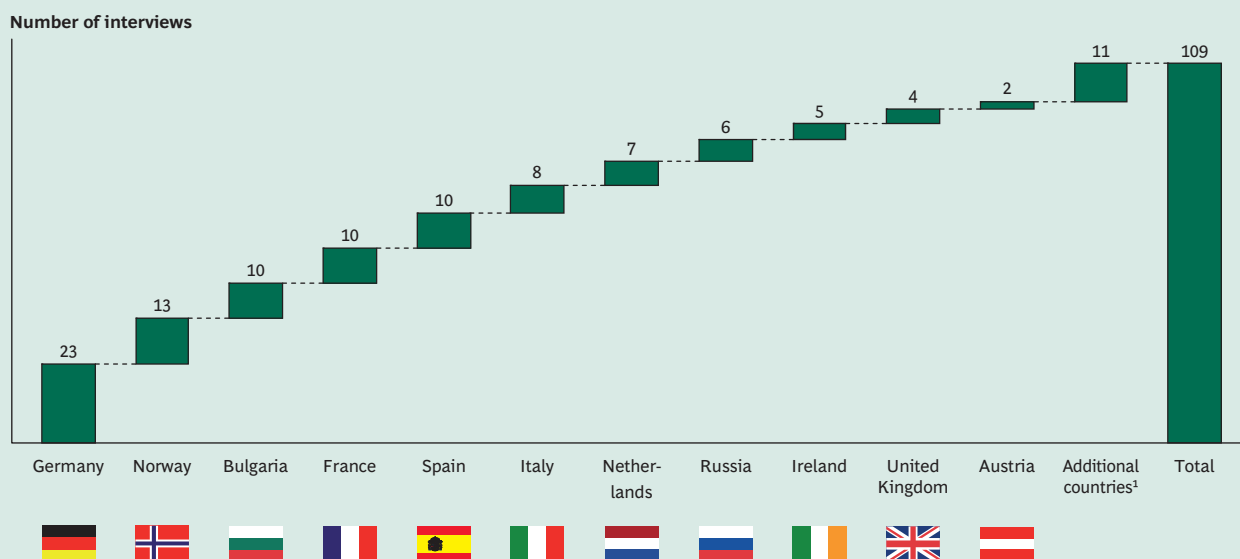
Companies committed to improving the processes and quality of the HR department should solicit the views of other departments' executives, who are better positioned to offer an unbiased assessment. "HR needs to find its place in the business strategy agenda," acknowledged Hugo Bague, the global head of HR at Rio Tinto, a mining multinational based in the United Kingdom. "In general, it is still seen as a service rather than a business enabler."

In order for the strategic-partnership model to work, HR executives need extensive knowledge of business issues. Such knowledge can, for instance, be obtained by having employees rotate in and out of the department. These rotations expose HR executives to the challenges of line management and give outside executives a better understanding of people issues. By abandoning silo careers, HR executives will become stronger business partners. But to date, few HR employees have taken—or have been given the opportunity to take—this step. According to the survey, the majority (53 percent) of respondents said that less than one-third of their company's HR employees had experience working in the business line. (See Exhibit 6.)

Considering Business Challenges

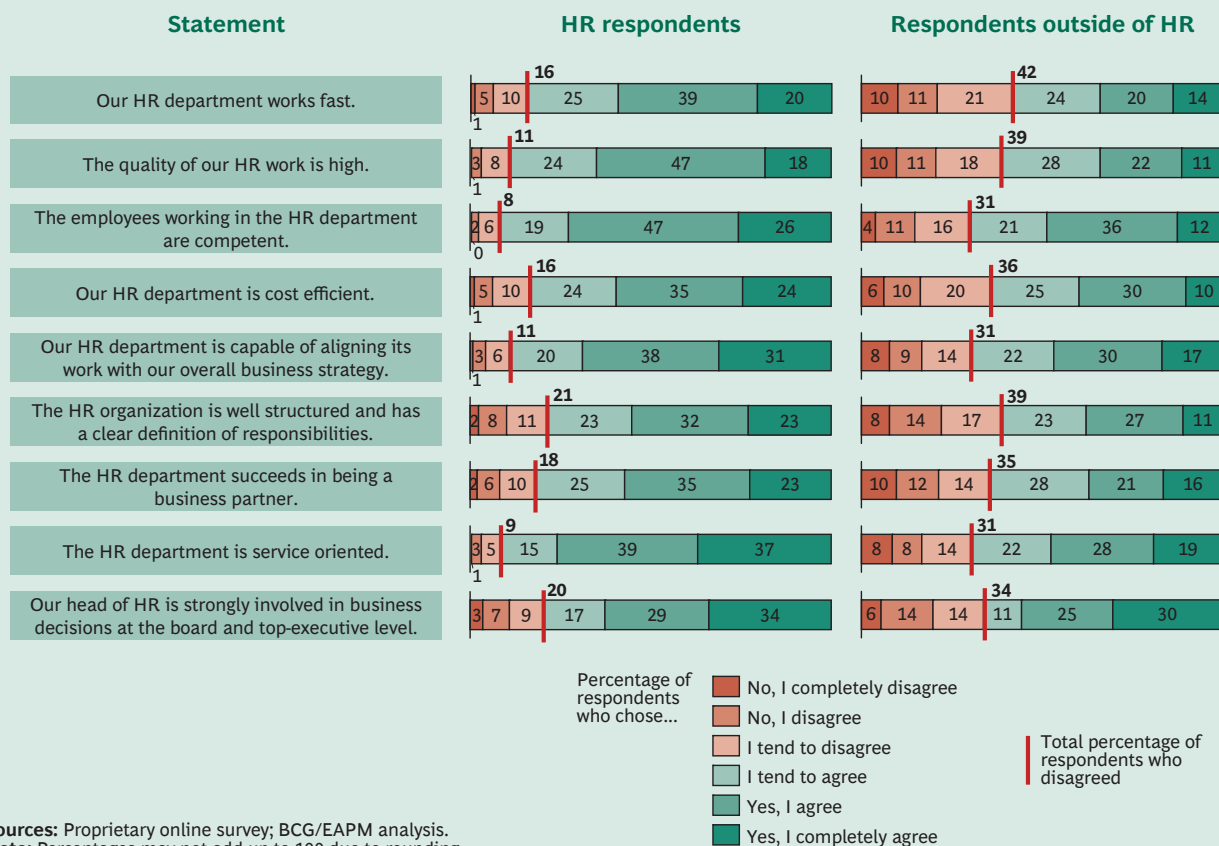
The economic environment has changed radically in the past year. After an era of strong growth through the middle of 2008, virtually all industries have, to differing degrees, suffered collateral damage from the financial crisis that sparked the current recession. Some industries, such as those in the automotive sector, have been hit especially hard, whereas others, such as the utilities industry, are somewhat insulated.

Exhibit 4. More Than 100 Interviews Were Conducted Throughout Europe



Sources: Interviews with senior leaders; BCG/EAPM analysis.
¹Interviews were also conducted in Portugal, Sweden, and Switzerland.

Exhibit 5. HR Executives Rated Their Department's Capabilities More Favorably Than Did Other Business Executives



Sources: Proprietary online survey; BCG/EAPM analysis.
Note: Percentages may not add up to 100 due to rounding.

We asked respondents to identify their key business issues in order to help us better understand and frame the results of our survey. Whereas 39 percent of respondents said that they were dealing with restructuring and 38 percent were dealing with cost pressure, 32 percent of respondents said that they were pursuing organic growth. (See Exhibit 7.) Only a small share of respondents, 9 percent, said that they were seeking growth through acquisition.

Seizing the Future

Through our research and analysis, we are trying to understand how current and future HR challenges shift over time. We increased the number of HR topics we track from 17, in our earlier reports, to 21, in this study.⁶ We then divided those topics into five categories, as illustrated in Exhibit 8: source, perform, develop, affiliate, and achieve HR excellence.

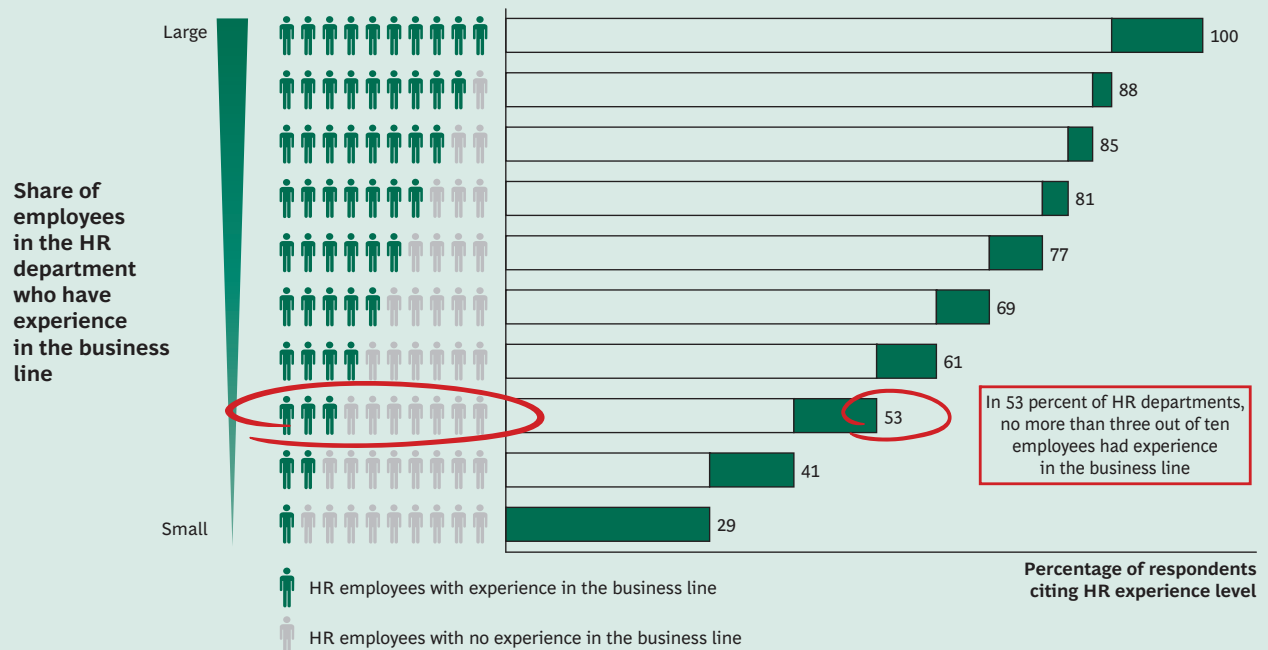
- ◇ *Source* consists of topics addressing how a company attracts and maintains its work force
- ◇ *Perform* consists of topics addressing performance processes and measurement issues
- ◇ *Develop* consists of topics addressing the training and growth of employees
- ◇ *Affiliate* consists of topics addressing retaining employees
- ◇ *Achieve HR excellence* consists of topics addressing HR operations and processes and strategic partnering

In our most recent survey, seven topics were identified as posing a major challenge. Executives ranked those topics highest in terms of future importance and lowest in terms

6. For definitions of the topics, see Appendix IV.

Exhibit 6. In the Majority of HR Departments, Less Than One-Third of HR Employees Had Experience in the Business Line

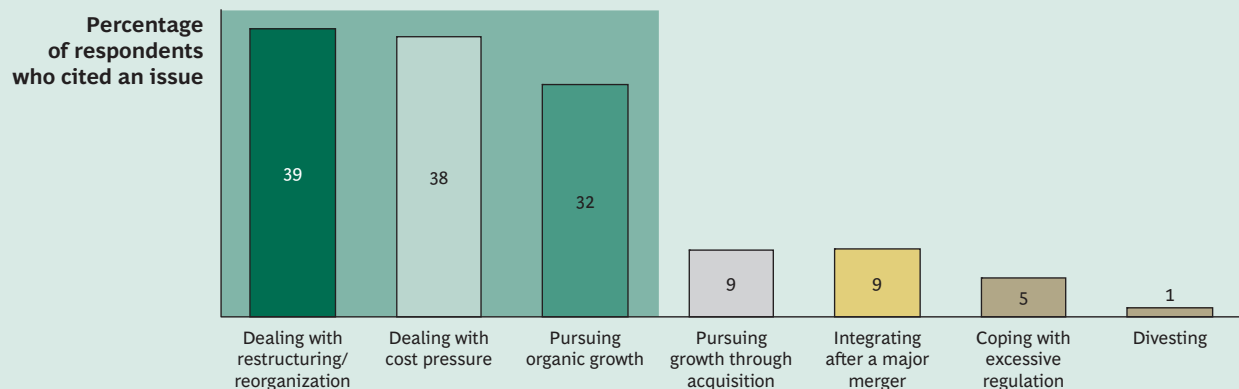
In your HR department, what is the share of employees with experience in the business line?



Sources: Proprietary online survey; BCG/EAPM analysis.

Exhibit 7. Pursuing Organic Growth Ranked Among the Top Three Business Issues Cited by Respondents

What are the key business issues facing HR management at your company?



Sources: Proprietary online survey; BCG/EAPM analysis.
 Note: Participants could select more than one issue.

Exhibit 8. The 21 HR Topics Fall into Five Categories



Source: BCG analysis.

¹In 2007, the topic *delivering on recruiting* was called *delivering on recruiting and staffing*. We have removed staffing from this topic; it is now addressed by *managing talent*.

of their own assessment of their company's current capabilities. Two years ago, only five topics were considered this critical. In Exhibit 9, the seven high-priority topics in 2009 are located in what we call the red zone: the upper right-hand corner of our matrix.

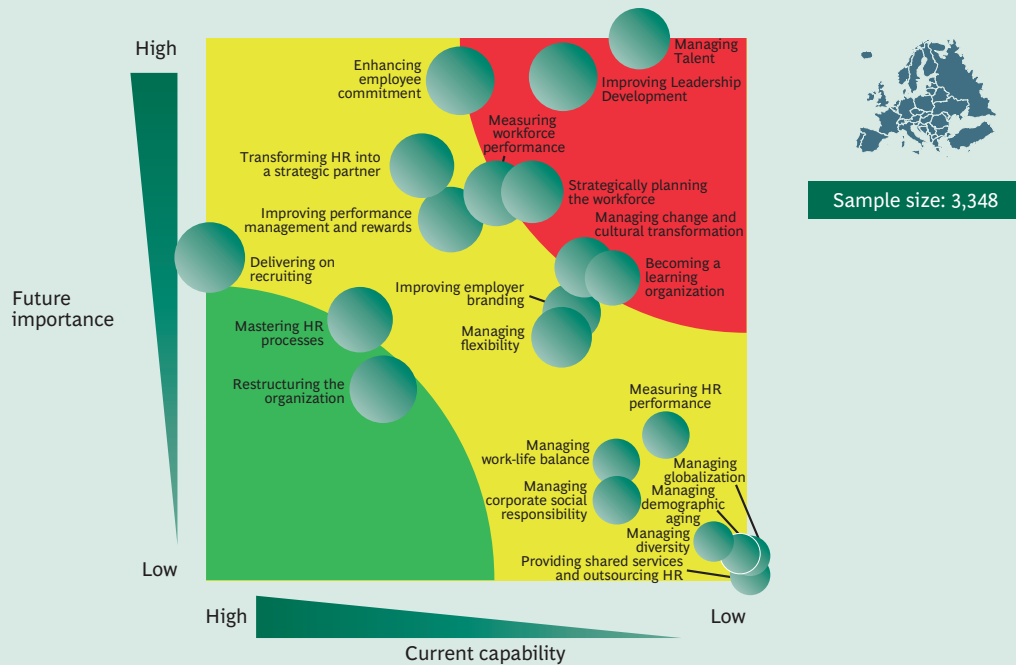
Managing Talent. This topic remains, as it was two years ago, the most critical challenge. In our most recent survey, executives perceived the topic as having the highest future importance combined with low current capabilities. We compared the new results with those from 2007: respondents reported that their company's capabilities in *managing talent* have increased slightly. This topic addresses monitoring talent pools, reviewing talent processes, and planning for succession in leadership. Many of the 21 topics we highlighted in the survey are closely related to *managing talent*, notably *becoming a learning or-*

ganization, improving employer branding, enhancing employee commitment, and strategically planning the work force. (For examples of *managing talent*, see the sidebar "Engaging Top Talent at Finmeccanica" on page 37.)

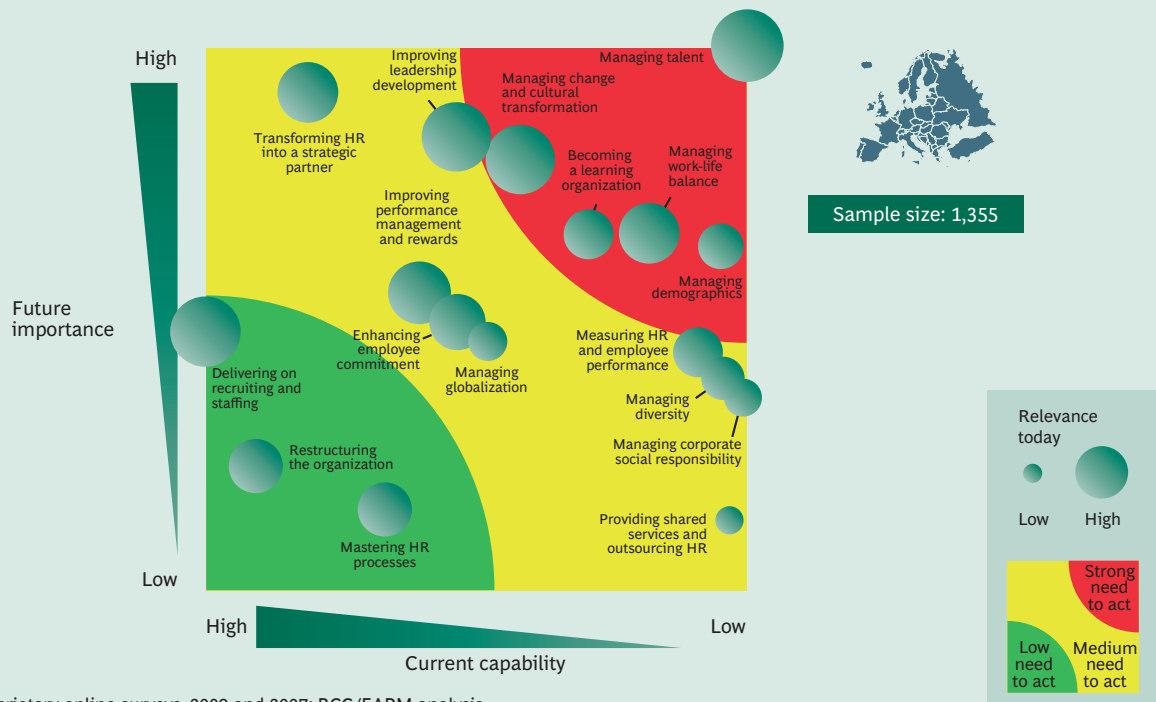
Improving Leadership Development. The second most critical challenge in our current report landed outside the red zone in the 2007 report. Why the rapid jump to the top of the HR agenda? The future importance of this topic rose while executives' assessment of their company's current capabilities fell. Many executives have led only during good times; they now must lead in tough times. Additionally, corporations are looking for development programs that will enhance the ability of business leaders to strategically envision the future and strengthen their orientation toward value creation. (For an example of how Credit Suisse is handling the challenge of *improving leader-*

Exhibit 9. Many Topics Have Shifted in Importance

In 2009, improving leadership development emerged as a top future challenge ...



... in 2007, talent was a top issue along with work-life balance, now a low priority



Sources: Proprietary online surveys, 2009 and 2007; BCG/EAPM analysis.

ship development and helping managers lead through tough times, see the sidebar “Leading Through the Valley” on page 11 of the White Paper published in March 2009 that is enclosed with this report.

Strategically Planning the Work Force. The third topic was derived from a broader topic used in previous years, *managing demographics*. In 2007, while exploring the *managing demographics* topic, we asked respondents how they planned to address upcoming retirements and how they addressed the effects of aging in the workplace. By breaking out *strategically planning the work force* as a separate topic in the most recent survey, we also assessed how companies are using these quantitative tools to plan their work forces more effectively. By *strategically planning the work force*, companies can assess supply and demand by job groups and make long-term recruiting, training, staffing, and redeployment decisions. Many companies overlook this topic, which is a key reason for the broken links at many companies between HR and strategy and metrics. (For a positive example of *strategically planning the work force* see the sidebar “Strategic Work Force Planning at Deutsche Telekom” on page 26.)

Enhancing Employee Commitment. This topic entered the red zone in our most recent survey, becoming a high-priority topic as executives have come to recognize its future importance. The recession has forced many companies to lay off employees and make other difficult cost-cutting moves that affect morale and motivation. If they want to accelerate out of the downturn, however, these companies will need the support of their employees. One HR board member told us, “The pain of the amputation stays with the body for the rest of its life.” Many executives are thinking about how they can create a culture that reinforces such values as honesty, performance, and dedication and that works in both good and bad times. Our client work at

hundreds of companies has shown that employees respond best to a mix of motivation and discipline. (See Exhibit 10.)

Measuring Work Force Performance. Also new, this topic was cited as a top priority. To create it, we split the previous, broader topic *measuring HR and employee performance* into two topics, recognizing that work force performance should be separated from HR performance. Respondents told us that they were struggling with how to measure the value of each employee in order to create a more efficient and productive work force. (For a positive example of *measuring work force performance* see the sidebar “Making HR a Business Partner at Commerzbank” on page 41.)

Managing Change and Cultural Transformation. This topic remained a top priority, as it was in 2007. Executives understand that corporate change does not just happen. It requires sustained and rigorous program management and a clear change agenda—activities that today are more important than ever. Executives need to establish schedules, metrics, and clear accountabilities to mobilize the organization. (For more about survey results on this topic, see the sidebar “Adjusting HR’s Role in Change Management.”)

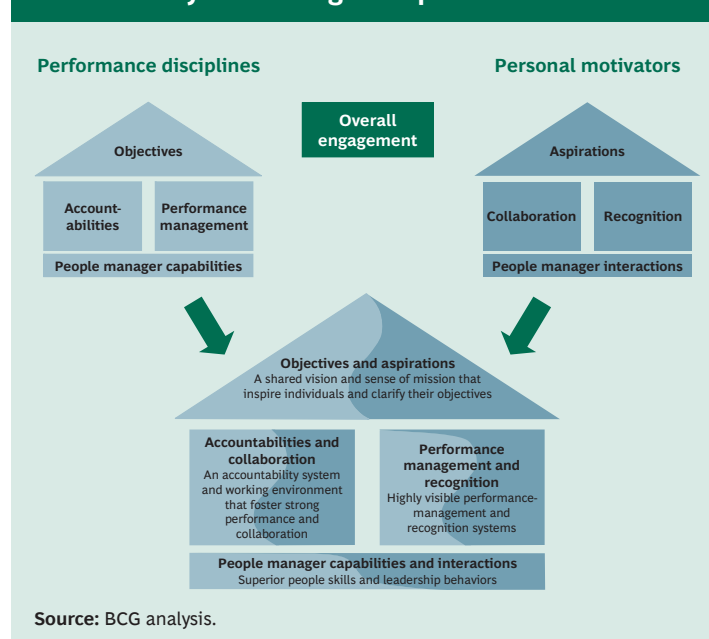
Becoming a Learning Organization. The final high-priority topic has kept much the same matrix position it had in 2007. Companies need to retain both the explicit and the

tacit knowledge of retiring employees, and they need to ensure that new employees have the knowledge and skills to perform their jobs. (See the sidebar “Improving Skill Development at RWE” on page 36.)

Covering All the Topics

The topics in the lower left-hand corner of the matrix—which represents the union of low future importance and high current capabilities—did not change between 2007 and 2009: *delivering on recruiting, mastering HR processes, and restructuring the*

Exhibit 10. Employee Engagement Is Achieved by Successfully Balancing Discipline and Motivation



Adjusting HR's Role in Change Management

Managing corporate change is incredibly difficult. A change program must overcome fear, doubt, inertia, and both active and passive resistance. To understand how companies implement change, we asked executives a series of questions about their activities in change management. We received 660 responses in this area.

The three actions executives deemed most effective in change management were heavily involving the CEO in the change process, regularly monitoring and adjusting the communication strategy, and preparing leaders to be role models for change. Yet the involvement of the HR department in these three activities varied widely. Only 28 percent of the executives told us that their company's HR department was driving the process of involving the CEO in change management. Some 51 percent of the executives said that their company's HR department was actively involved in preparing leaders to be role models for change. Our results also found that HR departments were typically the driving force behind another change-management action: conducting pulse checks to learn about employee feelings.

Only 17 percent of the respondents told us that their HR department was driving the process for adapting accountabilities to the new economic situation. This finding indicates a missed opportunity for HR to gain respect within companies. For example, in a delayering effort, each layer designs the layer below it by redefining roles, responsibilities, and accountabilities. The process produces a flatter and more agile organization, and the HR department should be the primary driver of efforts.

organization. Even though respondents rated all three topics higher in future importance, the shift was not enough to push all the topics out of the green zone. Although companies usually have high capabilities in these fundamental HR topics, they are nonetheless important. An HR department needs to manage payrolls flawlessly, for example, if it expects to have credibility on the larger issues.

Eleven topics landed in the matrix's yellow zone, an area in which the combination of current capabilities and future importance suggests less urgent challenges—but challenges requiring action nonetheless.

Transforming HR into a Strategic Partner. This topic involves the development of an HR strategy that is systematically derived from a company's broader corporate strategy. Furthermore, all measures that link HR with strategy and metrics strive to meet this goal of raising the importance and role of HR. (See the sidebar "The OneHR People Strategy at E.ON.")

Improving Performance Management and Rewards. This topic has increased slightly in future importance since 2007. Many companies need to adjust their performance systems and incentives to encourage long-term results and behaviors. Among the causes of the financial crisis were the short-term incentive systems at many financial-services firms. (For an innovative example of how incentive systems can be redesigned, see the sidebar "Making Ethics and Values Count" on page 10 of the White Paper that is enclosed with this report.)

Improving Employer Branding. Although many companies are highly capable of *delivering on recruiting*, employer branding is a new challenge for companies. It is becoming increasingly important for companies to pay attention to how they are perceived by potential recruits, especially recruits in high demand such as engineers and IT specialists. (See the sidebar "Going Global at BCG" on page 34 for an explanation of BCG's global recruiting campaign.) In times of crisis, as competitors focus on different topics, companies have an opportunity to improve their employer brand. Companies in industries not severely affected by the downturn, such as utilities and health care, may be able to build a reputation for job security in this environment.

Managing Flexibility. Another new topic, *managing flexibility* allows companies to react quickly and efficiently to changing circumstances. During the past few months, companies that had already established flexible work arrangements—such as hiring part-time employees or relying on lifetime work accounts that allow employees to bank time for later use—have been able to take swift action to combat the downturn. (To learn how Lufthansa has created a flexible work force, see the sidebar "Flying at a Lower Altitude" on page 6 of the White Paper that is enclosed with this report.)

Measuring HR Performance. As we discussed above, this topic is a less important companion to *measuring work force performance*. Successful companies measure the work of their

The OneHR People Strategy at E.ON

To strengthen the link between its strategy and its people, E.ON, one of Europe's largest energy companies, developed its people strategy, OneHR. The goal of the people strategy was to create a vision and mission that would help the company achieve its business objectives, develop its leaders and its almost 100,000 employees, build an energized environment for its people, and deliver operational excellence in HR.

To bring the people vision and mission to life, E.ON examined its business strategy, culture, and competitive environment with the goal of understanding what steps the company needed to take.

A systematic analysis was conducted to link people issues to the business strategy. This evaluation led to the creation of 13 initiatives that formed the operating backbone of OneHR.

As it was derived from E.ON's corporate strategy, OneHR achieved acceptance among business and HR professionals alike.

The program followed rigorous requirements in project management and was successful in its first year. Under the strategy, E.ON was able to achieve the following:

- ◇ Identification of critical job vacancies in the area of power plant construction and development of measures to close the gap
- ◇ Launching of programs that address shortages in critical job groups within management
- ◇ A rise in the best-places-to-work rankings in Germany and Europe and being named the "climber of the year" by *Capital*, a prominent business magazine
- ◇ Preparation for the implementation of a corporate performance-management system that combines goals for both business and management behaviors
- ◇ Definition of specific KPIs to monitor the implementation of the initiatives

"The OneHR people strategy clearly positions HR as a strategic business partner. By using this structured approach, we can continuously validate and adopt our people strategy to the needs of E.ON and measure the success and the value added to business," said Christoph Dänzer-Vanotti, chief human resources officer and member of the management board.

HR departments with key performance indicators (KPIs) that are consistently reported and discussed to help determine the pay for HR managers. (For more about KPIs, see the section "Measuring People Performance" on page 39.)

Managing Work-Life Balance. The future importance of this topic has decreased sharply over the past two years, although current capabilities have remained unchanged. This has happened largely because executives understand that during a recession, work-life balance becomes less critical to employees. We expect, however, that when the economy improves, this topic will once again grow in importance. Enlightened employers understand, even today, that flexibility and work-life balance are inherently important to all employees, not only those who have families and elderly parents to support. (For more about this topic, see the section "Creating Sustainable HR Practices" on page 44.)

Managing Corporate Social Responsibility. This topic may be regarded as a luxury in times of economic uncertainty, which explains the decline in its future importance

since 2007. Many companies are, however, trying to sustain their efforts in this topic as a way of developing their employer brand and giving employees a good feeling about their company. (See the section "Creating Sustainable HR Practices" on page 44.)

Managing Diversity. This topic has declined in future importance, and executives did not report any gains in company capabilities in this topic since 2007. Over the long term, however, we expect that more companies will recognize the importance of this topic as a corollary to *managing talent*. Companies can fill talent gaps by tapping into alternative talent pools, such as minorities. Furthermore, gender and cultural diversity help promote a broader range of perspectives within companies. (The sidebar "Tapping into New Talent Pools at a French Bank" on page 33 discusses a creative recruiting campaign aimed at increasing diversity.)

Managing Demographic Aging. A red-zone topic two years ago when it was *managing demographics*, *managing demo-*

graphic aging has fallen in future importance with the creation of the related topic *strategically planning the work force*. Although that new topic emerged in the red zone of priority topics, executives do not view the management of an aging work force as critical. Those executives may, however, be underestimating the challenges of employing members of the baby boom generation in the years before they retire. Traditional forms of motivation and incentives become less effective as an employee approaches the end of his or her career. Many industries will be severely affected. (See the section “Strategic Work Force Planning” on page 23.)

Managing Globalization. This topic has moved into the matrix’s lower right-hand corner since 2007, indicating that for *managing globalization*, both capabilities and future importance have dropped, as companies are focusing on their home market. This philosophy may be necessary in the short run, but it is ultimately short-sighted for companies with international aspirations and operations.

Providing Shared Services and Outsourcing HR. This topic rated low in both current capabilities and future

importance. Nevertheless, it can be an important way to help companies strengthen HR skills and processes.

Europe is a diverse collection of economies and states. In order to understand the variations across nations, we analyzed the ranking of topics by future importance and current capabilities for 11 focus countries. For all the countries except Russia and Ireland, *managing talent* was the number-one challenge. *Managing demographic aging* ranked among the top five challenges in Germany and Austria, and executives in France, Ireland, and the United Kingdom placed emphasis on *measuring work force performance*. (See Exhibit 11.)

Living for Today

Analyzing the future is essential, but this past year has been a harsh reminder that dramatic changes can occur quickly and render plans obsolete. To this point, our focus has been mostly on the *future* importance of topics; here we examine the *current* importance that executives assigned to the 21 topics. The current importance of topics has changed dramatically since 2007. (See Exhibit 12.)

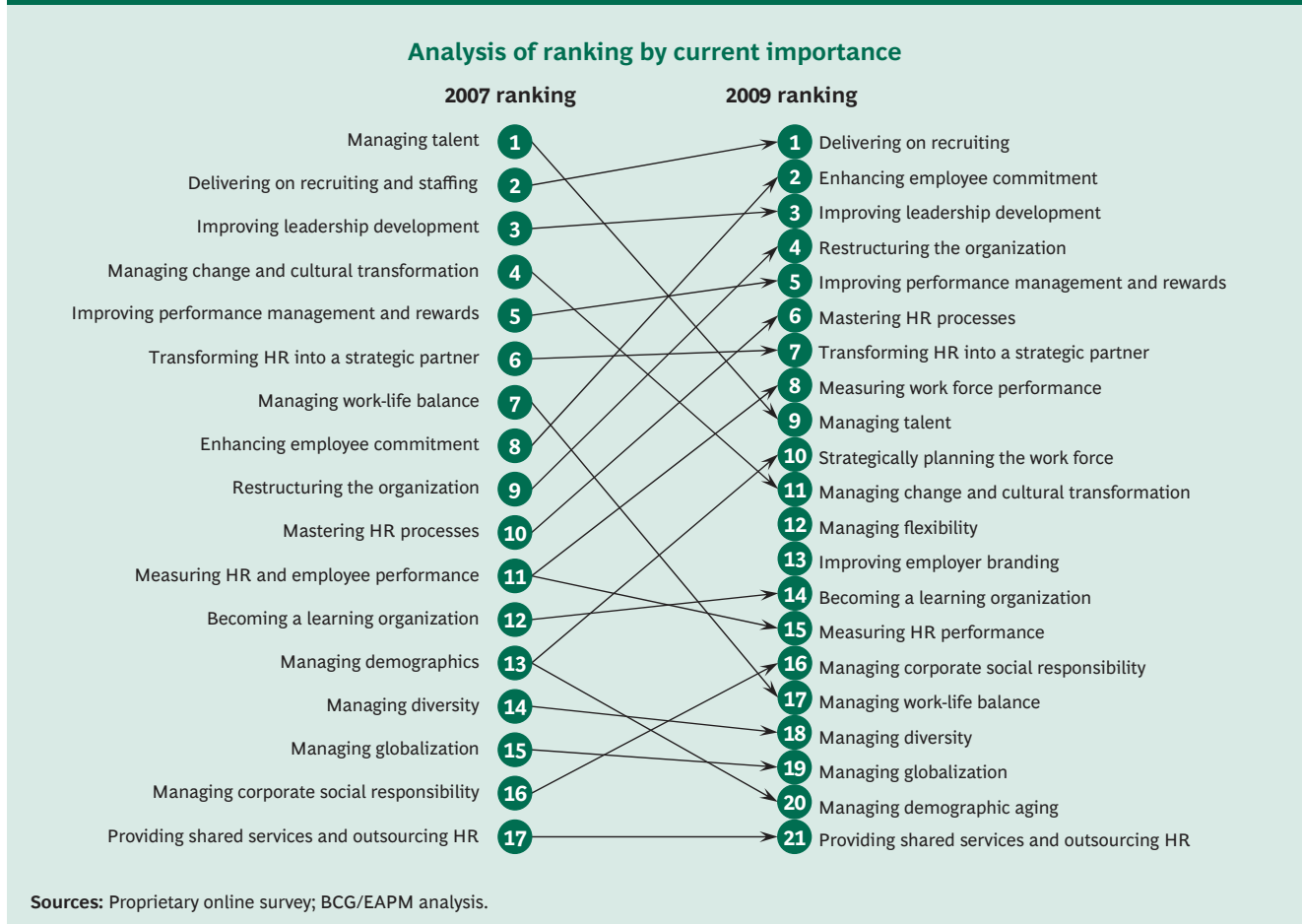
Exhibit 11. Managing Talent Ranked as the Most Important Topic in Nearly All Focus Countries

HR topic	Focus country	Austria	Bulgaria	France	Germany	Ireland	Italy	Netherlands	Norway	Russia	Spain	United Kingdom	Number of focus countries in which the topic was ranked in the top three topics
Managing talent		1	1	1	1	2	1	1	1		1	1	10
Improving leadership development		4	4	2		1	2	2	4		2	2	6
Enhancing employee commitment		2	2	5		3				1	3	4	5
Improving employer branding		3			3				5	3			3
Becoming a learning organization			5				4	3	3	5	4		2
Strategically planning the workforce					4	5		5	2			3	2
Managing demographic aging		5			2								1
Transforming HR into a strategic partner			3				5			4			1
Improving performance management and rewards										2			1
Managing change and cultural transformation				4	5		3	4					1
Measuring work force performance				3		4						5	1
Managing flexibility											5		0

Ranking: 1 2 3 4 5

Sources: Proprietary online survey; BCG/EAPM analysis.

Exhibit 12. Employee Commitment Has Jumped in Current Importance, While Managing Talent Has Dropped



Examining the current importance of HR topics in 2007 and 2009, we found that *managing talent* has dropped from first to ninth place, reflecting the need for companies to take short-term steps in the recession. Likewise, *managing work-life balance* has dropped from seventh to seventeenth place. By contrast, *enhancing employee commitment* has jumped from eighth to second place in current importance, as companies increasingly seek to motivate their employees. Many companies did not do a good job of keeping employees motivated and committed during the last recession.

The current importance of *restructuring the organization* has understandably risen over the past two years, as has the current importance of *mastering HR processes*. In times like these, the HR department has an important role in implementing layoffs, complying with government-supported schemes for shorter work hours, and conducting other activities related to the downturn. Respondents also know

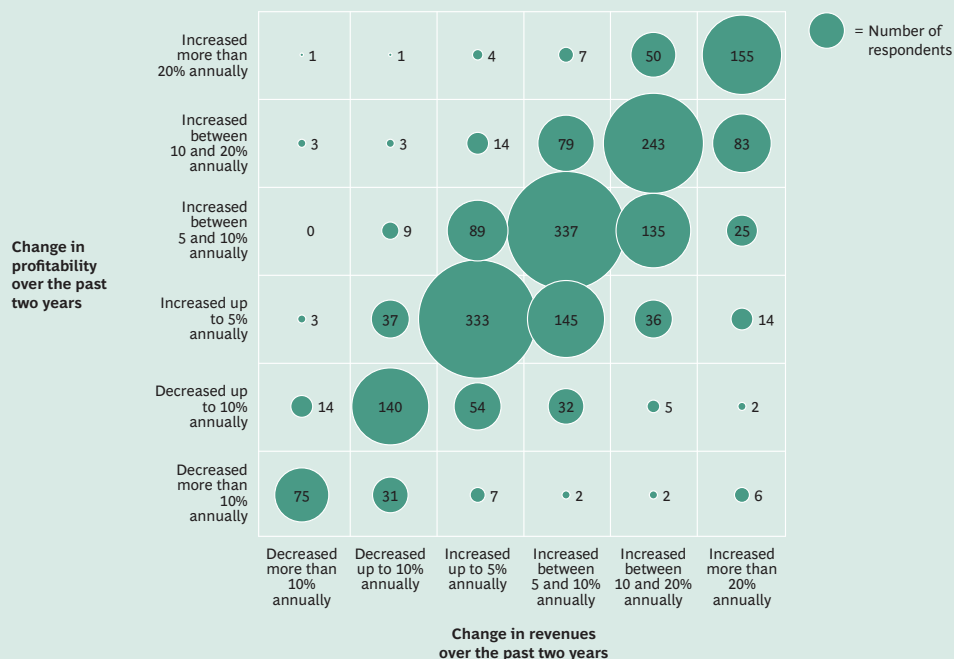
that they need to keep their perspective on the long-term implications of the actions they take today. Consequently, *strategically planning the work force* ranks higher in current importance in 2009 than *managing demographics*—the topic that formerly covered strategic planning—did in 2007.

Current challenges naturally depend on company-specific issues. So if companies are experiencing strong growth in revenues and profits, their priorities differ from those of struggling companies. In order to understand how specific business situations affect HR issues, we asked respondents about their company's revenue and profit experience over the past two years. Of the 36 possible combinations of growth and profitability that we identified, we analyzed six scenarios in depth. (See Exhibit 13.)

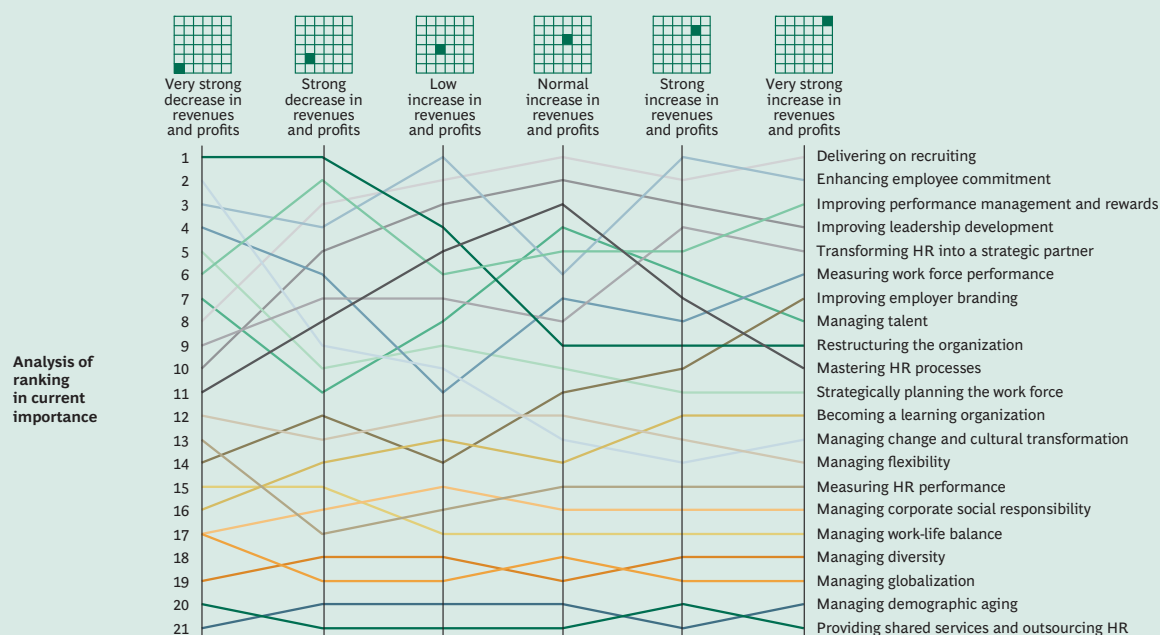
For companies that have suffered a major decline in revenues and profitability, the most important topics cur-

Exhibit 13. Companies' Priorities Are Aligned with Revenue and Profitability Growth

When companies are grouped by growth in revenues and profits ...



... restructuring and managing change have the highest current importance to companies with strong declines in revenues and profits



Sources: Proprietary online survey; BCG/EAPM analysis.

Note: In the survey, 1,172 respondents did not indicate changes in their company's profitability and revenues.

rently are *restructuring the organization*, *managing change and cultural transformation*, and *enhancing employee commitment*. These topics should be priorities for the HR departments of companies hurt by the recession.

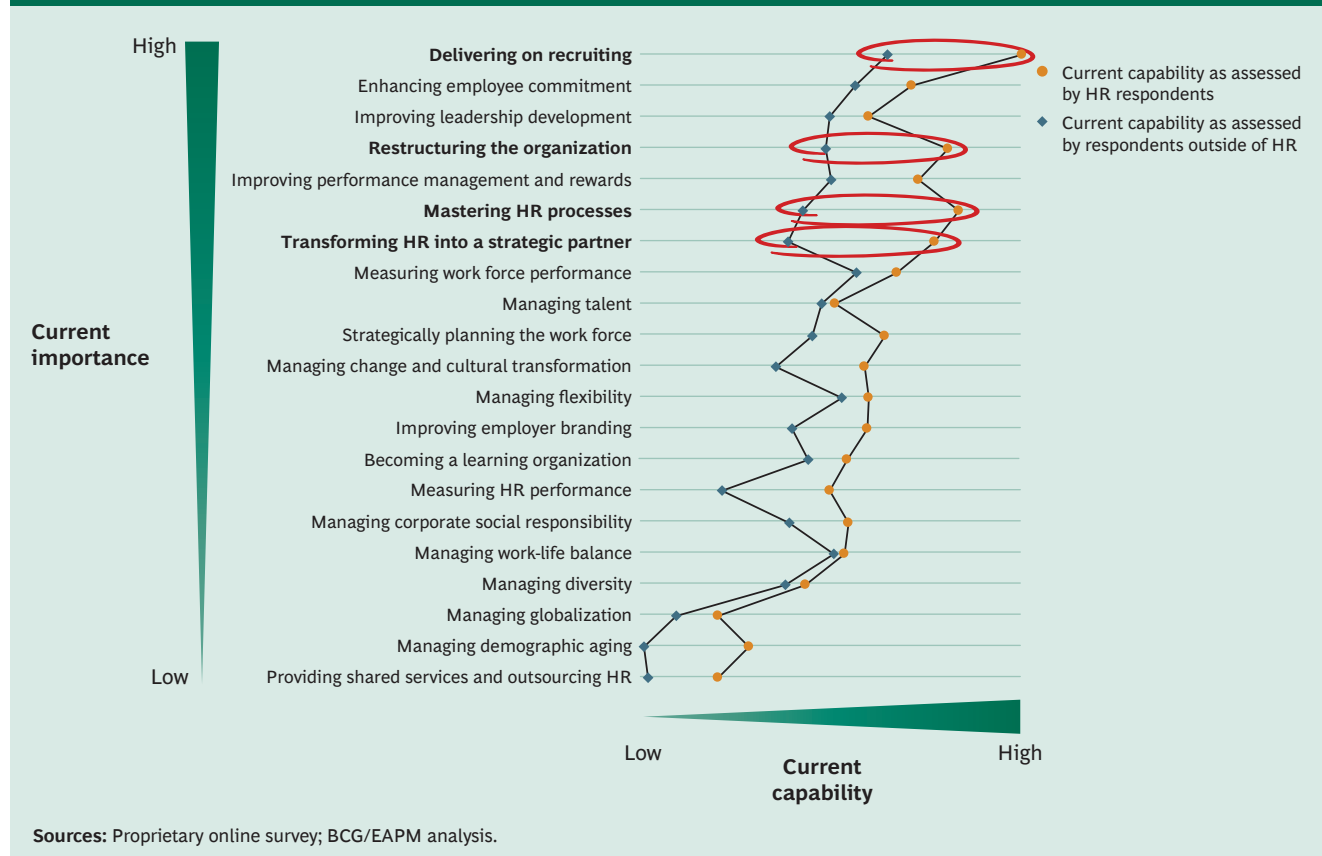
Across all six scenarios, *strategically planning the work force* achieved its highest rank—fifth most important—among companies experiencing very negative growth. Companies in this situation do not want to risk laying off people in the wrong places, thus weakening their chances for a quick recovery.

Delivering on recruiting, *improving leadership development*, and *mastering HR processes* were cited as topics of the highest current importance by companies with normal increases in profitability and growth. In good times, in other words, traditional HR work is at a premium. *Delivering on recruiting* and *enhancing employer commitment* were more important at companies reporting strong growth as they scrambled to move the right people into their work force.

As we discussed above, a gap exists between HR and non-HR respondents' assessments of the HR department's work. We found a similar gap when we compared how HR executives and executives outside of HR rated their company's current capabilities across all 21 topics. (See Exhibit 14.) This was especially true for *transforming HR into a strategic partner*, a topic ranked seventh in current importance by respondents overall and one that requires close interaction between the HR department and business units. This gap was also particularly large in *delivering on recruiting* and *mastering HR processes*—both of which ought to be key HR competencies—and in *restructuring the organization*.

Successful companies are using several methods to minimize these gaps. As we mentioned above, they are rotating employees into and out of the HR department; they are conducting regular employee surveys and follow-up meetings with line managers; and for higher-level HR tasks, they are engaging with senior executives to assess the success of strategic work in HR.

Exhibit 14. Executives Outside of HR Were Particularly Critical of HR Capabilities in Four Areas



Four Directions: One Goal

A pedestrian standing at the intersection of two streets can choose from four different directions, but by going one way, she excludes the other options. In today's HR environment, companies must find a way to move forward in all directions simultaneously. That is, they must prepare for the boom even as they grapple with the bust, and they must focus at once on both the present and the future.

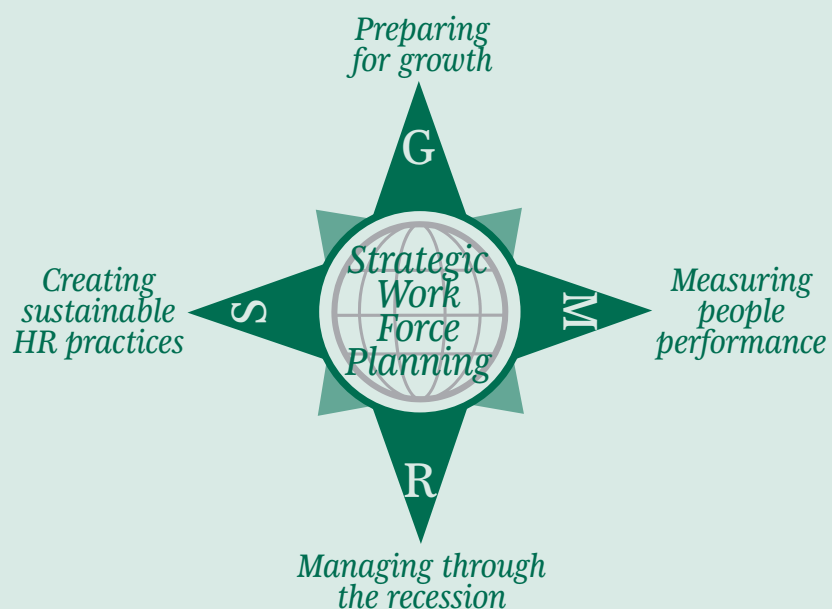
All HR journeys begin with strategic work force planning, an activity that unites work force supply (as determined by retirement, attrition, and the market) and demand (as envisioned in various strategic scenarios). In the near term, most companies have also been *managing through the recession* by turning to restructuring (including staff reduction), cost control, and other measures. Furthermore, by *preparing for growth*, far-sighted companies are considering how they will create people advantage when the economy rebounds.

Meanwhile, companies need to make sure that their people initiatives are *measuring people performance*. When HR departments can accurately show the value that employees create, they will be on their way toward becoming trusted advisors and

true business partners of the company's chief executive and top-management team. Moreover, companies need to be *creating sustainable HR practices* in their people practices. If values, ethics, and corporate social responsibility command a premium in rough times, they will stand out much more clearly as success factors once the crisis has passed.

United by the discipline of strategic work force planning, these four people practices—managing through the recession, preparing for growth, measuring people performance, and creating sustainable HR practices—form the basis of creating people advantage. (See Exhibit 15.)

Exhibit 15. Strategic Work Force Planning Is the Starting Point for Moving the Company in Four HR Directions



Source: BCG analysis.



Strategic Work Force Planning

Strategic work force planning is the pivot point that supports and unifies all four people practices that companies should be pursuing—managing through the recession, preparing for growth, measuring people performance, and creating sustainable HR practices.

Companies should understand how their work force will develop, which job categories drive the business, and how demand will evolve. They should be peering far into the future to assess their likely needs for talent in particular job categories and within specific regions and to figure out how they will find, hire, retrain, outsource, or otherwise fill those positions. Strategic work force planning is also influenced by demographic aging, which represents the demographic risk that companies face as employees retire or lose productivity. Without a systematic approach, companies will be less likely to determine the correct people measures.

Even in today's difficult times, companies should be addressing these longer-term issues. Ulrich Sieber, group manager of HR at Commerzbank, Germany's second-biggest bank, understands the need to take a long and strategic view. His organization is merging with Dresdner Bank. "Megatrends have not really changed due to the crisis," he said. "Finding the right talent for the right job will stay at the top of the long-term agenda."

This need crosses industry boundaries. "The long-term fundamental challenge is finding highly skilled employees in the different job groups," said Wolfgang Malchow, chief human resources officer and member of the management board of Bosch, the world's largest global auto-parts supplier.

Although companies are accustomed to making medium- and long-term projections in their strategic plans and

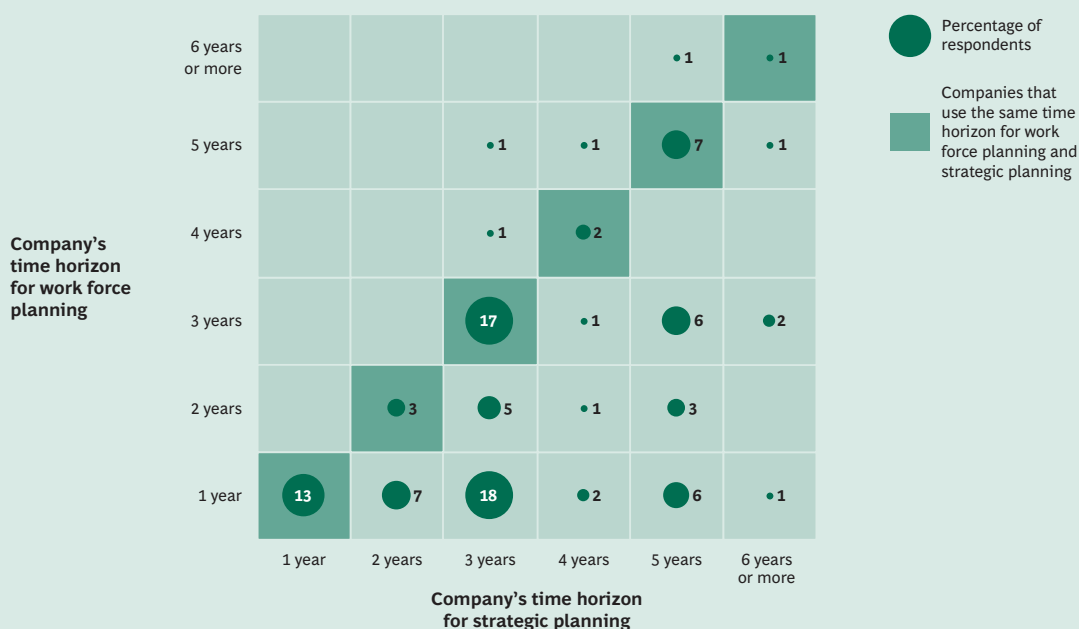
capital budgets, they are much less likely to take a similar view about their staffing needs. This reality was reflected in the results from the section of our online survey that focused on strategic work force planning, which 846 executives completed.

According to the results, almost half of the companies, or 47 percent, plan their work force needs only one year in advance, which is hardly enough time to recruit and train candidates for many jobs; fewer than one in six, or 15 percent, plan more than three years into the future. (See Exhibit 16.) By taking such a myopic view, companies are not fully developing their people, and they are likely to find themselves with both shortages and surpluses in various job categories.

At more than half (53 percent) of the companies surveyed on this topic, we found that the horizon for strategic planning was longer than that for work force planning. These companies cannot predict whether they will have the people or skills needed to execute their strategies.

At its core, strategic work force planning requires an understanding of the work force that is based on three types of job categories: job functions, job families, and job groups. Employees within each job category share similar skills and can transfer within the category, but the amount of time it takes to successfully transition to a new job varies. Within a job function, employees can get up to speed in new positions in less than three months, with no or little training. We have found that within a job family, for employees who are changing roles, it takes less than 18 months to acquire the necessary skills through training that is followed by on-the-job learning. Within a job group, a job transfer may require up to 36 months and significant training. Here the em-

Exhibit 16. Few Companies Plan Their Work Force Needs More Than Three Years into the Future



Sources: Proprietary online survey; BCG/EAPM analysis.

employees must significantly enhance their skill set and level of experience.⁷

Most companies have a basic understanding of job categories, but few study the analysis closely, and fewer still use it to create recruiting and training initiatives. According to our survey, two-thirds of the companies have classified their various jobs into distinct categories, but only about one-third of the companies, or 34 percent, have systematically taken measurable recruiting actions to fill gaps identified by this analysis. (See Exhibit 17.) Even fewer, 29 percent, have taken measurable actions to use traineeships to fill the identified gaps. This is a missed opportunity. “By using strategic work force planning, we were able to refocus our apprenticeship portfolio to fill our future needs,” said Günther Fleig, who was formerly the human resources and labor relations director and a member of the management board at Daimler. “Now we are ready for the challenges ahead.”

Companies also do not systematically and sufficiently plan supply and demand of the work force. Yet they need to have a firm understanding of the supply (the number of current employees) and demand (the number of needed employees) in order to execute strategy. Survey results

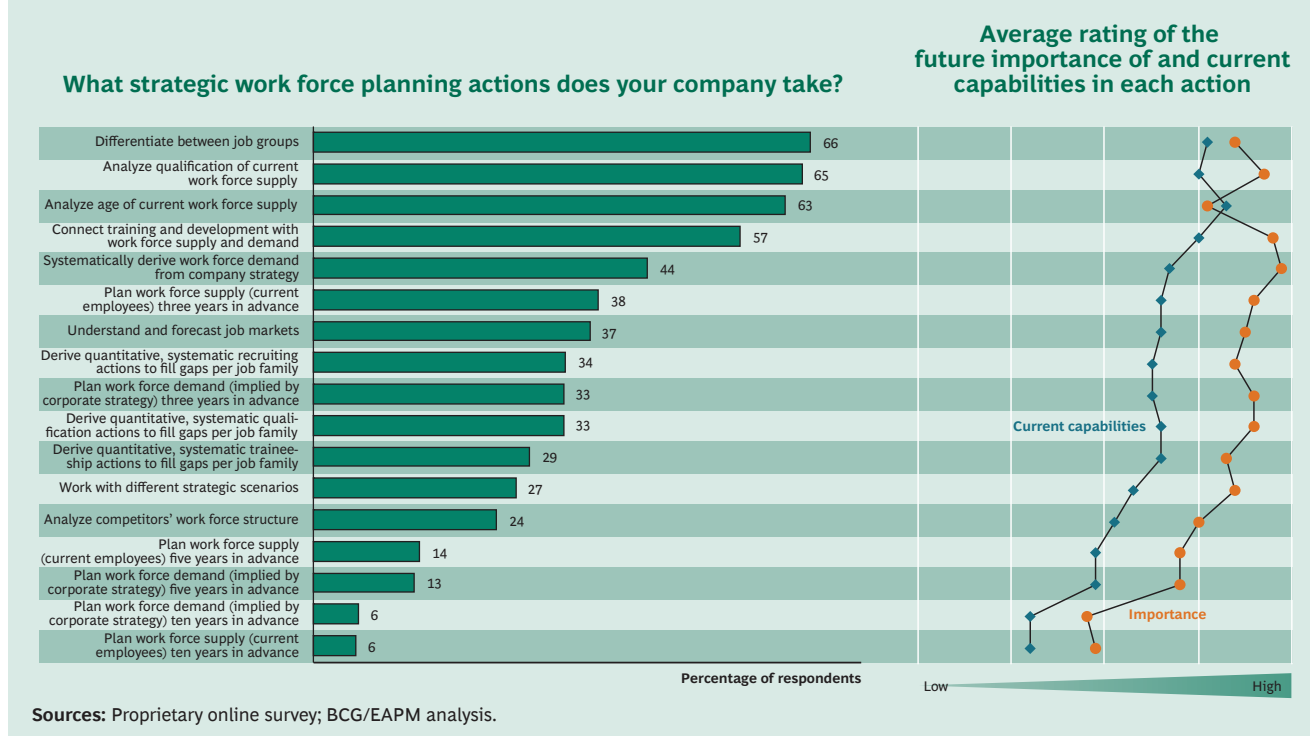
show that only about one-third of the companies planned work force supply (38 percent) and demand (33 percent) three years into the future; just 13 to 14 percent reviewed these trends over a five-year time horizon and only 6 percent did so for a ten-year time horizon.

This lack of planning can have serious and damaging long-term consequences, if, as they are doing today, companies lay off employees or otherwise reduce their head count. Unless they understand their long-term needs by job category, companies will, in all probability, remove employees whose skills will be needed in just a few years.

In order to understand their future work force needs, companies should be creating different strategic scenarios that anticipate demand in specific job categories, but just 27 percent of companies engaged in this activity, our survey found. These exercises predict shortfalls and surpluses for each job function. Armed with those scenarios, companies are in a better position to make decisions to retrain people in surplus areas for jobs with anticipated

7. For more information, see Rainer Strack, Jens Baier, and Anders Fahlander, “Managing Demographic Risk,” *Harvard Business Review*, February 2008.

Exhibit 17. Two-Thirds of the Respondents Said That Their Companies Have Created Job Categories



shortfalls. Scenario planning can also identify recruiting needs. This analysis is especially important now that the outlook is so uncertain and companies need to plan for many contingencies.

If strategic work force planning varies from company to company, it also varies from country to country. In Italy, for instance, companies were less reliant on strategic work force planning actions than were their peers in Germany: we found that about 23 percent of the German companies planned demand and supply of their work force needs five years into the future, but only about 3 percent of the Italian companies did so. This variation is surprising. Both nations face similar challenges as the baby boom generation retreats into retirement and as younger—and smaller—generations replace them. Birth rates in the European Union are uncommonly low. None of the EU countries have birth rates as high as 2.1, which is the rate required to maintain a steady population. With a limited use of strategic work force planning and a low birth rate of just 1.3, Italy faces a double blow.

Most industries also neglect strategic work force planning. The average use of such actions ranged from 28 to 43

percent, depending on the industry. Even so, work force planning is possible—and desirable—as it helps to reduce the uncertainty pervading the nature of business. (See the sidebar “Strategic Work Force Planning at Deutsche Telekom.”)

Although we found that executives themselves recognized the significance of work force planning actions, we also found that their companies were reluctant to perform them. Systematically deriving work force demand from corporate strategy emerged as the most important action in this topic, with an average score of 4.9 on a 5-point scale—far higher than the action’s average-capability score of 3.7. With only one exception, executives rated the future importance of all actions in strategic work force planning much higher than they rated the capabilities of their companies to perform them. This is further evidence of the disconnect among strategy, HR, and metrics.

Lack of confidence may explain why strategic work force actions have not yet received the attention they deserve. It is therefore time for companies to overcome their reluctance to extend the planning horizon of people actions. Practice makes perfect.

Strategic Work Force Planning at Deutsche Telekom

Deutsche Telekom, a leading global telecommunications operator, has not let the uncertainty and unpredictability of its industry prevent it from engaging in initiatives in strategic work force planning.

Over the past ten years, telecommunications operators have radically reshaped their operations around a common network built on the Internet Protocol. These next-generation networks operate at lower costs and with fewer people than do traditional networks. Operators are also creating new services and business models in the online, media, advertising, and even energy-management markets. Finally, they are reorienting their marketing, sales, and service units around customer needs.

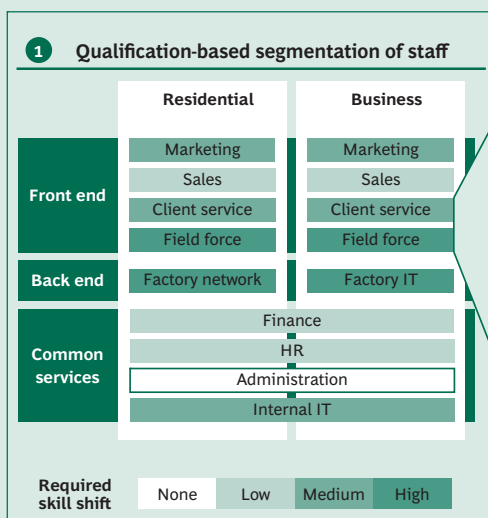
These radical shifts are requiring operators to develop new skills and a new way of viewing work force planning. The traditional line technician, for example, is becoming increasingly obsolete as demand grows for complex services. The share of experts who have skills in both hardware and software, currently at 20 percent, is expected to increase to more than 50 percent by 2012.

Telecommunications operators such as Deutsche Telekom should be taking several steps to ensure that they are prepared.

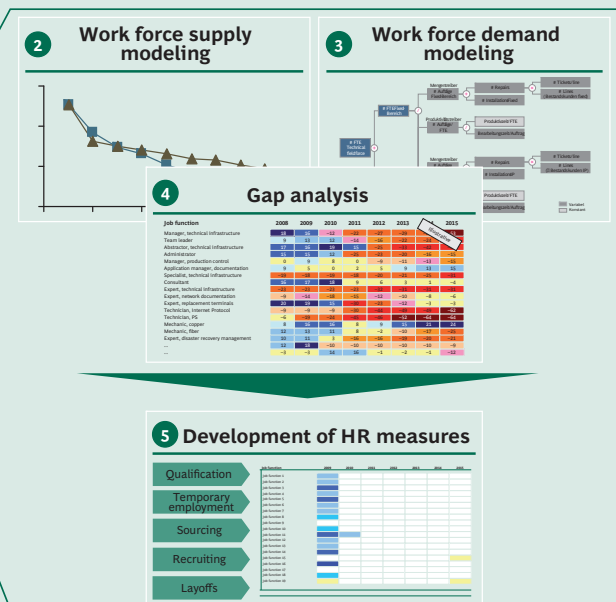
- ◇ *Qualitative Orientation.* These companies need to develop job categories so that they have a better understanding of the key skills that they require.
- ◇ *Long-Term Perspective.* The HR planning horizon needs to be extended. Many major network-infrastructure projects take five to seven years, and they require new expertise and skills. HR planning should look forward at least four years to accommodate hiring and training cycles.
- ◇ *Scenario Planning.* Strategic planning is highly uncertain. Major initiatives require the development of several different options for capital spending, competitive dynamics, and regulation. Accordingly, the plan for the HR work force needs to be able to accommodate many different potential scenarios and have built-in flexibility.

Companies Can Transform Themselves Through Strategic Work Force Planning

Required skill shifts across the firm can be identified...



... and analyzed in detail



Source: BCG case experience.

Deutsche Telekom recently began to tackle this transformation by instituting a five-point strategic work force plan, outlined below, that creates a stronger link between HR and businesses. (See the exhibit “Companies Can Transform Themselves Through Strategic Work Force Planning.”)

- ◇ *Qualification-Based Segmentation of Staff.* Deutsche Telekom defined about 60 job families and the skills it expects to need in the future. The company focused on strategic areas in which significant capacity risks were likely.
- ◇ *Work Force Supply Modeling.* The telecommunications operator determined the medium- to long-term effects of retirement and attrition on its overall work force and on various job categories. This detailed exercise identified categories with unbalanced age structures and with likely capacity shortages.
- ◇ *Work Force Demand Modeling.* Then the company, on the basis of long-term business and productivity trends, forecast the staff that would be required for each category. This step required in-depth knowledge of business conditions and strategies and close col-

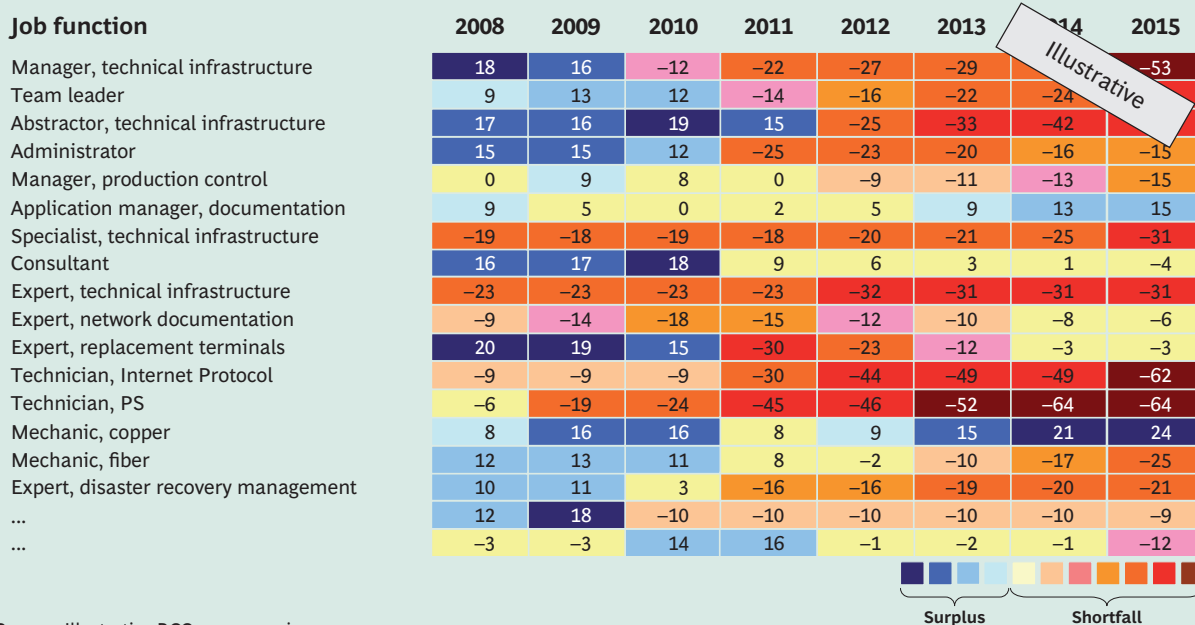
laboration among the HR department, business executives, and the finance department.

- ◇ *Gap Analysis.* By forecasting supply and demand in the previous two steps, Deutsche Telekom was able to uncover potential shortages and surpluses. (For an illustrative example, see the exhibit “Capacity Risks Can Be Identified Precisely.”) With this crucial knowledge, reasonable HR measures can be developed.
- ◇ *Development of HR Measures.* Finally, Deutsche Telekom was able to systematically determine actions from its analysis. It could develop plans to start transferring excess staff to categories with potential shortages, re-train staff, and hire people with needed skills.

Having taken these measures, Deutsche Telekom executives are confident that they will have the people and skills they need—no matter how uncertain the future. “This strategic work force planning project is crucial to prepare the organization for the future by deriving necessary HR measures and action steps in time,” said Thomas Sattelberger, chief human resources officer, director of labor, and member of the management board at Deutsche Telekom.

Capacity Risks Can Be Identified Precisely

A sample company's anticipated surpluses and shortages by job function, by percentage of current employees



Source: Illustrative BCG case experience.

Managing Through the Recession

Companies cannot create lasting people advantage unless they successfully manage the immediate impact of the recession on their business. While HR practices should be sustainable and focused on the long term, they should also be adaptable to the stresses and strains of the moment. “Companies need to make sure that they invest as much as possible, during the crisis, in the right employees,” said Thomas Wessel, chief executive officer of RAG Bildung, a provider of continuing education for companies and public entities. (See the sidebar “Training Rather Than Layoffs at Scania.”)

In March of this year, BCG published a White Paper titled *Creating People Advantage in Times of Crisis: How to Address HR Challenges in the Recession*. The White Paper showcased the results of the online survey and our interviews, relating them to the recession and proposing a 12-step action plan for steering companies through these tough times. For consistency, the White Paper was updated in May to reflect the status of the full report. We have enclosed the updated White Paper with this report so that, as the recession continues, companies can tap our findings and ideas in the months ahead. (You can also find the White Paper at www.bcg.com.)

Still, executives should also keep in mind that, sooner or later, the recession will pass, and companies will need to find ways to address the challenges presented by globalization, competition, and the demographic shift. The remainder of this report, therefore, focuses on how companies can create lasting people advantage by following the three other paths that we outline—preparing for growth, measuring people performance, and creating sustainable HR practices.

Training Rather Than Layoffs at Scania

Scania, a worldwide manufacturer of trucks, buses, and engines, is one of the few companies in this industry that have not laid off full-time employees during the recession. Instead, Scania has used the crisis to train its work force so that the company will be better prepared and employees will be more productive. The truck manufacturer has put a significant portion of its 35,000 people through training sessions on English- and Swedish-language skills, economic knowledge, presentation and writing competencies, productivity, and lean management. Other employees have been staffed on projects that redesign and improve production facilities.

Although not widespread, this practice has helped Scania maintain employee engagement. “One of the key benefits is the strong engagement that is created between employees and the company. This is a reward on its own that cannot be measured,” said Magnus Hahn, HR director at the company.

Preparing for Growth

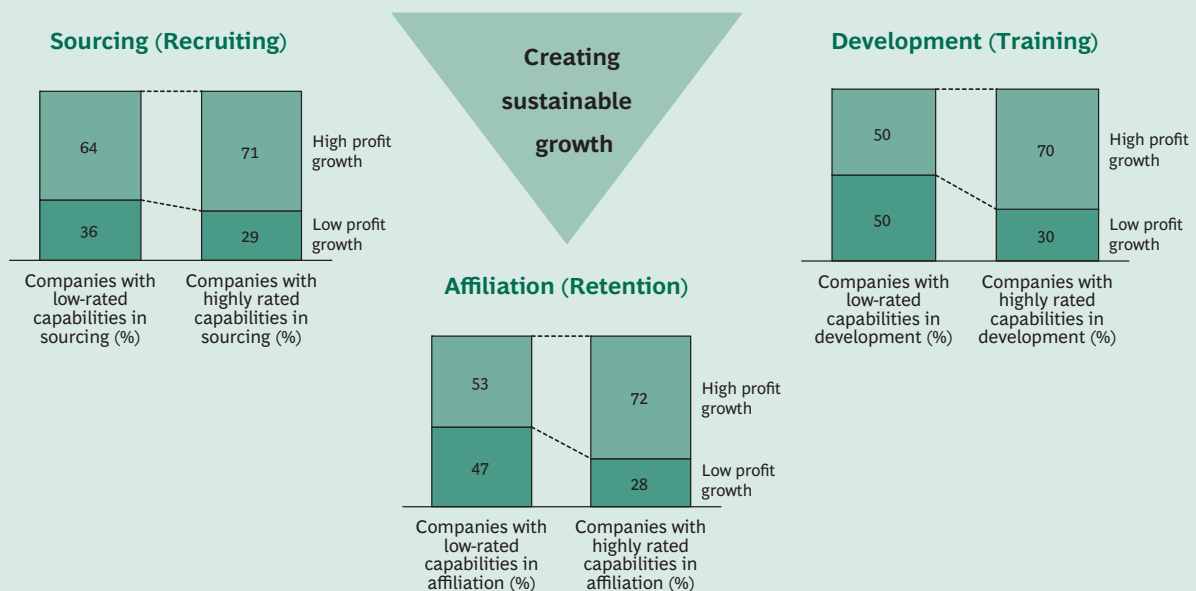
Almost one-third of the respondents said that pursuing organic growth is one of the most important business issues facing HR executives. For most of the remaining companies, growth—in revenues and people—will, when the recession ends, eventually return. But these companies face a dilemma: they need to restructure today while, at the same time, preparing for the upswing tomorrow.

Philippe Rouxel, HR director at Rockwool France, emphasized that “while the building industry is in very

bad shape, defending our market share and sustaining our growth in the long term are very important. We have the tough responsibility to manage, simultaneously restructuring issues, defending our market share, and retaining our best employees, especially in the sales areas.”

Growth requires three fundamental people actions: one is what we call “sourcing” (or recruiting), the second is “development” (or training), and the third is “affiliation” (or retention). All three actions recognize the need to create sustainable business practices and to invest in

Exhibit 18. Companies with Highly Rated Capabilities in Sourcing (Recruiting), Development (Training), and Affiliation (Retention) Were More Likely to Achieve Higher Profit Growth



Sources: Proprietary online survey; BCG/EAPM analysis.

the long-term success of the organization. “We still have ambitious growth objectives,” said an HR executive in Bulgaria. “In this dynamic labor market and challenging business environment, a major priority for HR is to ensure the proper sourcing, development, and affiliation of people.”

In this section of the survey, to which 864 executives responded, we uncovered evidence that companies with strength in these areas are more likely to have higher profit growth than their respective peers. (See Exhibit 18.) Companies with these strengths work harder at hiring, training, and keeping their employees, and the effort pays off. The links between both development and affiliation and higher profits are particularly striking. Seventy percent of the companies whose capabilities in development were rated high also had higher profit growth, compared with only 50 percent of the companies whose capabilities were rated low. Likewise, 72 percent of the companies whose capabilities in affiliation of staff were rated high also had high profit growth, compared with 53 percent of companies whose capabilities in this area were rated low. A slightly weaker link exists between sourcing capabilities and profit growth.

The survey uncovered the actions and approaches that are used most frequently by companies deemed to be successful in sourcing, development, and affiliation. Companies without strong skills in these sustainable HR practices should try to emulate their best-in-class peers.

Sourcing: What Works in Recruiting Employees

Many companies have stopped recruiting in recent months, while others have continued to hire in anticipation of an eventual recovery. (See the sidebar “Strategically Planning for Growth at UniCredit Group.”) “We currently have very good applications coming in,” said Richard Pott, head of strategy and human resources, director of labor, and member of the board of management at Bayer, a global conglomerate based in Germany. “People are coming to us looking for safety.” Likewise, the recruitment committee of SFR, a French telecommunications operator, continues to meet every two weeks. The company wants “to ensure that the recruitment of key positions goes on despite restructuring,” said Marie-Christine Théron, general director of HR at SFR.

Strategically Planning for Growth at UniCredit Group

An Eastern European subsidiary of UniCredit Group recently embarked on an ambitious growth plan to triple the number of its branches in three years. In order to fulfill these aggressive growth plans, the bank turned to strategic work force planning. In particular, the bank wanted to understand how to fill jobs in a rapidly growing market with high turnover. Annual attrition was running at 32 percent in the company, above the industry average of 24 percent.

To begin, the HR department assessed the likely supply of employees by analyzing several demographic dimensions five years into the future. Based on the bank’s growth plans, the department then forecast anticipated demand across 56 different job families. Also, the HR department wanted to understand the reasons behind its high attrition rate. Therefore, the department conducted an online survey asking employees whether they were planning to be with the company one year into the future and focusing particularly on the reasons cited by employees who were planning to leave.

On the basis of the work force model and online-survey results, the HR department created 38 initiatives to im-

prove recruiting and retention. The recruiting measures were aimed mainly at achieving better penetration among traditional recruits, tapping into new talent pools, and improving the recruiting process. The retention measures were focused on upgrading training and development, establishing long-term career and succession planning, and improving compensation and benefits.

As a first step in implementation, the bank chose the initiatives that offered the highest potential impact. In recruiting, those initiatives were conducting job fairs and recruiting events, offering internships, expanding the focus beyond business students, improving the recruiting process, and relying more on internal recommendations. For retention, the bank set up a program for high-potential line managers and reassessed the pay system.

Once those were successfully rolled out, the bank unveiled the remaining initiatives in two phases. Within a year, the bank was able to demonstrably improve its employer brand in the market and bring attrition down below the industry average.

During the recession, companies should try to maintain strong HR practices so that they can respond quickly when the economy turns. In particular, many companies are facing a wave of retirements and must be on the lookout for talent. “Demographics is still a long-term challenge,” said Stefan Lauer, chief officer of aviation services and human resources and member of the executive board of Lufthansa, one of Europe’s biggest airlines. “We need to keep this in mind and plan accordingly even during times of economic crises.” Angel Jiménez Gutiérrez, general director of security, organization, and human resources at Renfe, the main provider of railway services in Spain, agreed: “Despite cost control measures, we need to attract outside talent to cover or replace key positions at our company.”

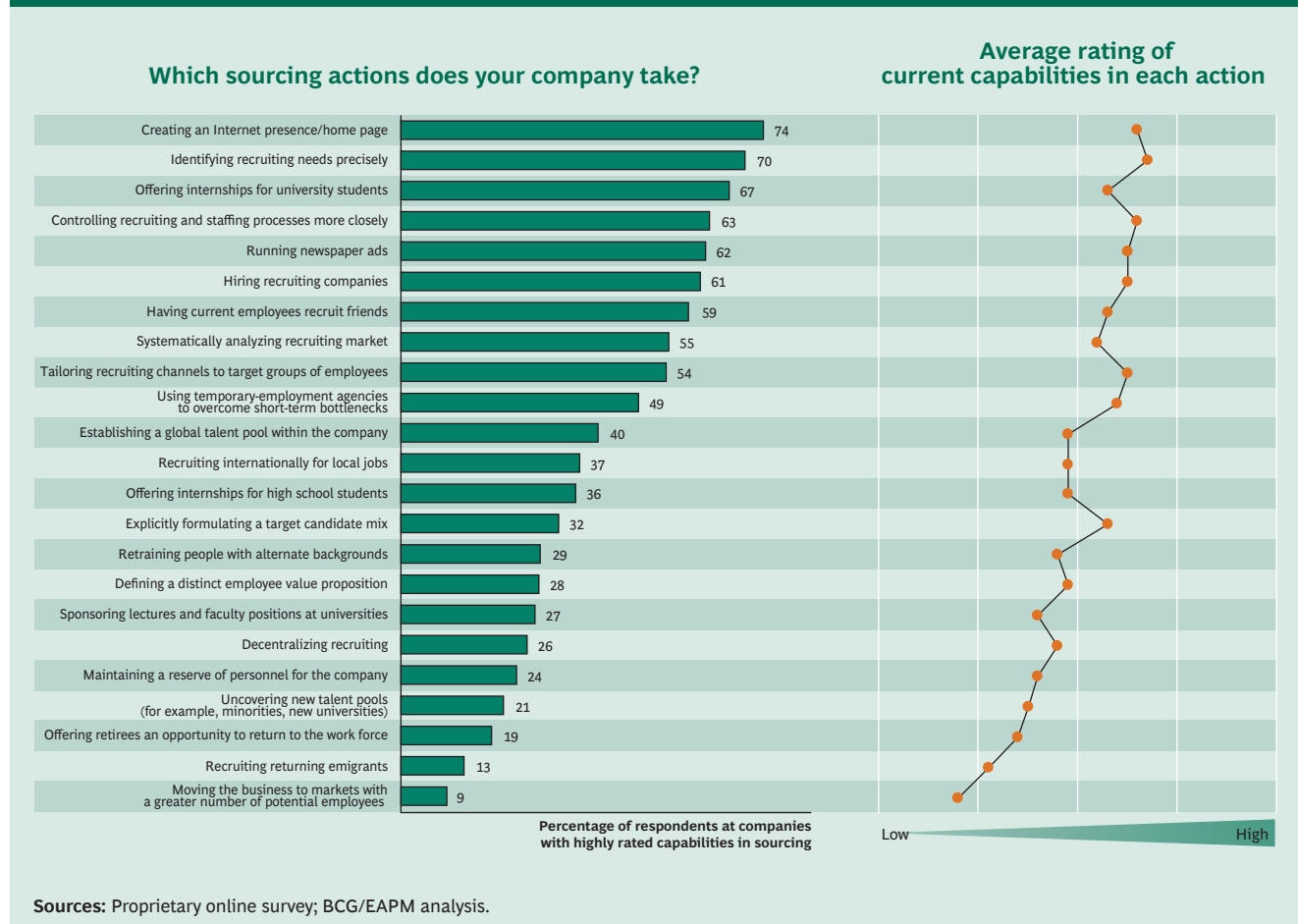
The task of sourcing employees covers a broad area, embracing everything from tactical activities, such as

having a recruitment Web site and running newspaper ads, to taking strategic steps, such as tailoring recruiting messages to appeal to potential groups of recruits and developing an employer brand in the market.

Companies that want to strengthen their recruiting prowess should consider the actions that are most frequently performed by companies with highly rated capabilities in the area. (See Exhibit 19.) Besides creating an Internet presence (a basic task), three other actions were popular among top companies:

- ❖ Identifying recruiting needs precisely (performed by 70 percent of these companies)
- ❖ Offering internships for university students (67 percent)

Exhibit 19. Nine Actions Were Adopted by Most Companies Whose Sourcing Capabilities Were Rated High



- ◇ Controlling recruiting and staffing processes more closely (63 percent)

Identifying recruiting needs precisely and controlling recruiting and staffing processes more closely are both activities that require operational excellence. Companies should master these processes before they try more sophisticated actions such as recruiting internationally for local jobs.

“Staffing is still a big challenge,” said Harald Borner, head of top talent management at SAP, the German software vendor. “We are still improving our qualification and skills portfolio setup.”

Companies that have mastered these fundamental processes should selectively conduct more actions. (See the sidebars “Tapping into New Talent Pools at a French Bank” and “Going Global at BCG.”)

Development: What Works in Training Employees

Many companies consider employee development to be a key measure during a recession. Companies that train employees during the downturn will be prepared to seize advantage when the economy recovers. “In times of crisis, some companies are winners, while others lose,” explained Peter Vassilev, HR manager at EPIQ Electronic Assembly Bulgaria, a contract electronics manufacturer. “Winners use the crisis time for improvement of internal processes. When the business environment gets better, the company will be ready to achieve even more than before.”

Companies whose executives rated them high in terms of development capabilities are focused on actions that are practical and help employees acquire tacit knowledge that is hard to learn in books. This holds especially for the top two actions: training on the job, as well as general coaching, counseling, and mentoring. (See Exhibit 20.) Two other actions companies that are deemed weaker in development might want to focus on are top-management mentoring and safeguarding experience through knowledge management.

Companies that are strong in these actions can work on increasing their capabilities in more sophisticated facets of development and training. (See the sidebars “Improving Skill Development at RWE” on page 36 and “Engaging Top Talent at Finmeccanica” on page 37.)

Affiliation: What Works in Retaining Employees

The recession may have momentarily masked the significance of attrition. For example, in one plant of EPIQ Electronic Assembly Bulgaria, the attrition rate is just one-third of its pre-October 2008 levels. Nevertheless, undesired attrition is a large problem in most companies. Even if it is not today, undesired attrition will return as a major problem for companies as the economy improves.

Some 42 percent of the respondents told us that more than half of the attrition at their companies is undesired. (See Exhibit 21.) One-third of that group, or 14 percent of all companies, said that about three-quarters of attrition is undesired. Only 9 percent of companies, meanwhile, said that nearly all of their attrition is desirable.

Tapping into New Talent Pools at a French Bank

A financial institution in France recently realized that it faced recruitment shortages for thousands of entry-level positions in its branches. When executives realized that their traditional sources for candidates would be insufficient, they decided to fish in new ponds, interviewing people with different educational backgrounds and embracing a wider range of social and ethnic diversity than they had in the past. They also shopped in other industries, such as travel and consumer goods. In one recruitment round, more than 60 percent of its hires came from those pools.

This approach required new recruiting techniques. The bank, for example, transformed branches into recruiting offices and altered its branding message to feature a younger, “think different” tone.

The bank needed to make other changes to accommodate the recent recruits. Executives modified the core banking training in order to quickly give the new employees the skills they needed. They also created mentoring initiatives to ensure that the new hires would fit in at banks staffed by colleagues from more traditional backgrounds.

Going Global at BCG

Almost all companies create recruiting campaigns. But they frequently are not executed—or they vary significantly—across countries or segments.

BCG recently decided that, in order to be a truly global organization, it needed to create a united, global recruiting campaign—the type that would appeal to a student who had grown up in South Korea, has studied in the United States and Spain, and is now looking for a job in Germany. In the past, branding was largely decentralized.

BCG is a company with traditionally strong growth, and the consulting industry has historically coped with a high attrition rate. Both conditions complicate recruiting. BCG needed to increase, diversify, and professionalize its recruiting activities—with one campaign that would be relevant from Abu Dhabi to Zurich.

To achieve this, the firm created a four-step process.

- ◇ *Understanding Recruits.* Conducting both global market research with more than 4,000 participants and in-depth focus groups, BCG discovered that personal development was the most important goal for most applicants. Furthermore, employees' personal development is a

significant value proposition for BCG, so the recruiting campaign focused on this as a central theme.

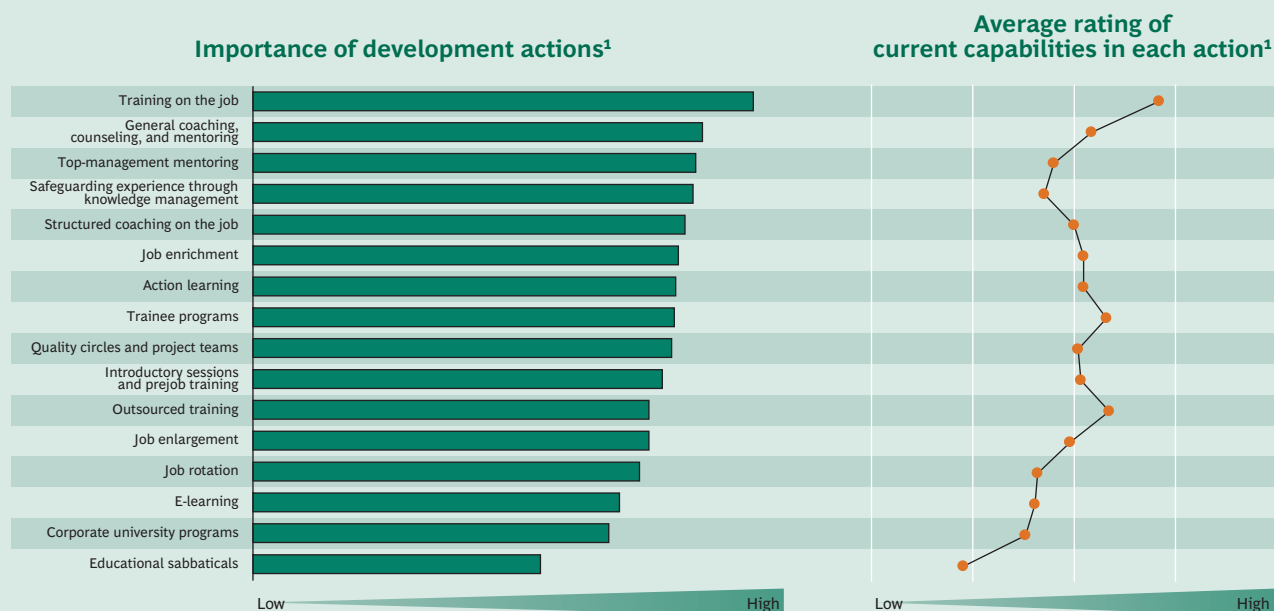
- ◇ *Designing the Brand.* BCG created the slogan “Grow Further” to describe the aspirations of both applicants and the firm. It was especially important to have an enticing but credible value proposition that could pass the test with discerning students. The slogan was created after extensive testing and piloting at INSEAD and leading U.S. business schools. (See the exhibit below.)
- ◇ *Defining the Infrastructure.* The company needed to set up new global governance and creative design-team structures and IT systems in order to ensure that the campaign would be truly global.
- ◇ *Planning the Rollout.* Finally, the firm put in place a concrete plan, with deadlines and deliverables, to ensure the success of both the new campaign and the global change-management initiative that was required for it to succeed in this highly decentralized company.

BCG now has a globally consistent campaign and value proposition for securing what will be the firm's most important asset: its future work force.

In a New Global Recruiting Campaign, BCG's Slogan Highlights a Common Goal of All Applicants



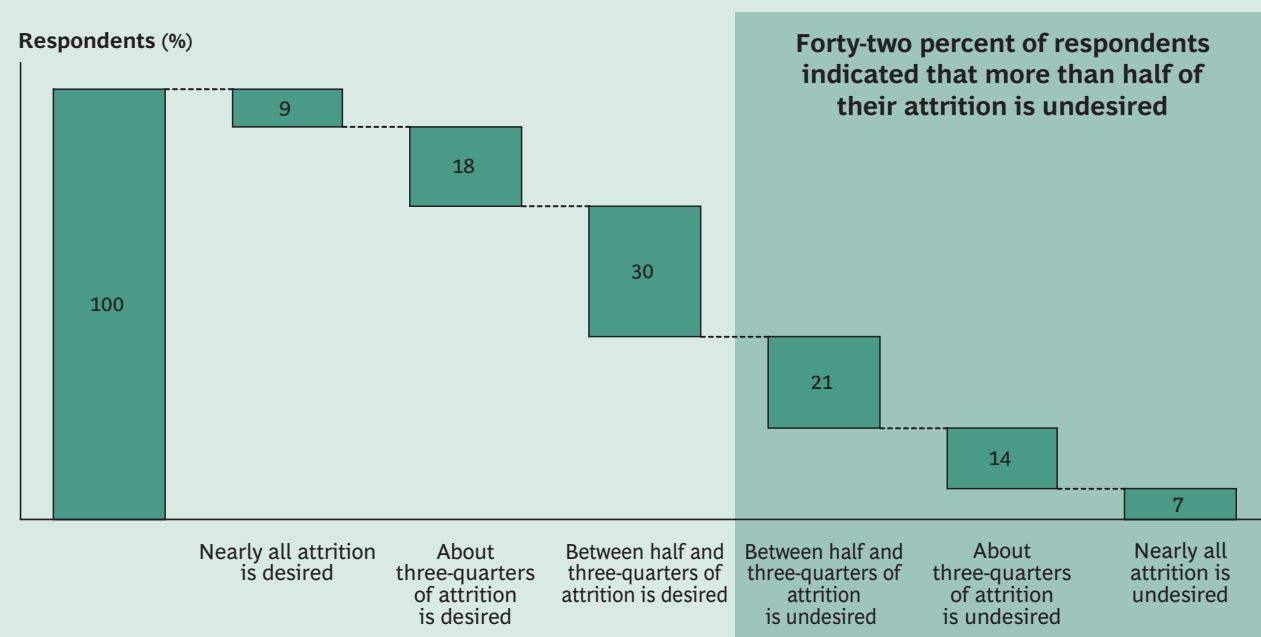
Exhibit 20. At Companies Whose Capabilities in Development Were Rated High, Respondents Lacked Confidence in Certain Important Actions



Sources: Proprietary online survey; BCG/EAPM analysis.

¹Respondents were from companies whose capabilities in development were rated high.

Exhibit 21. Undesired Attrition Is a Major Concern at Many Companies



Sources: Proprietary online survey; BCG/EAPM analysis.

Note: Percentages do not add up to 100 due to rounding.

Improving Skill Development at RWE

RWE, one of Europe's largest utilities, wanted to have a better understanding of both the skills that its employees possessed and the skills that the company required, so it created a new training-management system. The goals of the system were to identify training needs for employees, improve training programs, enhance recruiting and staffing processes, ease the staffing of projects, and manage the process of skill development.

As a first step, RWE focused on cataloging attributes such as the education, language skills, IT skills, and specific experiences of all employees. Employees can voluntarily update their training profiles on the system as they develop new expertise in these areas.

Eventually, the company also plans to capture employees' so-called soft skills, such as leadership qualities, capabilities in team work, and mentoring. As a second step, the company has defined skill requirements for each position.

The new system enables employees and their managers to meet annually for a detailed discussion about training and development opportunities. It has also helped identify gaps between existing and required skills for all employees and job positions, producing several tangible benefits for the company, HR department, and employees.

The new system offers the following improvements:

- ◇ The company can identify future skill requirements and shortages
- ◇ The company has improved the transfer of knowledge across the organization
- ◇ The HR department has gained greater visibility into existing and required activities in training and development and is better able to support corporate strategy
- ◇ HR has also gained improved access to training data through the standardization of information and processes
- ◇ Employees now have a better understanding of the skills they need to advance at the company
- ◇ Employees have a process for identifying and receiving the training they need
- ◇ Employees are now recognizing their responsibility to seek out training, and this is encouraging a cultural change in the company

Therefore, the new system benefits the HR department and the employees. "The company, meanwhile, is better at staffing jobs with more qualified employees and can detect HR-related risks more swiftly," said Alwin Fitting, chief human resources officer and member of the management board at RWE.

Anouk De Blieck, HR director of Russia and CIS at Citibank, sees retention as a key priority at her company. "Attrition was very high in the last few years and will remain for us an area of focus in 2009. Although the economic downturn has had an important impact on our attrition numbers since the end of last year, we believe that, as we are preparing our business for the future, the retention and development of our talent and key performers will continue to be a top priority. At the same time, focusing on developing our people and engaging them in the organization in the current environment will also allow us to further build loyalty," she said. Dmitry Volokhov, the HR director at Gazprom Neft, an energy company, agreed: "Our priority is to keep key people by whatever action it takes."

Affiliation is a complex topic influenced by personal, social, and company-related factors. (See Exhibit 22.) Among company-related factors, the most important at-

tributes of companies with highly rated capabilities in this area are the following:

- ◇ Strong leaders
- ◇ A positive working atmosphere
- ◇ Performance recognition and rewards
- ◇ Opportunities for training and development
- ◇ The financial success of the company

Although companies need to do several things well in order to produce strong leaders and strong performance, creating a positive working atmosphere, rewarding and recognizing performance, and offering training and development opportunities are realistic short-term goals that can be achieved through persistent effort.

Engaging Top Talent at Finmeccanica

Finmeccanica is the main Italian industrial group operating globally in the aerospace, defense, and security sectors—and one of the world's leading groups in the fields of helicopters, defense electronics, satellites, space services, energy, and transport. Headquartered in Italy and with a vast industrial base in the United Kingdom, as well as important production facilities in the rest of Europe and in the United States, Finmeccanica has a work force of more than 73,000 people.

Finmeccanica has adopted a strong process for talent development that highlights many of the steps taken by other successful companies. In order to pinpoint and promote outstanding human resources and attract the best and brightest of the world's market, Finmeccanica has set up a permanent, integrated, and international system for education, management, and development. This system targets different categories ranging from young university graduates to experienced top-level managers and encompasses the various phases of professional growth from the perspective of lifelong learning.

The company's entry-level talent programs are large and inclusive, but they become more selective as employees rise through the organization. Roberto Maglione, executive vice president of human resources, explained that the company's Young People Program is a training and development program dedicated to the young people of the group and aimed, first, at introducing them to the complex world of Finmeccanica and its distinctive values and, second, at developing specific professional and managerial skills.

The company's programs include the following:

- ◇ *Master FHINK*. The Finmeccanica Master's Program in International Business Engineering is an ambitious project tailored to meet the group's need to identify and develop resources who are motivated and have excellent professional skills in the global market. In particular, the skills sought are those that can effectively and immediately contribute both to the group's various operational processes and to the evolution of its corporate culture.

- ◇ *FLIP*. The Finmeccanica Learning Induction Program is an initiative whose goal is to engage and familiarize all the new employees with the One Group company philosophy and Finmeccanica's primary drivers. The program offers basic-skills training, which also seeks to identify the most promising individuals.

- ◇ *BEST*. The Business Education Strategic Ten program is the master's program in general management targeted to brilliant university graduates—from throughout the group—who have been with the company for about three years. It includes both online and in-class training. This one-year program has attracted so far about 600 young people. Its top three participants enter the elite Future L.I.F.E. Program.

- ◇ *Future L.I.F.E.* The Future Learning Intensive Finmeccanica Experience is an innovative training experience that is an essential step in developing and grooming young talent for management positions within the group. The goal is to give employees an opportunity to interact with excellent role models at the international level and to present their findings directly to top management.

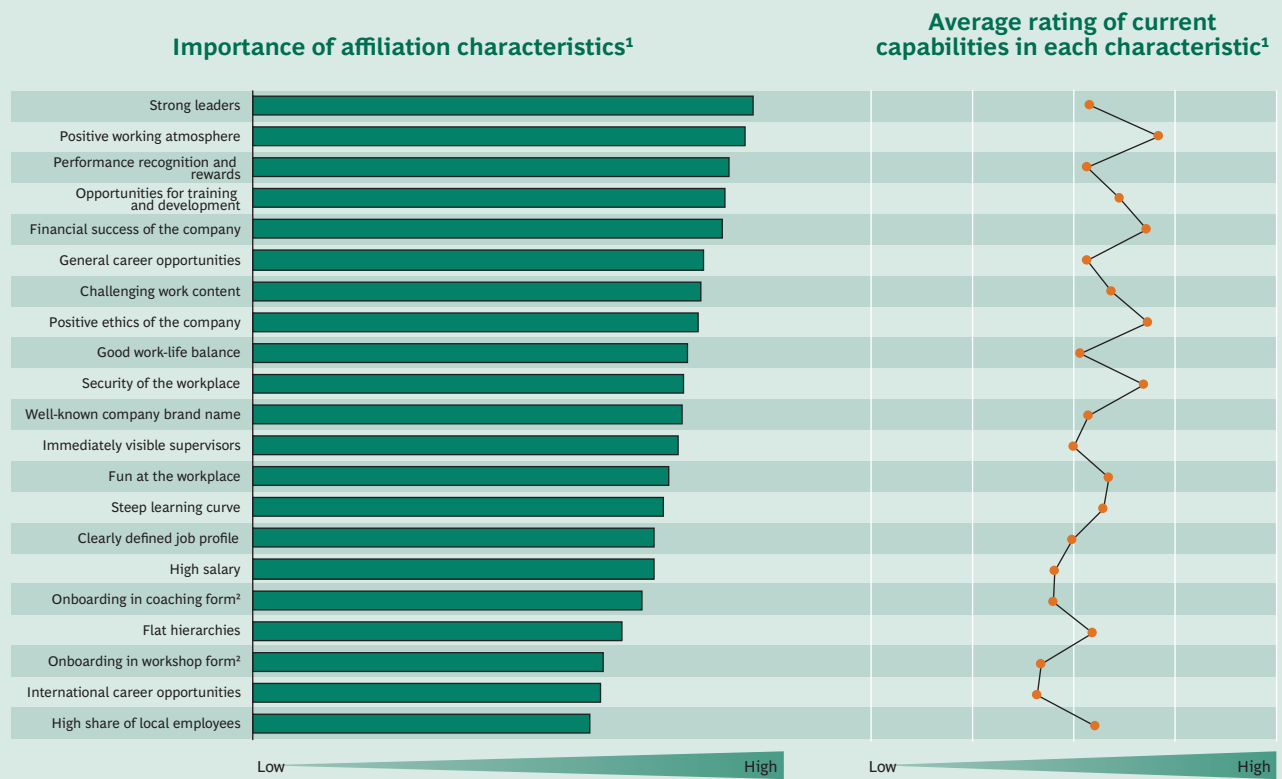
- ◇ *CHANGE*. Challenge Hunters Aiming at New Generation Excellence is an accelerated personal-development and training program for "Rockets," high-potential young employees. Its aim is to encourage worldwide mobility within the group, increase the understanding of market trends and international scenarios, promote alignment with the company's "managerial competencies model," and create better understanding of the various approaches of different operating companies through problem-solving training activities.

"With these and other programs, we make sure that top talent is engaged and motivated from the very beginning of working with us," Maglione said. "We can steadily fill the pipeline for our different management positions and don't have to take on the risk of bringing in external candidates."

Norbert Klusen, chief executive officer at Techniker Krankenkasse, Germany's leading statutory health-insurance company is especially proud of the company's employer branding and believes it is a key reason for the company's being viewed as an attractive employer. The company has an annual attrition rate of only 1.7 percent,

well below industry average. While higher attrition may bring in fresh blood, the company views low personnel turnover as an indicator of high commitment and employee satisfaction. Low turnover helps to keep the company's culture, working environment, and good reputation intact.

Exhibit 22. At Companies Deemed Successful in Affiliation, Executives Rate Many Characteristics High in Future Importance—but Their Capabilities Differ Widely



Sources: Proprietary online survey; BCG/EAPM analysis.

¹Respondents were from companies whose capabilities in affiliation were rated high.

²“Onboarding” is the process for orienting new employees and helping them become productive quickly.

Measuring People Performance

As they pursue their people strategy, companies need to ensure that they stay on course. Sailors would not venture into the sea without maps, star charts, a compass, and other instruments. Companies have similar navigational tools for plotting the effectiveness of their people strategies and their need for specific skills. But unlike sailors, companies do not often use their tools—or do not use them effectively.

In their finance departments, companies rely heavily on key performance indicators (KPIs) and other metrics to evaluate performance. But it is unusual for such yardsticks to be used to evaluate staff, HR processes, and the performance of the HR department. “The HR function suffers from a lack of measurability of its impact,” said Hugo Bague, global head of HR at Rio Tinto. “Unlike, for example, finance or, more recently, IT, HR has historically struggled to demonstrate achievement or return on investment. Unless it can show its impact, it will be viewed as a cost center.”

Using KPIs to Improve Performance

Companies have created many KPIs related to people, but they do not necessarily use them fully to improve performance. After analyzing the 846 responses to this section of the survey, we found that only half of the KPIs listed in our survey were used often. When it comes to implementing goals for KPIs or deriving concrete processes from these KPIs to improve results, companies are even more cautious. (For a best-practice example of using KPIs, see the sidebar “Improving Performance Through KPIs at Vodafone.”) Of the companies we found that did track undesired attrition, for example, only 41 percent have defined a target rate and even fewer, 39 percent, have created a process for improving on this metric. (See Exhibit 23.)

Companies do a better job of both measuring and taking action on the quantitative KPIs that are relatively easy to calculate. We found, for example, that the KPIs of em-

Improving Performance Through KPIs at Vodafone

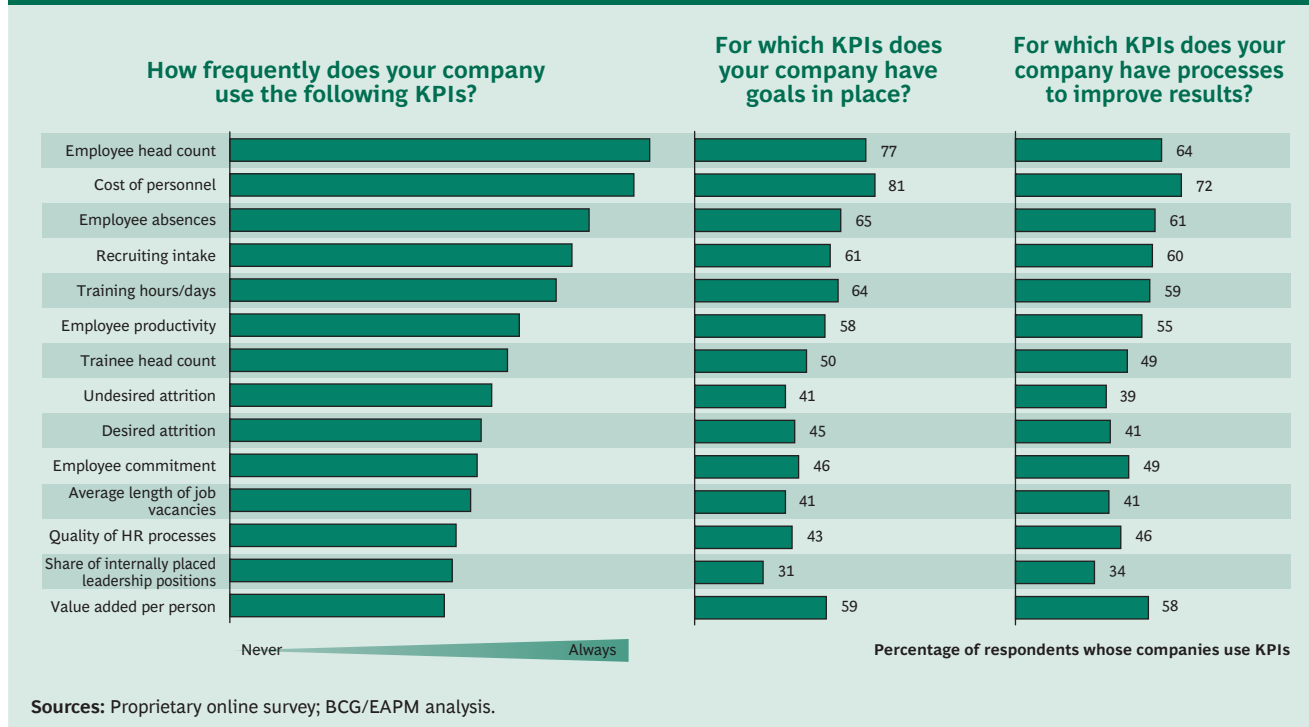
Vodafone Italia, a subsidiary of one of the world’s leading mobile-communications groups, is a strong proponent of measuring HR results and relying on its performance-management system to drive results. The operator uses several quantitative KPIs to assess the quality of the HR department in recruiting, training, talent mobility, attrition, personnel costs, service levels, and effectiveness of the performance management system.

Its performance-management system is especially critical to the company’s overall corporate success. Under the system, the performance of each employee is plotted on a

bell curve at least once a year. Armed with this information, the HR department can derive specific actions for each employee.

While training for employees to the left of the curve emphasizes fundamental skills, employees toward the right of the curve can enroll in advanced courses. Top talents identified as being “ahead of the curve” also receive quick promotions to make sure that they stay with the company. Since the start of this KPI-driven process, the operator’s attrition rate among its best performers has been significantly lower than before.

Exhibit 23. Although Several KPIs Are Widely Used, Many Companies Do Not Have Processes to Improve Results



employee head count, personnel cost, and employee absences were commonly used.

KPIs that require greater sophistication are used much less frequently. As we discussed above, executives expect that *enhancing employee commitment* will be one of their key people challenges in the future. Yet we found limited use of KPIs that cover employee commitment. (See the sidebar “Making HR a Business Partner at Commerzbank” for an example of using KPIs.)

Value added per employee is potentially the most valuable KPI because it highlights employee productivity in a way that the other measurements do not. But few companies use this KPI. Of those that do, 71 percent use only rough guides, such as revenues, as proxies for value, rather than more analytically valid metrics. (To understand BCG’s approach to this KPI, see the sidebar “Workonomics: A New Way to Calculate Profit.”)

Despite spending a considerable amount of time collecting data on people and people processes, few companies go beyond reporting their findings to board members and executives. For example, at 43 percent of the companies,

HR board members, are the main recipients of KPIs for reporting purposes, but KPIs are discussed with HR board members at only 37 percent of the companies and are tied to the compensation of HR board members in just 21 percent of the companies. (See Exhibit 24.)

Companies may want to embrace KPIs more fully because, among other reasons, new regulations that are likely to emerge in some countries will require companies to report more data in order to evaluate staff and HR processes.

Recognizing the Importance of Planning and KPIs

Companies that have successfully restructured have faced many of the same challenges that confront almost all companies today—notably, the need to maintain employee commitment in the face of adversity. KPIs have played a role in how these companies have made it through their tough times. That conclusion emerged when we compared the survey results for the companies identified by their executives as having high capabilities in restructuring with those of companies with capabilities rated low in this area.

Making HR a Business Partner at Commerzbank

Banks have a wide range of KPIs related to risk, but many do not have similar measures for their own staff, their most important assets. All companies should have both quantitative people metrics—such as value added per person or productivity measures—and qualitative yardsticks that cover such attributes as leadership and employee commitment. Finally, they should also have metrics measuring the efficiency of HR processes.

In early 2006, Commerzbank decided to improve its HR-controlling mechanisms.¹ It adopted the following core principles:

- ◇ HR controlling is a service for internal customers, not at end in itself
- ◇ HR controlling should be embedded in the organization
- ◇ Executives should have an HR cockpit that displays metrics relating to both quantitative and qualitative performance as well as HR processes and risk
- ◇ HR executives should be able to interact with business executives as partners
- ◇ All HR data should be consistent, clearly defined, and self-explanatory

On the basis of those specifications, an overall HR cockpit was developed consisting of the following dashboard components:

- ◇ The *quantitative dashboard* summarizes data relating to productivity controlling (the value added per person), personnel cost controlling, and head count controlling by branch. (See the exhibit above.)
- ◇ The *qualitative dashboard* provides a snapshot of employee commitment (based on employee surveys), employee competencies (based on staff assessments), as well as qualitative information on, for example, talent development.

An HR Cockpit Can Pinpoint Potential Problems

Business Segment 1—Region 1—Main Branch 11



Source: BCG case experience.

- ◇ The *process dashboard* outlines the efficiency of HR processes related to hiring, compensation, and training.
- ◇ The *risk dashboard* identifies lagging motivation, undesired attrition, career bottlenecks, and other potential problems. It displays key indicators and possible problem areas. Users can drill down into individual departments, examining subcomponents of each KPI.

For example, a user can click once to discover gross revenues per employee and overall employee commitment at individual branches. If one branch has excellent results in both quantitative and qualitative metrics, an opportunity to export best practices exists. Likewise, if another branch has low quantitative and qualitative scores, there might be a need for coaching, job rotation, or training. “The combination of the qualitative and the quantitative dashboards helps the HR business partner to play his role seriously,” explained Ulrich Sieber, group manager of HR at Commerzbank.

The HR cockpit is a tool that allows HR managers to create real value for other departments of the company. While it helps identify a problem, it does not offer simple solutions. Rather, it empowers HR managers to lead a fact-based discussion with business executives in order to devise specific and tailored answers.

1. *Controlling* is a European term that encompasses the annual planning and budgeting, regular performance reviews, and incentive and compensation setting that all companies perform.

Workonomics: A New Way to Calculate Profit

At many companies, personnel costs exceed capital-related costs, skewing the relevance of traditional capital-oriented performance metrics such as return on capital. With few hard assets on the books, a company can post seemingly high returns but nonetheless be struggling. Alternatively, it can post volatile returns when the underlying business is sound. Another approach, Workonomics, gives a true indication of the fundamentals of the business by shifting the focus to people rather than capital.

The standard calculation for earnings can be reformulated in a few quick steps to achieve this shift. In this reformulation, people become a source of value rather than just a cost factor.

We start with the calculation of earnings before interest and tax (EBIT):

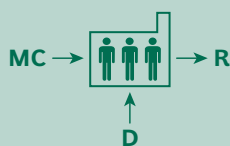
$$\begin{array}{ccccc} & \text{Revenues} & & \text{Depreciation} & \\ & | & & | & \\ \text{EBIT} & = & R & - & MC & - & D & - & PC \\ & | & & | & & | & & | & \\ & \text{Earnings} & & \text{Material} & & \text{Personnel} & & & \\ & \text{before} & & \text{costs} & & \text{costs} & & & \\ & \text{interest} & & & & & & & \\ & \text{and tax} & & & & & & & \end{array}$$

Employees are at the core of the value chain, so we want to rephrase the equation to understand the contribution per employee. We use algebra to factor in the number of people employed (P):

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

Value added per person (VAP)
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, we offer the following simple graphic:



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 revenues, employees need materials, which are represented by MC (material costs), and 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 would recognize material costs and depreciation through the equation $(R - MC - D) / P$. We refer to that term as value added per person in the second equation. Therefore, EBIT can be written as:

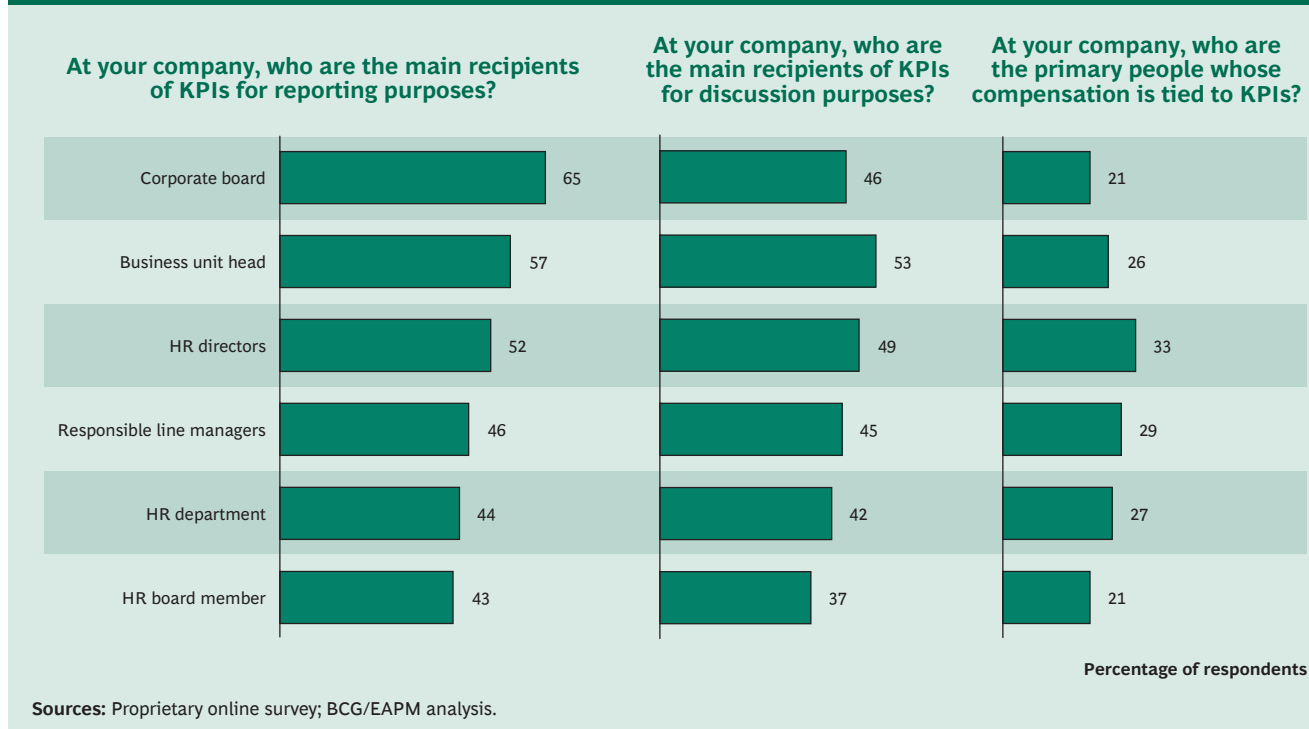
$$\text{EBIT} = (\text{VAP} - \text{ACP}) P$$

In this rephrasing, EBIT is expressed through three people-oriented metrics—the difference between the productivity and the average personnel cost per employee multiplied by the number of employees. This equation links HR controlling with the key financial metric. If a company uses a financial metric other than EBIT (such as economic profit) the equation can be readily adjusted.¹

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 controlling personnel costs and head counts. (For more about Workonomics in action, see the sidebar “Making HR a Business Partner at Commerzbank” on page 41.) These insights into people performance will enable companies to make smarter and better-balanced decisions, especially if they want to cut costs wisely in times of crisis.

1. For more information, see Felix Barber and Rainer Strack, “The Surprising Economics of a ‘People Business,’” *Harvard Business Review*, June 2005.

Exhibit 24. Companies Do Not Generally Tie KPIs to Compensation



About 54 percent of the companies whose capabilities were rated high, for example, tracked desired attrition, compared with only 24 percent of the companies deemed weak in restructuring. The so-called soft metric of employee commitment was tracked by 55 percent of the highly rated companies and 37 percent of the companies that were rated low. Across the board, companies deemed strong in restructuring used KPIs more frequently than those deemed weak. The hard work companies put into KPIs seems to pay off.

At least one other characteristic separated companies judged to have strong capabilities in restructuring from

those whose capabilities ranked low. We found that the highly rated companies gave their HR departments a larger role in tracking KPIs and in helping to set the general direction of the company. Half of the companies with strong capabilities in restructuring said that the HR department was always involved in strategic matters; that share dropped to 29 percent for the companies deemed to have weak capabilities in restructuring.

These results should be instructive for all companies. It pays to involve the HR department in corporate-planning activities and to create, use, and modify activities based on KPIs for people and people processes.



Creating Sustainable HR Practices

The role that people practices can play in creating sustainable HR practices is frequently overlooked. In 1987, a United Nations commission defined sustainability as “meeting the needs of the present without compromising the ability of future generations to meet their own needs.” While this definition originally referred to the interplay of economic development and environmental protection, it can also apply to how companies manage their need for people today and in the future and how they interact with the world.

Many companies take a long-term perspective on managing their work force and focusing on ethical behavior and corporate social responsibility, but others can be short-sighted. Consider that a leading cause of today’s financial crisis was the fact that the incentive systems at many financial institutions emphasized short-term profit over long-term growth. Those practices were unsustainable, and the global economy is paying a steep price. And the way that companies across all industries handle the fallout of the crisis—in particular, how they conduct mergers, restructurings, or plant closures—can damage their employer brand for years.

Sustainable HR practices are those that help a company survive today and thrive tomorrow. For example, *improving employer branding* is an important topic—and *managing diversity* and *managing work-life balance* are somewhat important—in countries such as Bulgaria, Germany, and the Netherlands and in industries such as insurance, media and entertainment, and retail. Across all countries and industries, it is a fact that many candidates do not apply to work at a company that they consider to be irresponsible or to have a weak employer brand.

Our survey uncovered evidence that companies that have built strong capabilities in the sustainable HR topics—*improving employer branding*, *managing diversity*, *managing work-life balance*, or *managing corporate social responsibility*—are more successful in the critical actions of sourcing, developing, and affiliating employees than are companies with weak capabilities in those topics. (See Exhibit 25.) For example, companies with strong capabilities in *managing corporate social responsibility* were deemed by their executives to be 13 percent more successful in affiliating employees and 18 percent more successful in developing them than were companies whose capabilities in the topic were perceived as being low.

Sustainability ought to be part of discussions about all major corporate initiatives. Executives should be weighing both preventive actions (for avoiding long-term damage to their company’s image) and long-term actions (for fostering and promoting sustainable behavior). “Long-term success in sustainability is truly enabled where it is integrated into leadership development,” said Heiko Hutmacher, senior vice president of HR and organization at AkzoNobel, one of the largest paint and coatings companies in the world. “Where the business agenda and personal development are aligned, a higher level of performance will be achieved.”

In practical HR terms, sustainability consists of the following three components:

- ◇ Long-term HR management that focuses on employability, diversity, work-life balance, and engagement
- ◇ Ethics that help prevent inappropriate or irresponsible behavior
- ◇ Corporate social responsibility efforts that encourage employee involvement in the greater community

Exhibit 25. Companies Whose Capabilities in Sustainable HR Topics Were Rated High Were Deemed More Successful in Employee Sourcing, Development, and Affiliation



Sources: Proprietary online survey; BCG/EAPM analysis.

Note: In our survey, respondents were asked to use a five-point scale to rate the success of their company in employee sourcing, development, and affiliation activities. Respondents from companies whose capabilities in the sustainable HR topics were rated high had higher average success scores in the three activities than did companies whose capabilities were rated low.

Long-Term HR Management

When companies take a long-term view of HR practices, they gain several benefits, among them: a better working atmosphere and a better-trained work force. Diversity, for example, not only has a positive social impact but also gives the company access to a wider pool of talent. Saint-Gobain, a building-materials company based in France, has consciously gone about increasing its percentage of female employees.

“The representation of women is still rather low due to the nature of the activities in building distribution,” said Gilles-Henri Dubouillon, vice president of HR for Saint-Gobain Building Distribution. “However, we have recently put in place voluntary policies in recruitment and career development in order to upgrade the share of women in leading positions and in our talent pools.”

Companies tackle long-term HR management in different ways.

- ◇ Irish Life & Permanent, an insurer, is currently offering employees financial incentives to take sabbaticals of two to three years. “This allows us to retain our key talented resources in the midterm,” explained Tony Hession, group head of HR and organization development.
- ◇ Veolia Environnement, a large European utility, provides training that enables employees to earn government diplomas through 12 training centers worldwide. These centers increase the company’s attractiveness and raise employees’ skill levels so that the company will be able to meet strategic objectives. Véronique Rouzaud, senior vice president of HR for the company, stresses that “this is central to the social contract that the company wants to set with its employees: to develop their internal and external employability.”
- ◇ OMV, a leading oil and gas corporation based in Vienna, has implemented a career- and succession-planning program to ensure a plentiful supply of leaders to

support its growth strategy and build employee engagement. The program, which is jointly owned by employees, line managers, and the HR department, creates career and development paths for employees. Its success is determined through several KPIs.

- ◇ A U.K. subsidiary of a French insurer has created a health center that offers free advice on nutrition, stress, exercise, and sleep and offers athletic programs at attractive rates.

When difficult decisions—such as whether or when to ask employees to take early retirement or whether or when to close a plant—arise, companies with sustainable HR practices are usually thoughtful and tactful in their approach. They are willing, for example, to wind down operations over several years in order to help communities prepare for the departure of a major employer.

Ethics

The HR department should play a strong role in establishing ethical standards and preserving corporate culture. Incentives based in the wrong standards can lead to inappropriate behavior by executives and harm the corporate image. But by closely linking review and performance processes with ethical norms, the HR department can enhance business success. These norms can be “embedded in all HR policies, procedures, and practices and reflected in employees’ behaviors,” said an HR executive from a Bulgarian company.

Although the commitment to ethical behavior needs to originate at the top of the organization, the HR department can ensure that employees have the right incentives to do the right thing. A leading European bank recently linked the size of bonuses to ethical behavior. Under the program, which uses clear and objective criteria, an employee who acts unethically risks not receiving a bonus. (See the sidebar “Making Ethics and Values Count” on page 10 of the White Paper that is enclosed with this report.)

Some companies build an ethical dimension into their overall brand. In those cases, the HR department plays an even more important role in promoting and fostering ethical behaviors and initiatives.

Corporate Social Responsibility

Over the past few years, the relevance of corporate social responsibility has surged dramatically. In many European countries, for example, social-rating agencies assess a company’s effect on society. Although this topic is not a direct responsibility of HR, HR executives can facilitate and support initiatives in *managing corporate social responsibility* as vehicles for building brand and recruiting.

- ◇ A French mobile-phone operator offers paid sabbaticals to employees who work on projects that enhance the company’s image in *managing corporate social responsibility*.
- ◇ A large French food company has established a committee for corporate social responsibility at the highest level of the organization. And one-third of the variable pay of various executives is tied to their success at implementing societal goals.
- ◇ A global drug company based in the United Kingdom, recognizes that its success depends on public trust, so it has made corporate social responsibility one of its strategic pillars. The HR department actively monitors how the company conducts research and produces, markets, and sells products. The department has created both incentive systems and training to promote responsible practices.



Pulling It Together

Executives need to recognize that the economy will eventually recover. They will live for years to come with the choices they make today. The HR department needs, therefore, to both help the organization today and ensure prosperity tomorrow. This is a daunting as well as exciting challenge.

This report highlights core HR issues and priorities and provides a suitcase of strategies and actions for HR executives and business leaders—not only during the crisis but also beyond. Although every company faces unique challenges, the case studies presented in this report offer a broad spectrum of best practices that can serve as useful guideposts.

Executives should decide which topics are most relevant to their organization and create initiatives and projects for achieving excellence in those areas. HR executives should then compare the list of the targeted planned projects with those activities currently under way at their company.

With support from top management, HR executives should decide which new initiatives and projects to introduce, which ones to change, and which to stop. It is critical that they establish clear accountabilities, milestones, and targets. While it may be tempting to focus only on short-term cost-containment projects, the best companies will also plot ways to create permanent and sustainable people advantage.

Appendix I

Profiles of Focus Countries

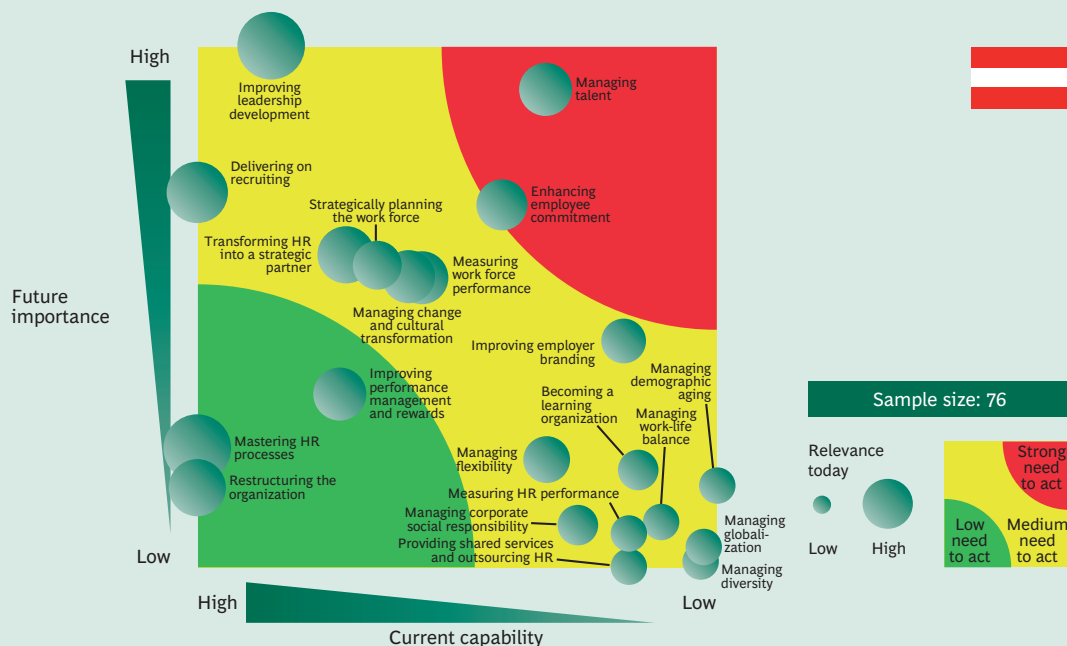
Europe is an economically diverse continent, with a wide range of industries and markets. While some HR topics, such as *managing talent*, are universally important, others vary significantly in their importance depending on local conditions.

In this appendix, we briefly profile 11 focus countries chosen to represent a broad spectrum of concerns and challenges across Europe. Appendix II contains snapshots of 14 additional European countries; Appendix III, snapshots of 15 industries.

Austria

Managing talent was the top future topic for respondents in Austria, followed by *enhancing employee commitment* and *improving employer branding*. (See Exhibit 1.) OMV, a large oil player, has successfully been *managing talent* by identifying those employees who are high performers and those who have potential. “We recruit from our ‘goldfish pool,’ the top-performing employees with excellent future potential,” said Georg Horacek, HR senior vice president.

Exhibit 1. Austrian Companies Will Focus on Managing Talent and Enhancing Employee Commitment



Sources: Proprietary online survey with responses from Austria; BCG/EAPM analysis.

Not all executives agreed that *improving employer branding* should be a key topic in this market. “The crisis has changed the work of our HR department radically,” said Georg Reiser, head of corporate HR at Voestalpine, a large steelmaker. “Topics deemed a luxury—such as employer branding—have been stopped.”

Instead, Voestalpine is focusing on programs to encourage early retirement, flexibility, and outplacement. “Saving costs has become our number-one issue,” Reiser said.

Compared with rankings by Austrian executives in 2007, *enhancing employee commitment* has moved into the red zone as a high-priority topic in the latest rankings, while several topics such as *improving performance management and rewards* as well as *managing work-life balance* have dropped from the list of top-priority challenges. Executives’ assessments of capabilities in *providing shared services and outsourcing HR* have also declined since 2007. Their assessments of capabilities in *improving leadership development*, a topic of high future importance, have risen.

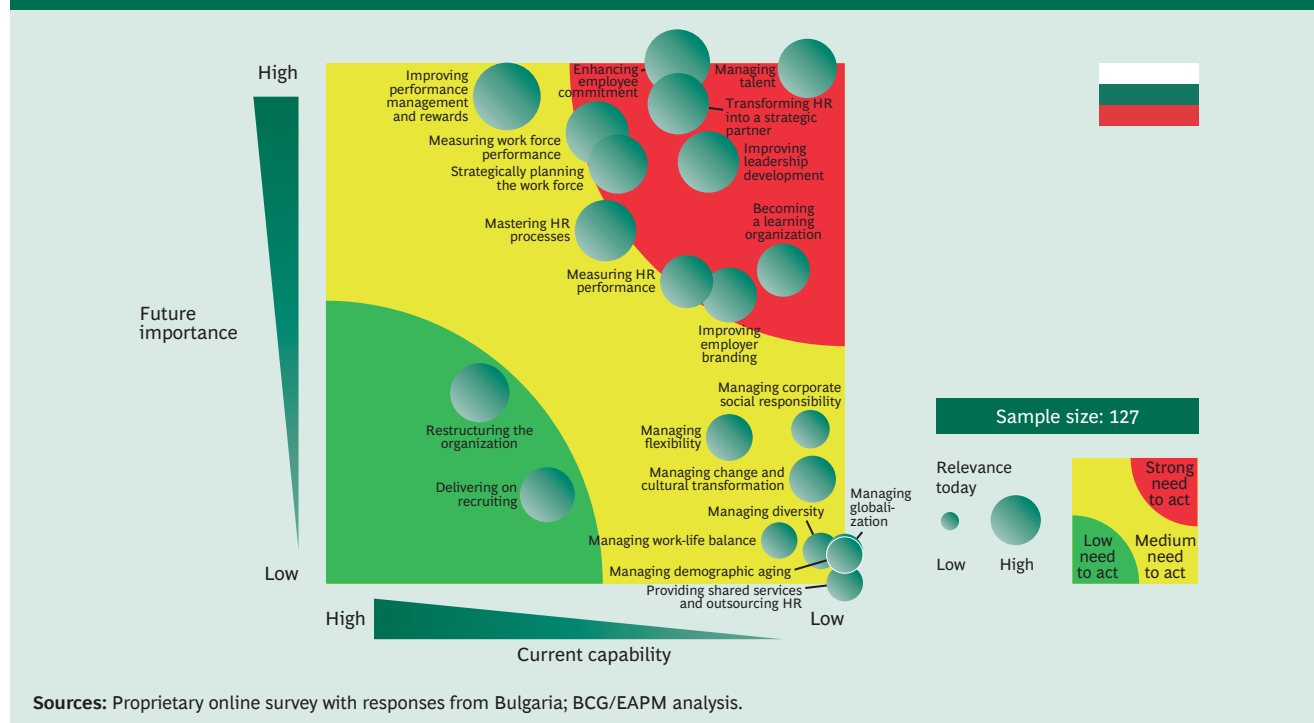
Bulgaria

Executives in Bulgaria, where the economy grew by 6 percent in 2008, rated the capabilities of their companies below the European average. They identified a full suite of high-priority topics, citing *managing talent*, *enhancing employee commitment*, *transforming HR into a strategic partner*, and *improving leadership development* as the most important. Five other topics landed in the red zone, creating a broad HR agenda in Bulgaria. (See Exhibit 2.)

Bulgaria still has a long way to go when it comes to *managing talent*. “Although we are one of the leading companies in Bulgaria, we still do not have a succession plan for our key positions,” said one senior manager from a large Bulgarian company. Another interview partner shared a similar view about *transforming HR into a strategic partner*. “HR is not well positioned compared with other departments,” she said. “We do not have an HR member on the board of directors, and we are only considered when it comes to support, not strategy.”

Enhancing employee commitment has also leaped across the chart from the green zone to the red zone since 2007.

Exhibit 2. Bulgaria Has a Full HR Agenda That Includes Managing Talent and Transforming HR into a Strategic Partner



Interestingly, in 2007, respondents rated their capabilities in *transforming HR into a strategic partner* higher than they did in our latest survey.

France

In France, the top three topics were *managing talent*, *improving leadership development*, and *measuring work force performance*. (See Exhibit 3.) This third topic has taken on added urgency in recent months. To adjust to the new environment, an HR executive of a French hotel chain said that his company is creating new KPIs that focus on levers directly influenced by employee performance rather than corporate earnings. It also decided to offer incentives quarterly rather than annually, given the current economic unpredictability.

The topics *restructuring the organization* and *delivering on recruiting* have risen in importance in France since 2007. Marie-Christine Théron, general director of HR at SFR, a telecommunications operator, said that her company tries to anticipate changes in the business environment and the need for various skills. Managers discuss these shifts with employees and their representatives

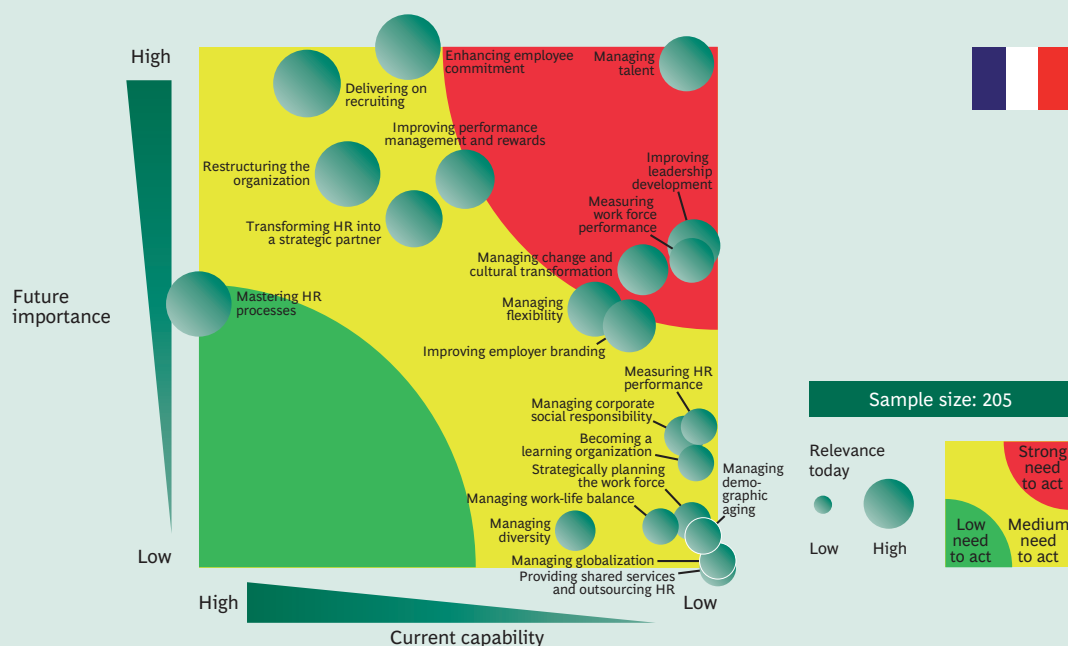
and develop training programs targeting skills needed in the future.

When it was considered one topic, *measuring HR and employee performance* landed in the red zone in 2007, but when the two topics were considered separately in our latest survey, they moved in different directions. *Measuring work force performance* remained a high-priority topic, while *measuring HR performance* dropped from the red zone.

Germany

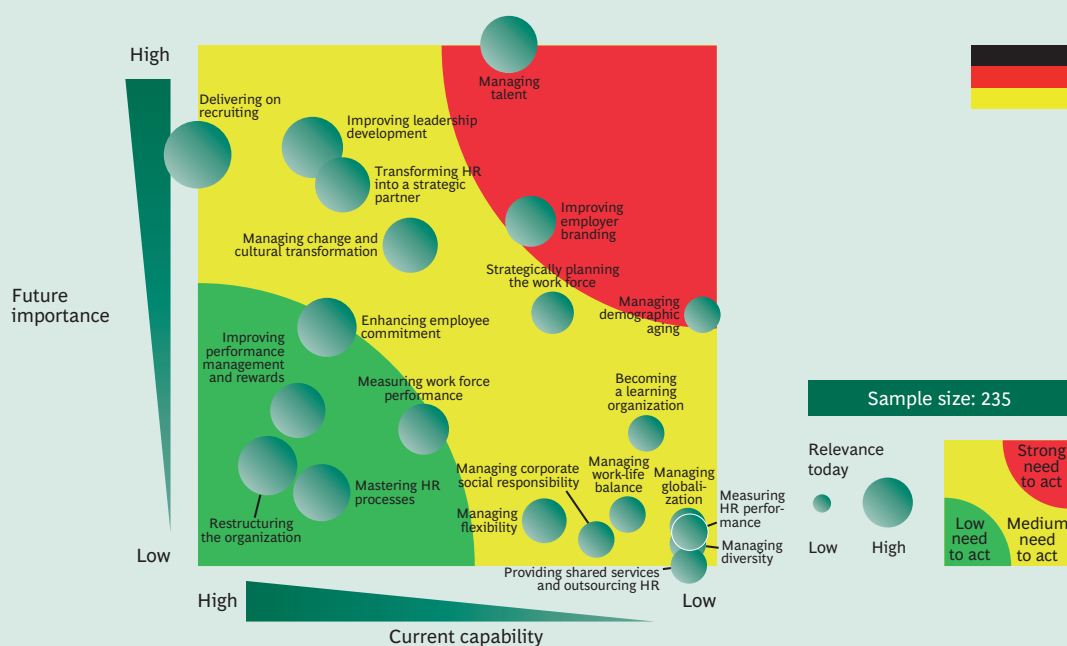
The top three topics in Germany were *managing talent*, *managing demographic aging*, and *improving employer branding*. *Strategically planning the work force* trails these topics slightly, and all four topics are interrelated. (See Exhibit 4.) Zygmunt Mierdorf, chief information officer, HR executive vice president, and member of the management board of retailer Metro, explained the importance of two of these topics: “A systematic talent-management process as well as a focus on demographic changes are the key challenges for us—especially in the retail sector.”

Exhibit 3. In France, Managing Talent, Improving Leadership Development, and Measuring Work Force Performance Ranked Highest



Sources: Proprietary online survey with responses from France; BCG/EAPM analysis.

Exhibit 4. German Respondents Will Focus on Managing Talent, Managing Demographic Aging, and Improving Employer Branding



Sources: Proprietary online survey with responses from Germany; BCG/EAPM analysis.

Most companies are aware of the demographic shifts in Germany that will reduce the size of the work force in the future. As Wolfgang Brezina, chief human resources officer and member of the management board of Allianz Deutschland, pointed out, “One of our highest priorities is to engage in strategic work force planning in order to fully understand our future work force supply and demand.”

German respondents have again rated *managing demographic aging* (a topic that was included under *managing demographics* in our previous reports) as one of their key challenges, but they did not rate it as highly as *managing talent*. *Improving employer branding*, a topic newly introduced in our latest survey, also appeared in the red zone as a high-priority topic. Companies are especially keen on mastering the topic so that they can target candidates in high demand, such as engineers.

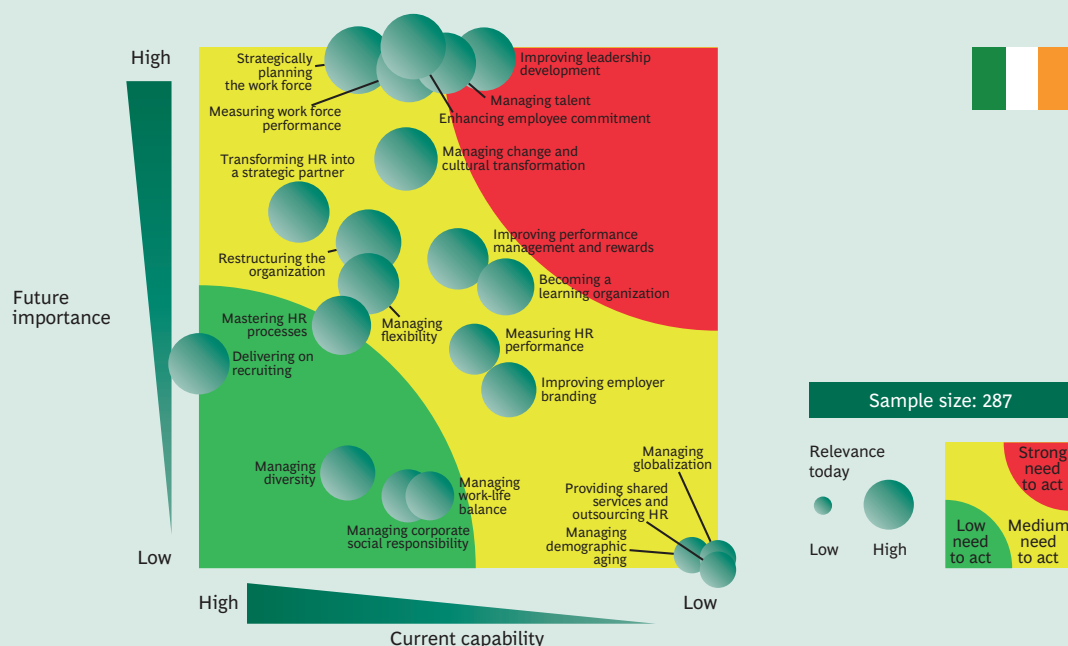
Enhancing employee commitment, a topic that was rated highly in most other countries, remained a low-priority topic in Germany, falling in the green zone in our latest survey. *Delivering on recruiting*, in the meantime, has increased in future importance since 2007.

Ireland

Compared with their peers, executives in Ireland expressed confidence in their capabilities. The main topics on their agenda were *improving leadership development*, *managing talent*, and *enhancing employee commitment*. (See Exhibit 5.) “Our success in managing difficult situations in the past, both in business and in people management, gives employees the confidence to stay with us even in challenging times,” said Jack Golden, HR director at CRH, the international building materials group. Niall Saul, HR director at McNamara Construction, explained that “the truly successful companies will be the ones that master this challenge—we will see higher attrition rates at firms that are not as successful because they tend to be slower to react to the trend and often find themselves with fewer options when they finally decide to take action.”

Still, the picture for Ireland has changed dramatically since 2007. *Managing work-life balance* has moved out of the red zone, and executives rate their current capabilities in *managing talent* significantly higher than they did before. *Improving leadership development* is now the most important topic in the country and the only topic fully in

Exhibit 5. Confident in Their Overall Capabilities, Irish Executives Will Focus on Improving Leadership Development



Sources: Proprietary online survey with responses from Ireland; BCG/EAPM analysis.

the red zone. In a time of uncertainty, people look for strong and decisive leadership. Meanwhile, the future importance of *delivering on recruiting* has dropped.

Italy

Italy's topic agenda closely resembles the agenda for Europe overall. Italian executives chose *managing talent*, *improving leadership development*, and *managing change and cultural transformation* as the top three topics. (See Exhibit 6.)

At Lavazza, a coffee producer, the focus is on hiring talent with a long-term view. "Before summer 2008, our strategy of hiring was mainly driven by our need for talent in all areas to fuel our expansion," said Enrico Meraldi, director of HR and organization. "Today, we still hire talent, but we orient new employees primarily toward the key areas for our business development."

Enel, one of the largest utilities in the world, has been dealing with significant change-management challenges. "Over the last eight years, we have moved from 64,000 to 41,000 employees in Italy, while growing abroad from 200

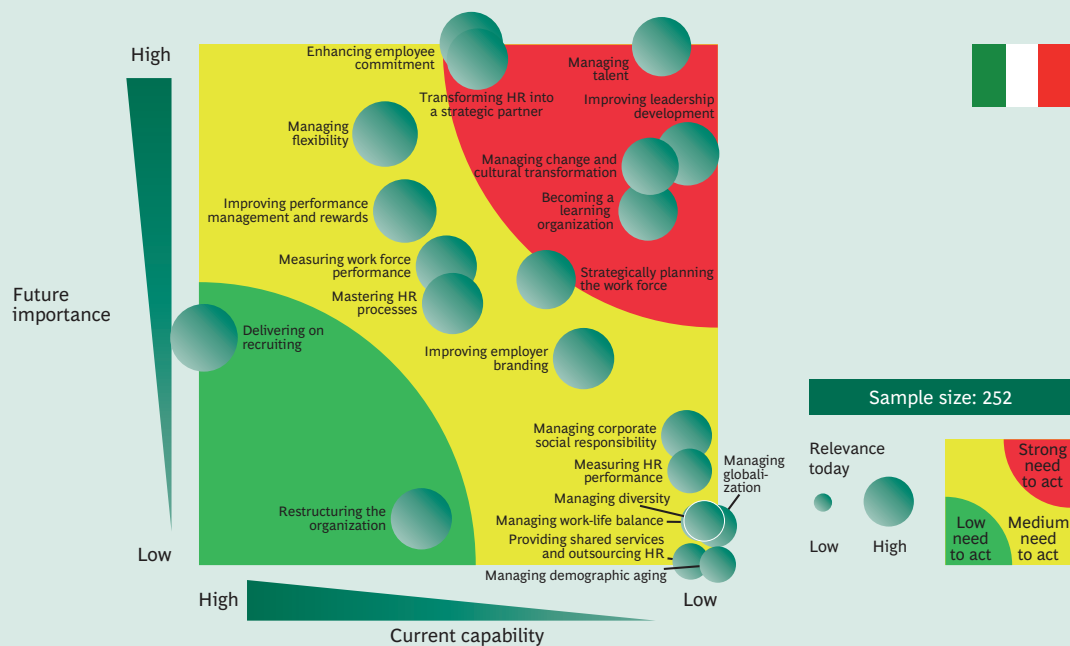
to 18,000 employees," said Massimo Cioffi, executive vice president of HR. Over the next several years, the company will need to bring on board about 20,000 new employees from the latest acquisitions.

Managing change and cultural transformation has declined slightly in future importance since 2007, but it remained in the red zone as a top priority. *Transforming HR into a strategic partner* has increased in future importance, and current capabilities have declined. *Mastering HR processes* has moved from the green into the yellow zone, becoming a topic with a medium need for action. The topic with the greatest rise in future importance since 2007 is *enhancing employee commitment*, which moved into the red zone in our latest survey.

Netherlands

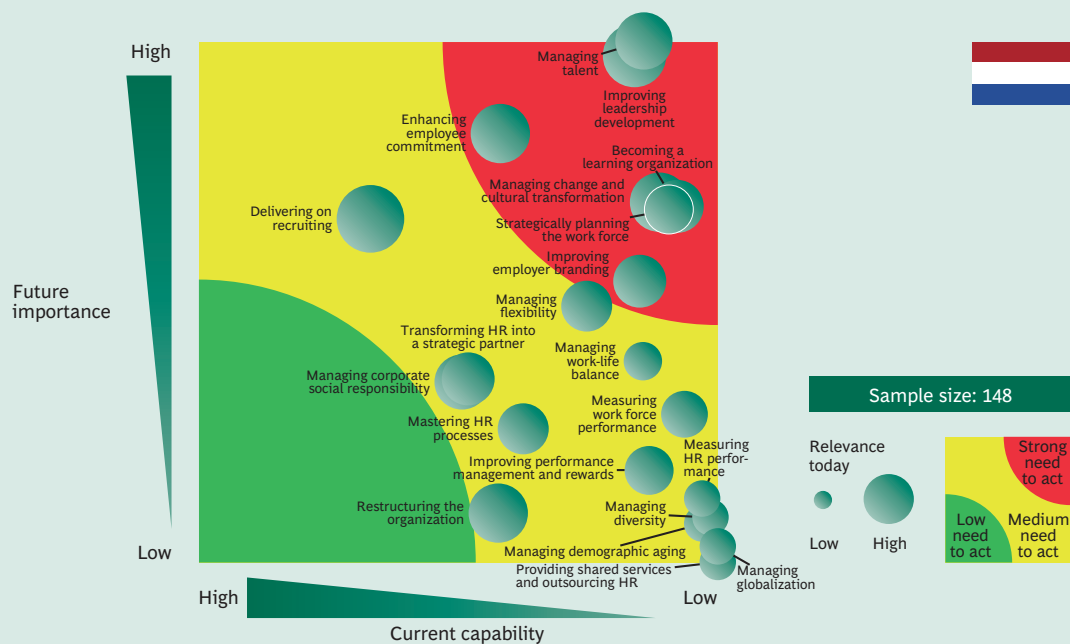
Dutch executives rated the HR capabilities of their companies—especially in *mastering HR processes*—lower than many other European respondents did. The key future issues cited in the Netherlands were *managing talent* and *improving leadership development*. (See Exhibit 7.) Hayko Kroese, the global head of HR management at Philips, said

Exhibit 6. Italian Executives Cited Several Priorities, Including Managing Change and Cultural Transformation



Sources: Proprietary online survey with responses from Italy; BCG/EAPM analysis.

Exhibit 7. Executives from the Netherlands Placed Emphasis on Managing Talent and Improving Leadership Development



Sources: Proprietary online survey with responses from the Netherlands; BCG/EAPM analysis.

that companies in the country must learn “how to reduce head count and keep employee confidence and commitment high at the same time.” He also saw the current crisis as a chance, however, for HR departments to prove their worth and become “the voice of the company.”

Managing corporate social responsibility is one of the few topics for which executives in the Netherlands ranked their companies’ capabilities more highly than did executives in the rest of Europe, on average. At KLM Royal Dutch Airlines, now part of Air France-KLM, corporate social responsibility ranks high on the CEO’s agenda, according to Wim Kooijman, executive vice president of HR and industrial relations. “HR is one of the catalysts; corporate social responsibility is never an issue for one department alone,” he explained. The HR department manages initiatives related to employability, health, and charity. KLM is supporting a venture to fight AIDS in Africa.

Norway

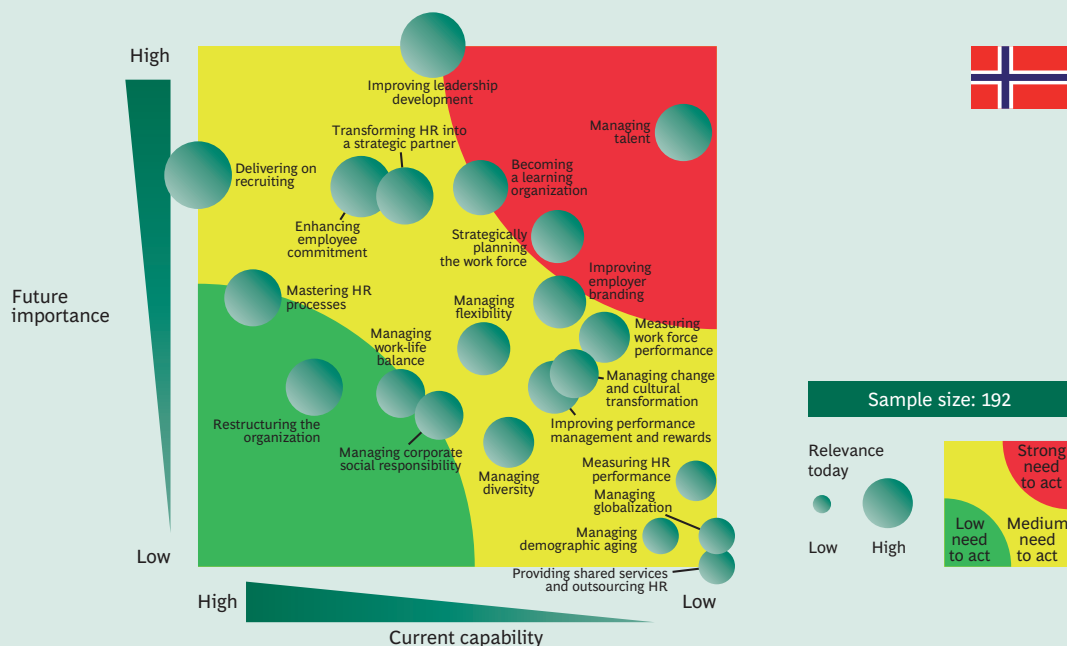
Four topics ranked high on the HR agenda in Norway: *managing talent*, *strategically planning the work force*, *becoming a learning organization*, and *improving leadership development*.

oment. (See Exhibit 8.) StatoilHydro, the international oil and gas company headquartered in Norway and one of the largest companies in Europe, highlights the importance of strategic work force planning and a focus on competence development. “We need to make sure our work force has the right competencies and capacity within each business area to match our strategy, both in the short and long term,” said Jens Jenssen, senior vice president of HR.

Schibsted, a media conglomerate, has been affected by the downturn both in media properties and in the economy. Nevertheless, the company is trying to hold on to talent. “We need to make sure to keep our talent processes and recruiting at a world-class level,” said Cathrine Foss Stene, senior vice president of HR.

Norwegian executives view the topics *strategically planning the work force* and *managing demographic aging* very differently. While the former topic landed in the red zone as a top priority, *managing demographic aging* fell in the lower-right corner of the chart, in the yellow zone. *Managing talent* and *improving leadership development* remained significant challenges, while Norwegian respondents ranked their companies’ capabilities in *transform-*

Exhibit 8. In Norway, Managing Talent, Strategically Planning the Work Force, and Becoming a Learning Organization Emerged as the Top HR Challenges



Sources: Proprietary online survey with responses from Norway; BCG/EAPM analysis.

ing HR into a strategic partner higher in our latest survey than they did in 2007.

Russia

The most important topics in Russia are *enhancing employee commitment, improving performance management and rewards, and improving employer branding*. (See Exhibit 9.) “Companies need to make sure to communicate strongly and strategically with their employees,” said Dmitry Volokhov, HR director at Gazprom Neft, an energy company. From our interviews, we learned that executives are concerned that many companies are neglecting *improving employer branding* as they scramble to save costs—a decision that may have negative effects down the road.

Some companies, such as Citibank, are revising their performance-management systems in light of the recession. “Especially in an environment of change, it is important to set a clear strategy for where we are going as a business. Focusing on the short term but planning for the long term is also indispensable. By establishing clear goals and development plans as the basis for managing this performance, people also understand how they can

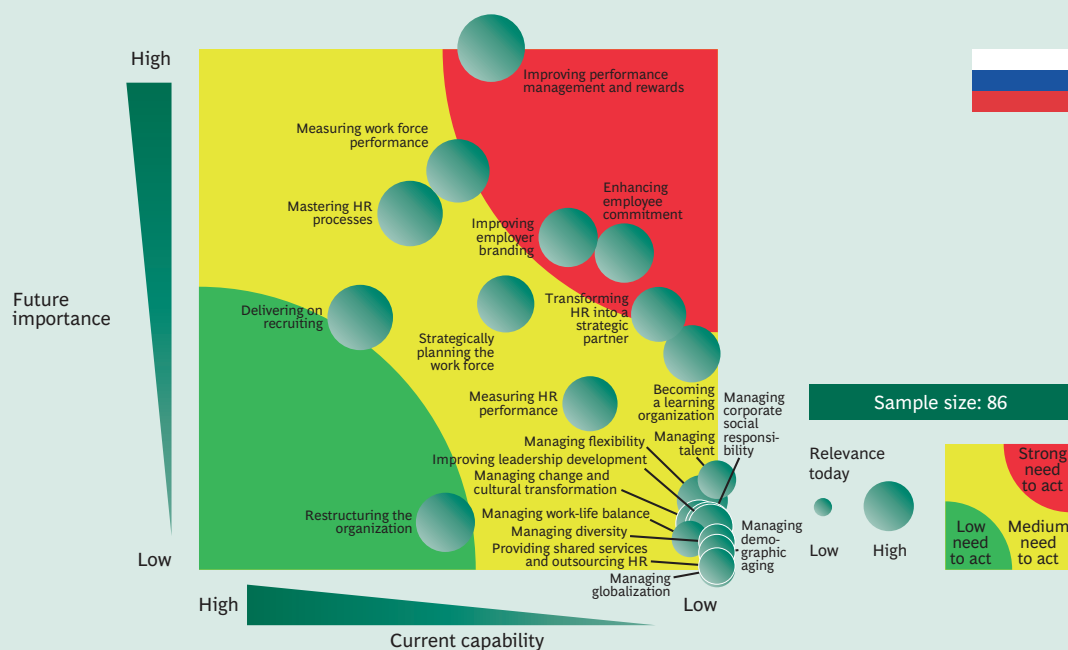
grow with the organization both personally and professionally,” said Anouk De Bleeck, HR Director of Russia and CIS at Citibank.

The survey results for Russia have changed substantially since 2007, when *managing corporate social responsibility* and *managing talent* were the most important topics. These topics have fallen in future importance, while both *improving performance management and rewards* and *transforming HR into a strategic partner* have moved into the red zone as top HR challenges. As in many other countries, *enhancing employee commitment* has moved from the green into the red zone since 2007.

Spain

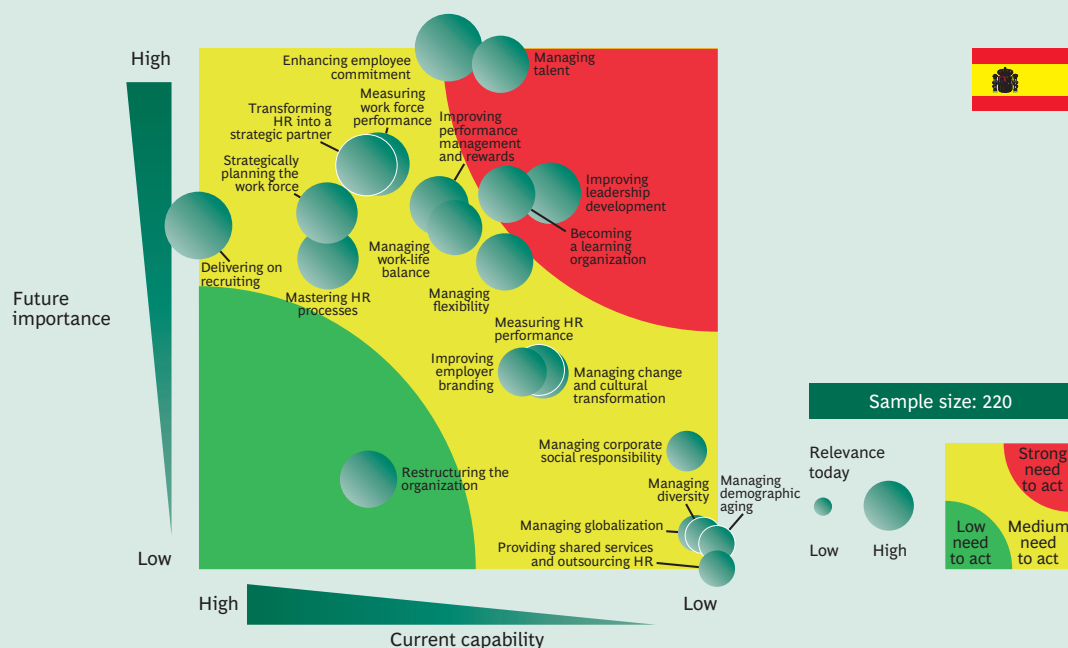
Spanish respondents chose *managing talent, improving leadership development, enhancing employee commitment, and becoming a learning organization* as their most pressing topics. (See Exhibit 10.) At mobile telecommunications operator Telefónica Móviles España, “the key challenge in talent management is anticipating exactly what type of capabilities we are going to need,” said José Buqueras, the company’s head of HR planning. “We all see

Exhibit 9. Russian Executives Expressed Concern About Enhancing Employee Commitment, Improving Performance Management and Rewards, and Improving Employer Branding



Sources: Proprietary online survey with responses from Russia; BCG/EAPM analysis.

Exhibit 10. In Spain, Enhancing Employee Commitment and Becoming a Learning Organization Rank Among Key Topics



Sources: Proprietary online survey with responses from Spain; BCG/EAPM analysis.

change coming, but accurately defining the required profiles is often a difficult task.” For Valeriano Torres, HR director at energy company Gas Natural, the problem also touches on *improving employer branding*; he explained, “Attracting talent in the oil and gas sector is a key challenge, as there are big differences between what companies offer and the demands of graduates.”

Compared with the 2007 rankings, *managing diversity* has dropped sharply out of the red zone in Spain and is no longer a top HR priority. *Managing talent*, *enhancing employee commitment*, and *becoming a learning organization* remain important future challenges. They have been joined by *improving leadership development*, even though our previous survey showed that executives perceived their companies to be highly capable in this topic in 2007.

United Kingdom

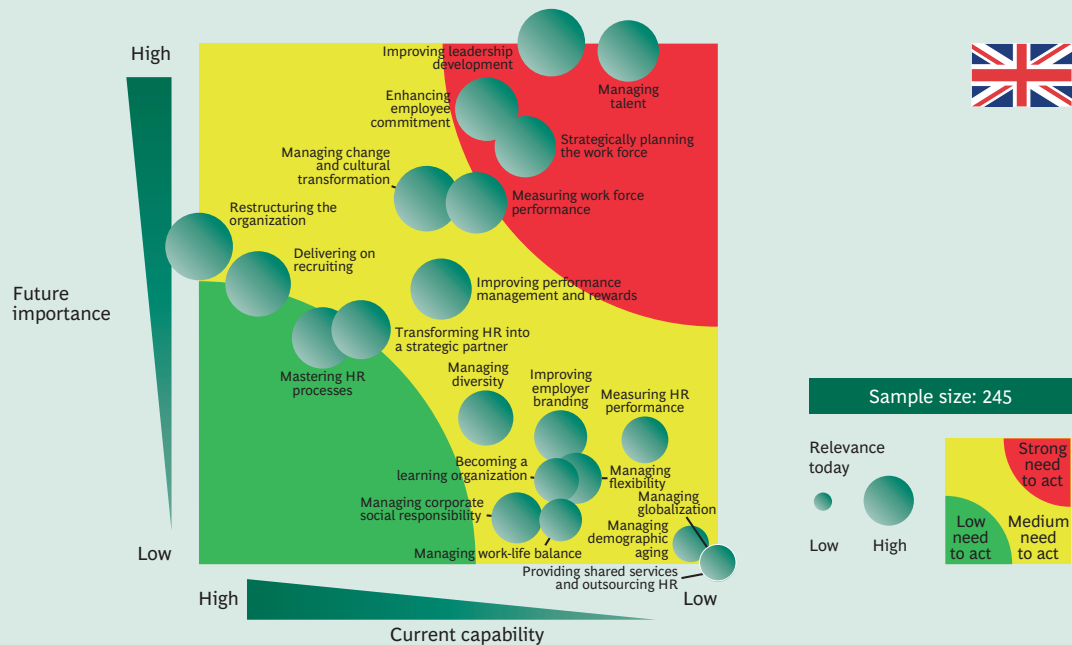
Respondents from the United Kingdom chose four key future topics: *managing talent*, *improving leadership development*, *strategically planning the work force*, and *enhancing employee commitment*. (See Exhibit 11.) Explained the HR director at a pharmaceutical company based in the Unit-

ed Kingdom, “In a diverse environment, the HR function needs to have an eye on the future. We should maintain a focus on succession planning, talent management, and leadership capabilities.”

Despite the short-term challenges posed by the recession, a number of companies are also actively maintaining a longer-term focus. At Rio Tinto, a mining company, while the majority of the HR team focuses on tackling the business challenges at hand, a small team focuses on longer-term issues that otherwise might be pushed aside, according to Hugo Bague, global head of HR.

In 2007, only *managing talent* and *improving leadership development* appeared in the red zone as top priorities in the United Kingdom. In our latest survey, they have been joined by *strategically planning the work force*, *enhancing employee commitment*, and *measuring work force performance*. *Enhancing employee commitment*, in particular, has risen in future importance and fallen slightly in current capabilities since 2007.

Exhibit 11. The Top Four Issues for U.K. Executives Are Managing Talent, Improving Leadership Development, Strategically Planning the Work Force, and Enhancing Employee Commitment



Sources: Proprietary online survey with responses from the United Kingdom; BCG/EAPM analysis.

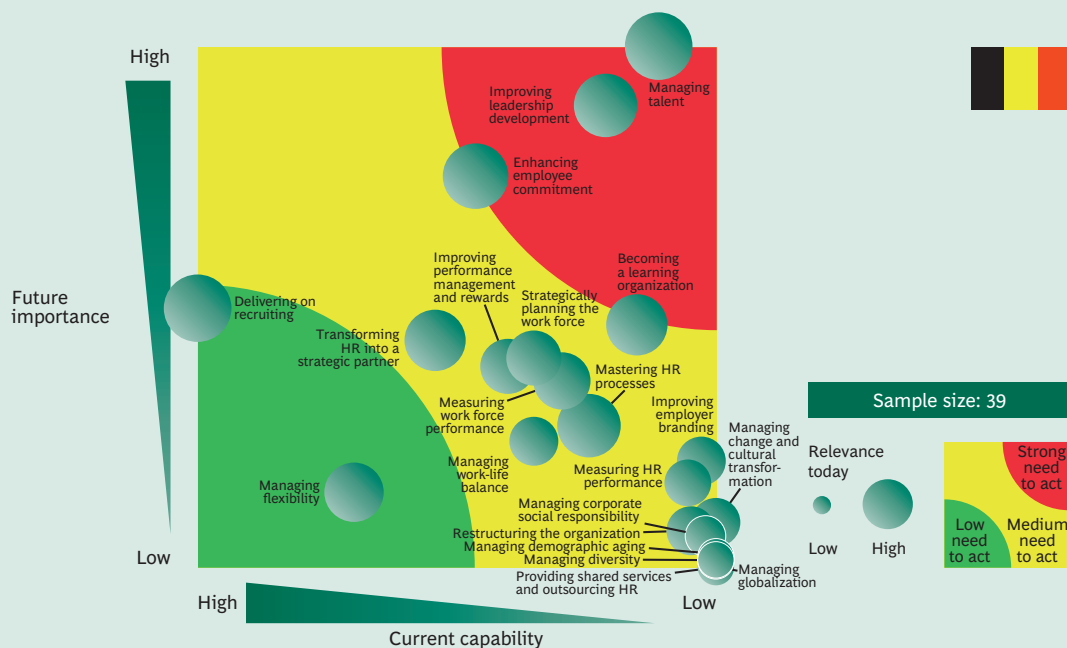
Appendix II

Snapshots of Additional Countries

In addition to highlighting the focus countries, BCG and EAPM compiled specific data for all the countries participating in the survey. In the exhibits in this appendix, we provide a snapshot of the results—and the

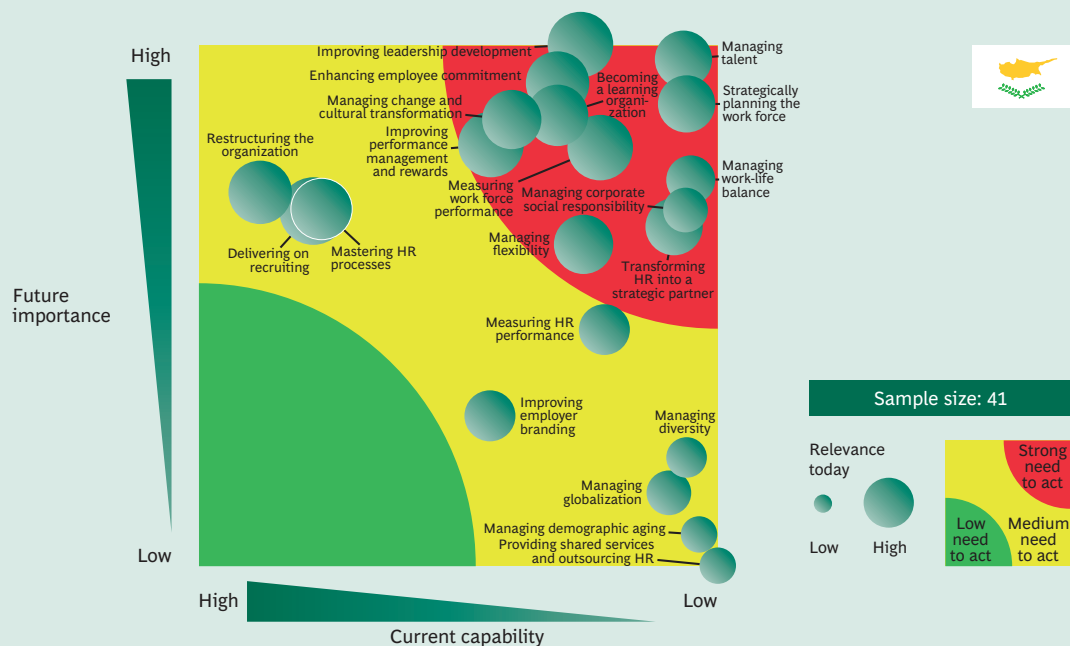
emerging agenda for creating people advantage—for each of the 14 countries that were represented by more than 30 respondents.

Exhibit 1. In Belgium, Managing Talent, Improving Leadership Development, and Enhancing Employee Commitment Ranked as the Most Critical Topics



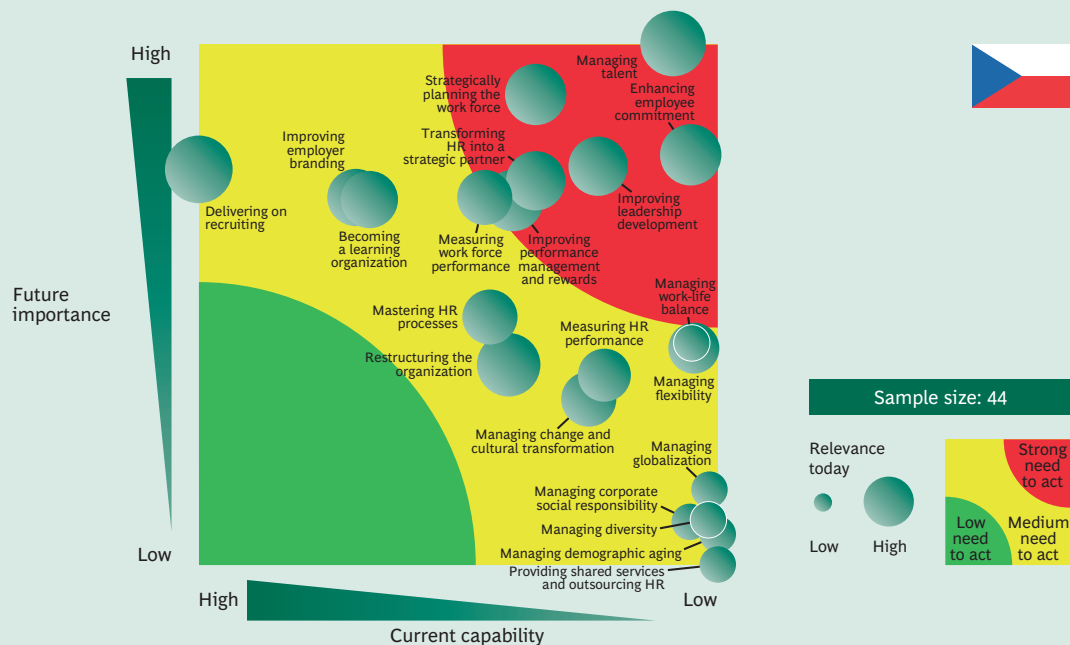
Sources: Proprietary online survey with responses from Belgium; BCG/EAPM analysis.

Exhibit 2. Executives in Cyprus Identified a Full Complement of Challenges



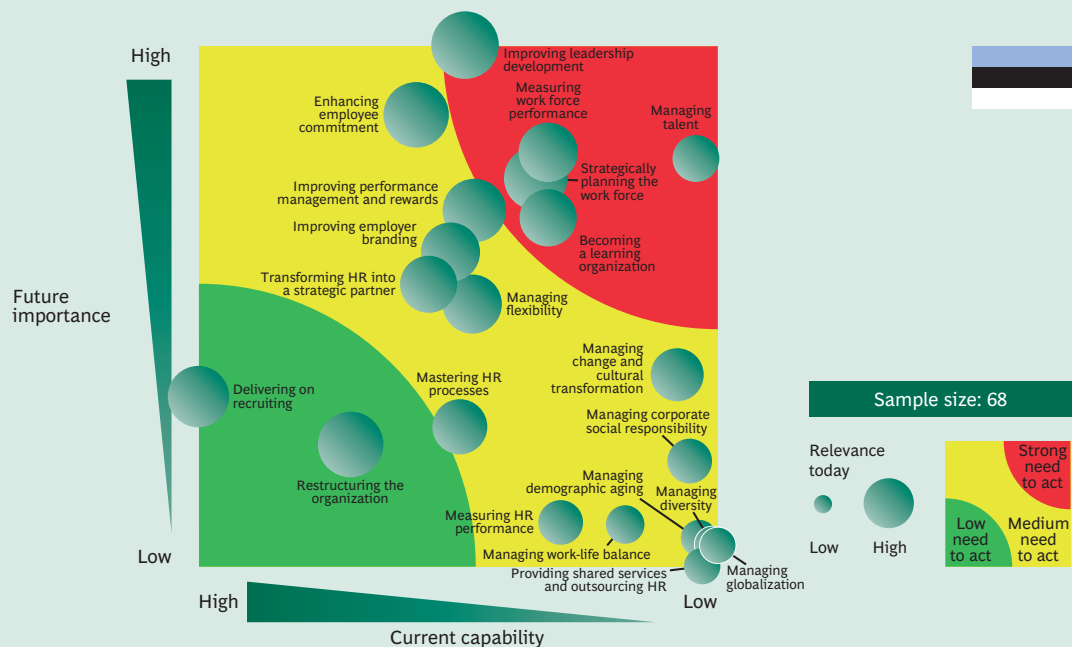
Sources: Proprietary online survey with responses from Cyprus; BCG/EAPM analysis.

Exhibit 3. In the Czech Republic, Priorities Include Enhancing Employee Commitment and Transforming HR into a Strategic Partner



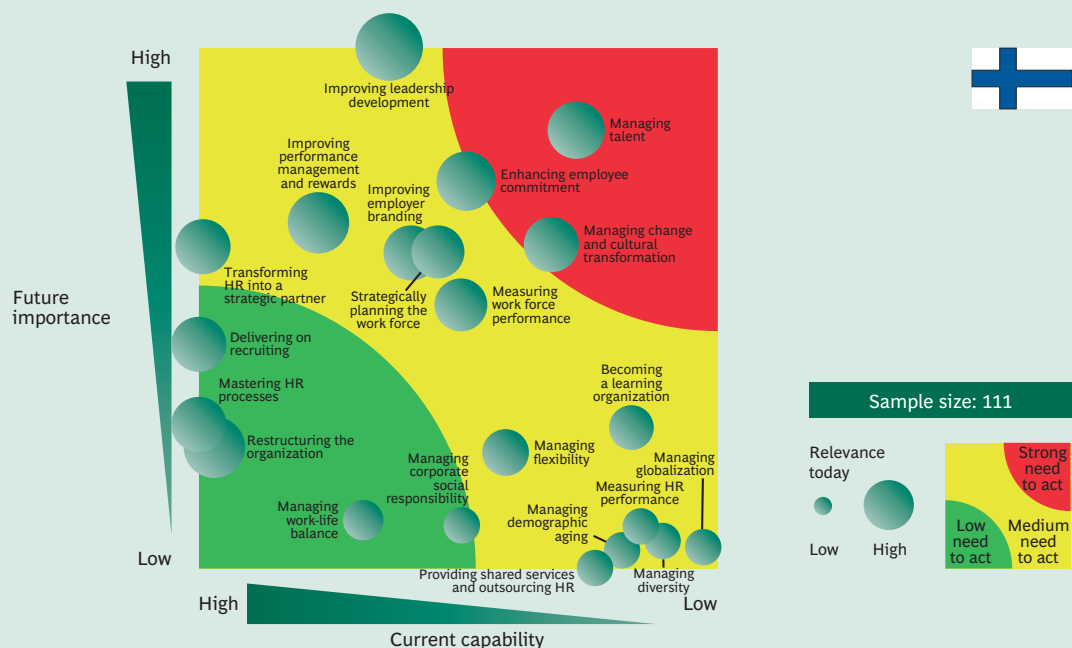
Sources: Proprietary online survey with responses from the Czech Republic; BCG/EAPM analysis.

Exhibit 4. Five Topics Emerged as the Most Critical in Estonia



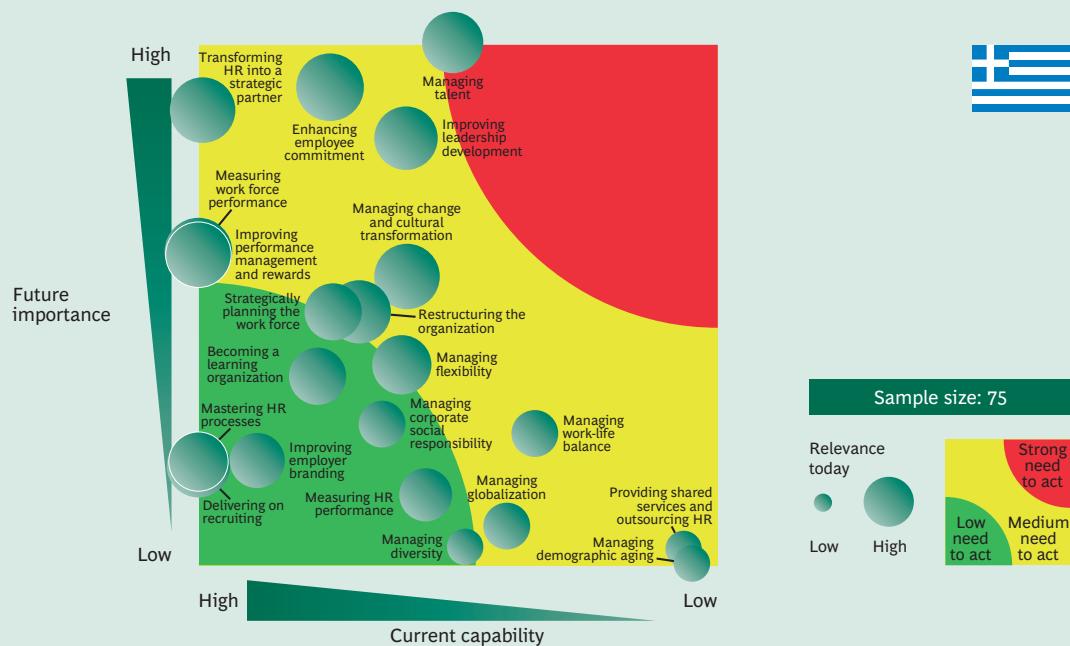
Sources: Proprietary online survey with responses from Estonia; BCG/EAPM analysis.

Exhibit 5. Finnish Executives Will Invest in Managing Talent, Change, and Cultural Transformation



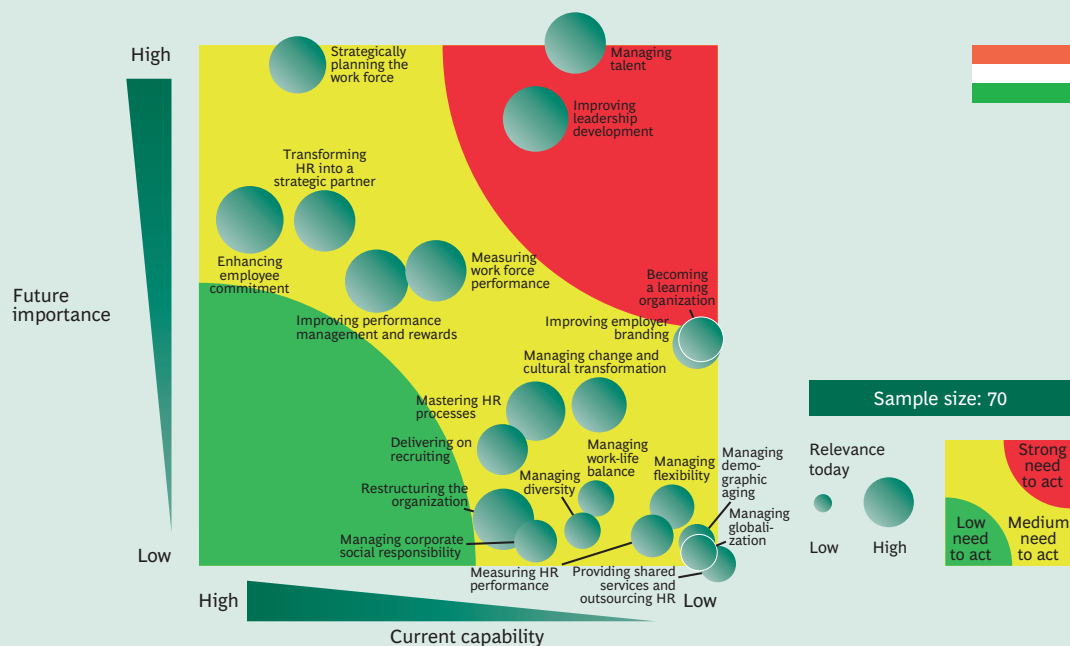
Sources: Proprietary online survey with responses from Finland; BCG/EAPM analysis.

Exhibit 6. Managing Talent Is the Primary HR Challenge in Greece



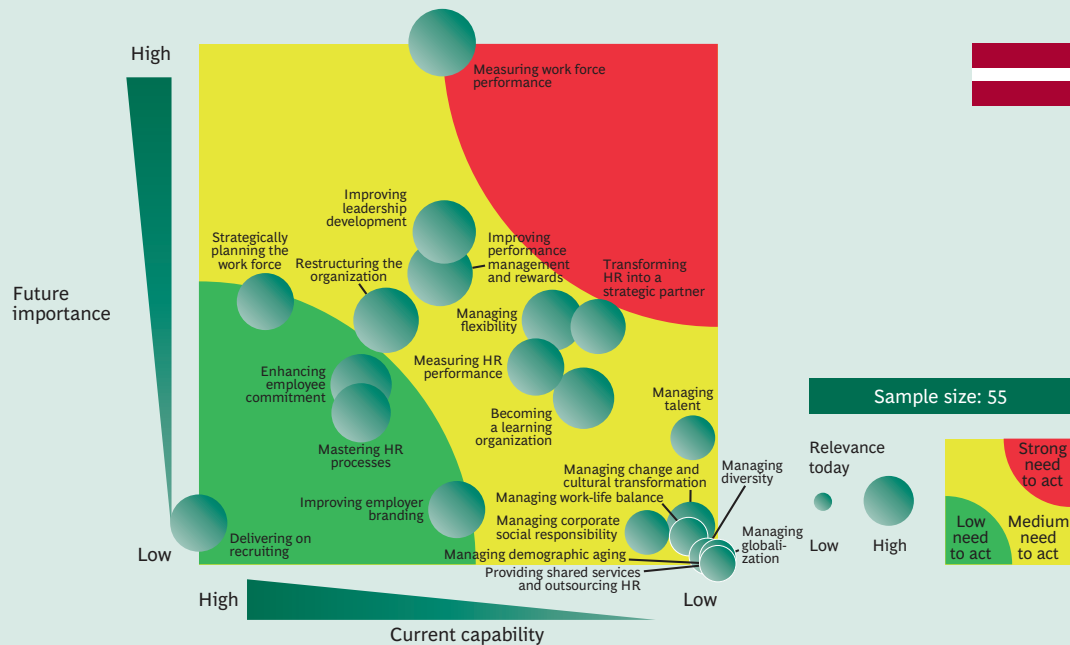
Sources: Proprietary online survey with responses from Greece; BCG/EAPM analysis.

Exhibit 7. In Hungary, Capabilities Must Be Enhanced in Managing Talent and Improving Leadership Development



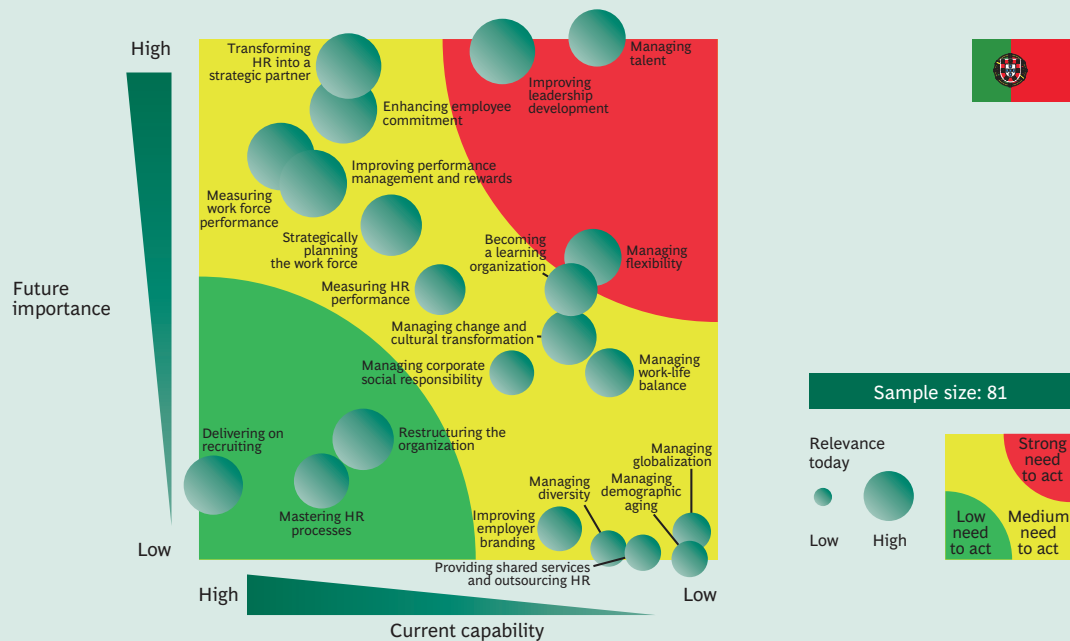
Sources: Proprietary online survey with responses from Hungary; BCG/EAPM analysis.

Exhibit 8. Latvian Executives Cited Measuring Work Force Performance as Their Main Concern



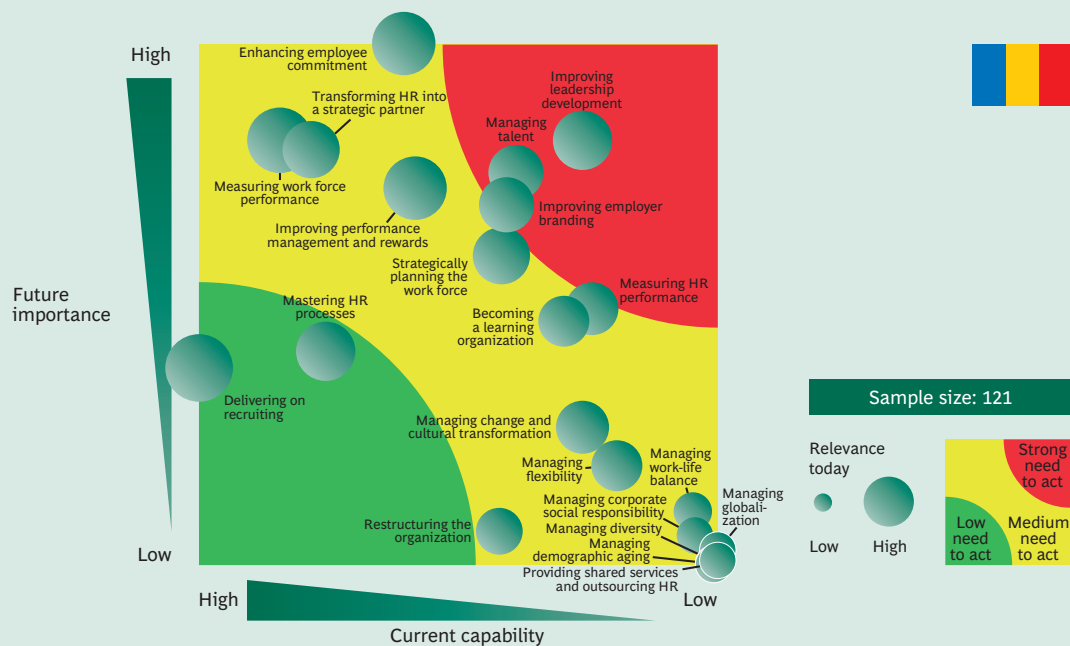
Sources: Proprietary online survey with responses from Latvia; BCG/EAPM analysis.

Exhibit 9. In Portugal, Executives Will Focus on Managing Talent, Improving Leadership Development, and Managing Flexibility



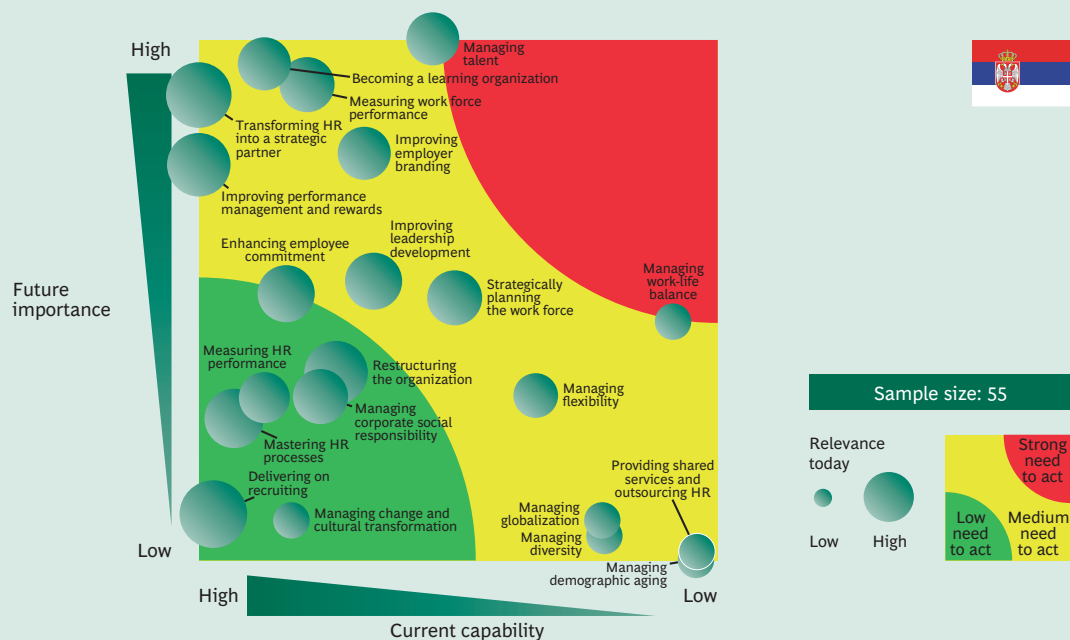
Sources: Proprietary online survey with responses from Portugal; BCG/EAPM analysis.

Exhibit 10. Improving Leadership Development Is the Most Critical Topic in Romania



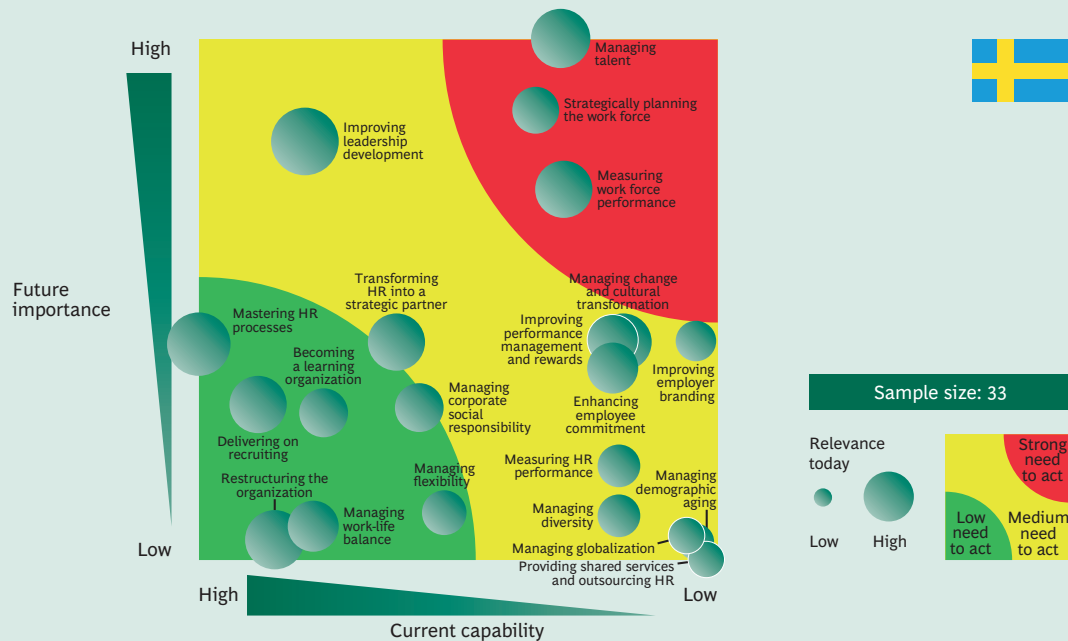
Sources: Proprietary online survey with responses from Romania; BCG/EAPM analysis.

Exhibit 11. Executives in Serbia Expressed Confidence in Their Capabilities Overall and an Interest in Better Managing Work-Life Balance and Talent



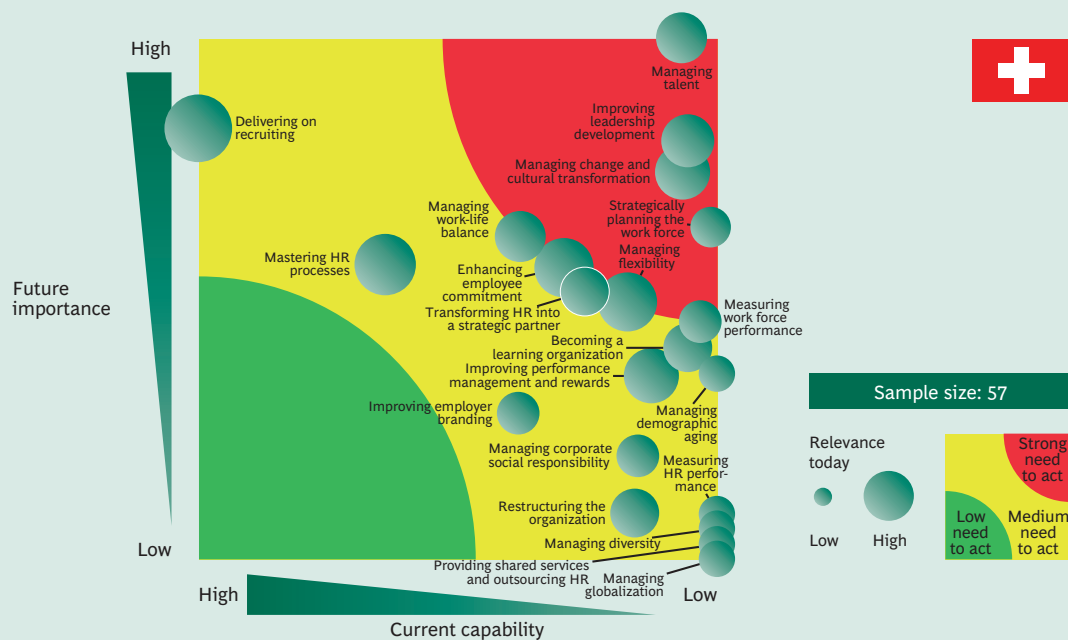
Sources: Proprietary online survey with responses from Serbia; BCG/EAPM analysis.

Exhibit 12. The Top Challenges in Sweden Are Managing Talent, Strategically Planning the Work Force, and Measuring Work Force Performance



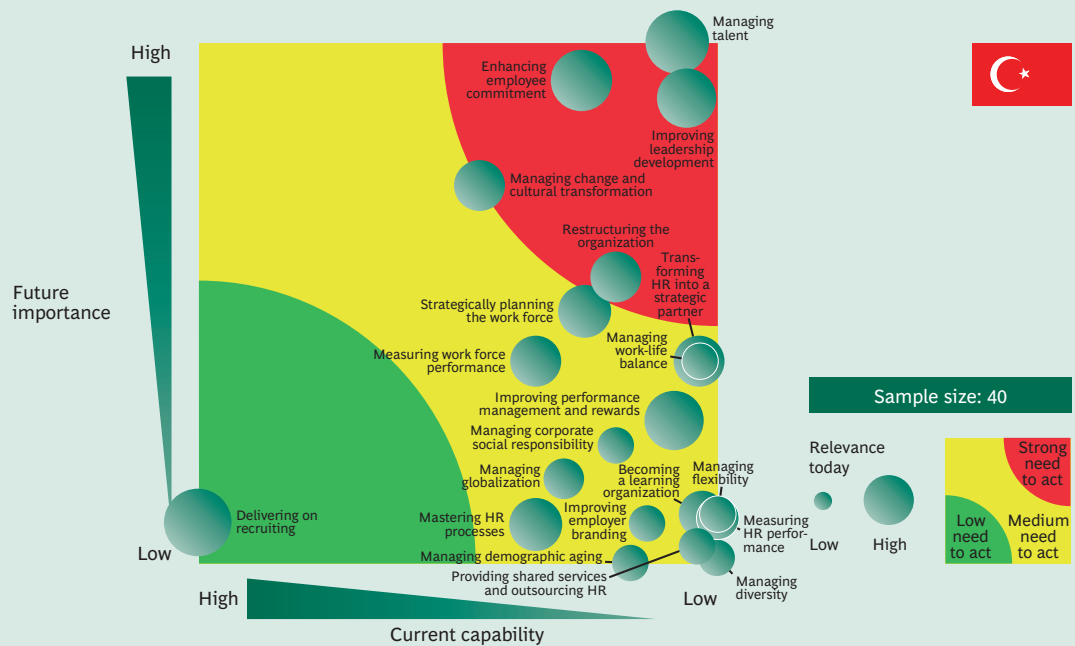
Sources: Proprietary online survey with responses from Sweden; BCG/EAPM analysis.

Exhibit 13. In Switzerland, Managing Talent, Improving Leadership Development, and Managing Change and Cultural Transformation Are Most Critical



Sources: Proprietary online survey with responses from Switzerland; BCG/EAPM analysis.

Exhibit 14. Restructuring the Organization Ranked Among the Critical Topics in Turkey



Sources: Proprietary online survey with responses from Turkey; BCG/EAPM analysis.

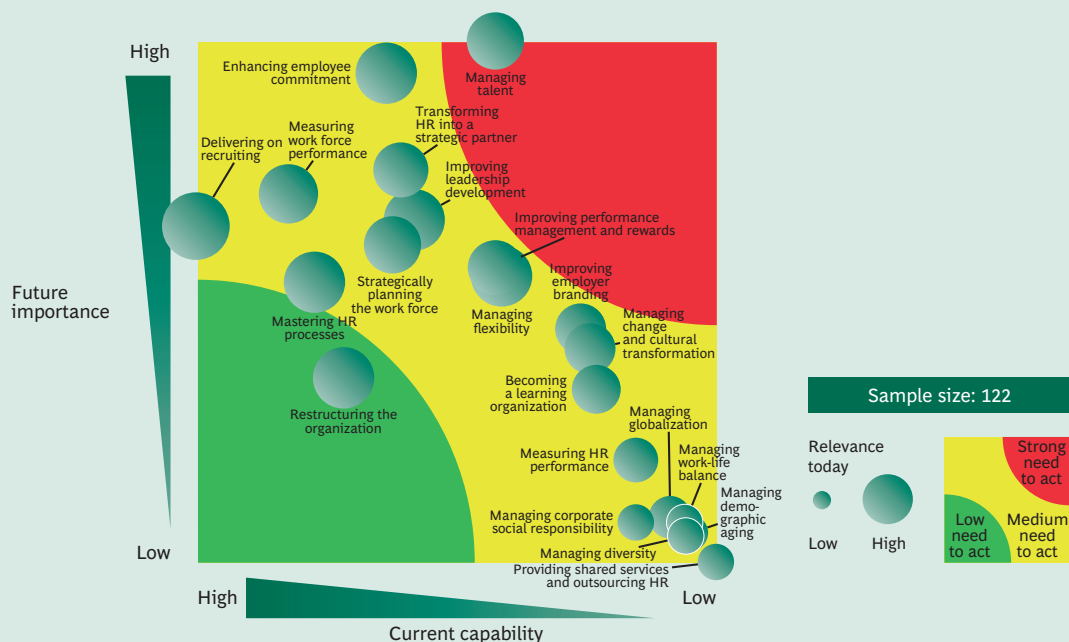
Appendix III

Snapshots of Industries

BCG and EAPM compiled data analyzing the people advantage agenda in various industries in order to understand whether future HR challenges were more prevalent in certain industries. The exhibits in this appendix provide a snapshot of the results for the 15 industries

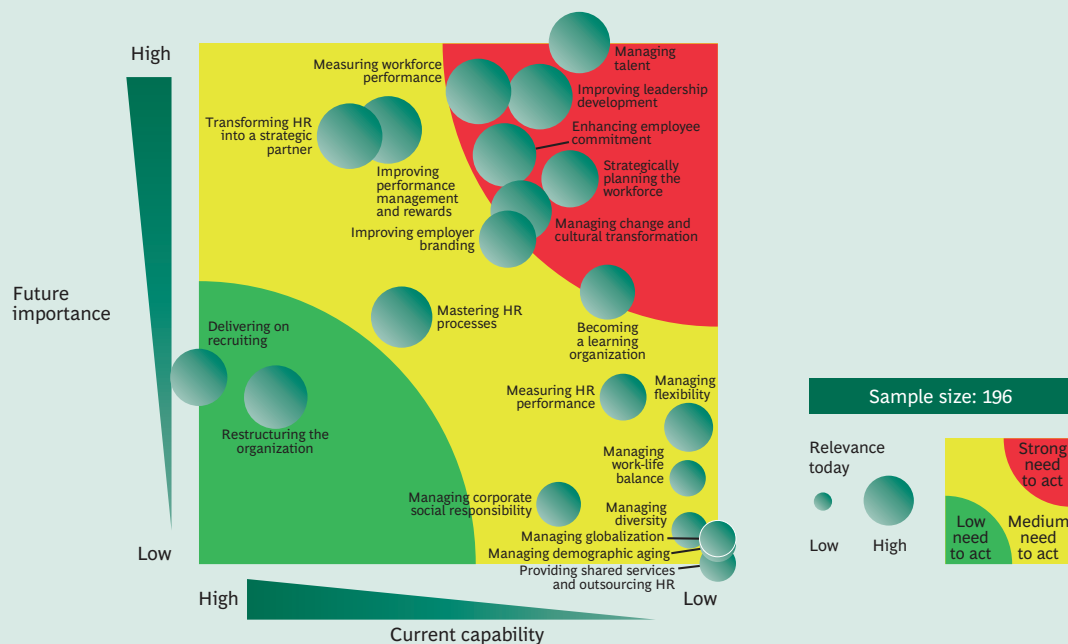
that were represented by the highest percentage of respondents to the online survey. The industries range from services, represented by about 23 percent of the respondents, to media and entertainment, represented by about 2 percent.

Exhibit 1. Automotive Executives Will Focus Their Efforts on Managing Talent



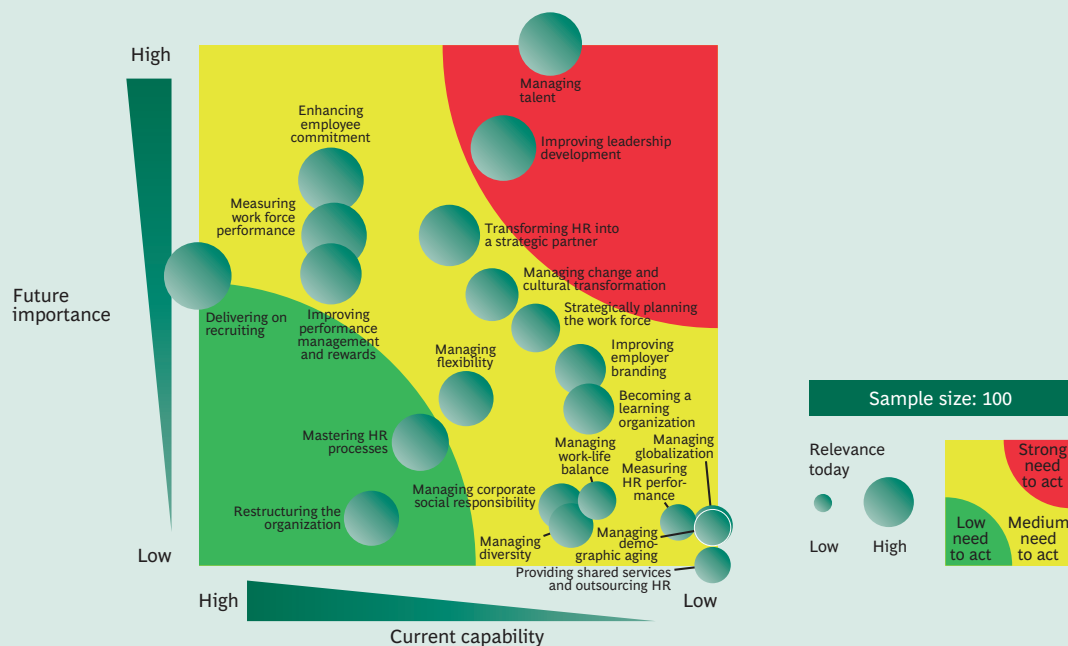
Sources: Proprietary online survey with responses from the automotive industry; BCG/EAPM analysis.

Exhibit 2. Banking Executives Will Need to Take Steps in Eight Topics



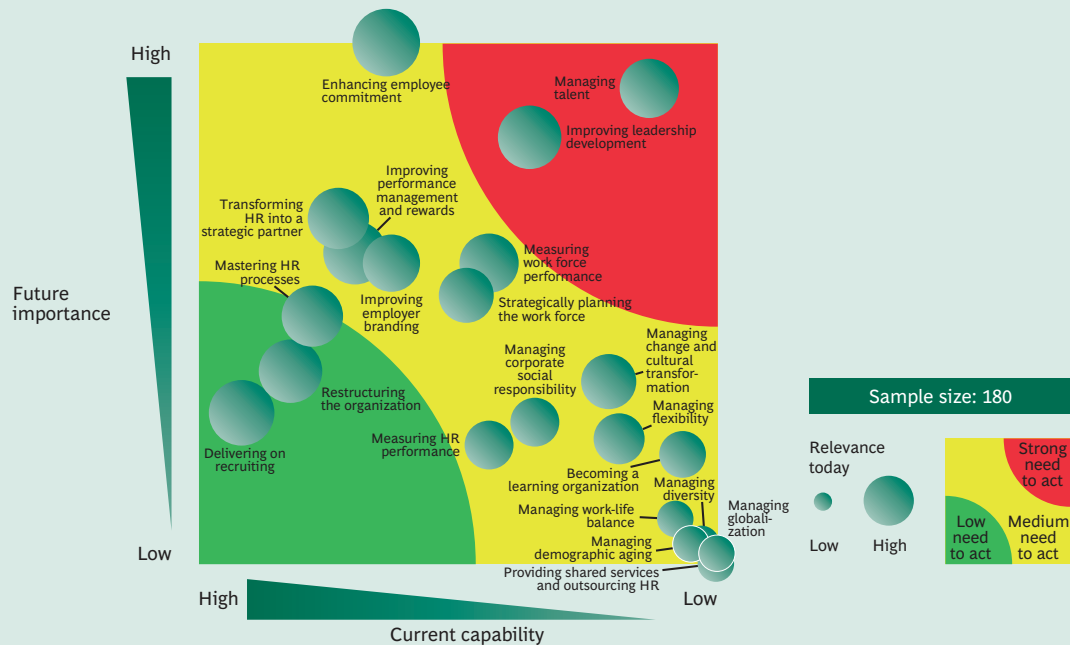
Sources: Proprietary online survey with responses from the banking industry; BCG/EAPM analysis.

Exhibit 3. Chemical Companies Will Focus on Managing Talent and Improving Leadership Development



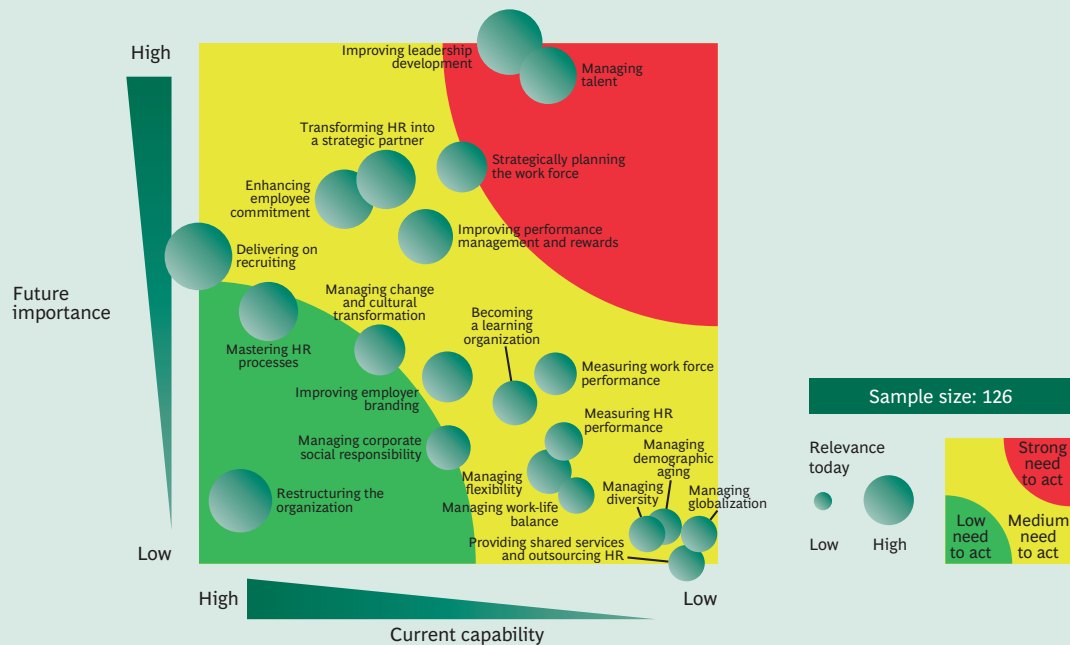
Sources: Proprietary online survey with responses from the chemical industry; BCG/EAPM analysis.

Exhibit 4. In Consumer Goods, Managing Talent and Improving Leadership Development Take Precedence



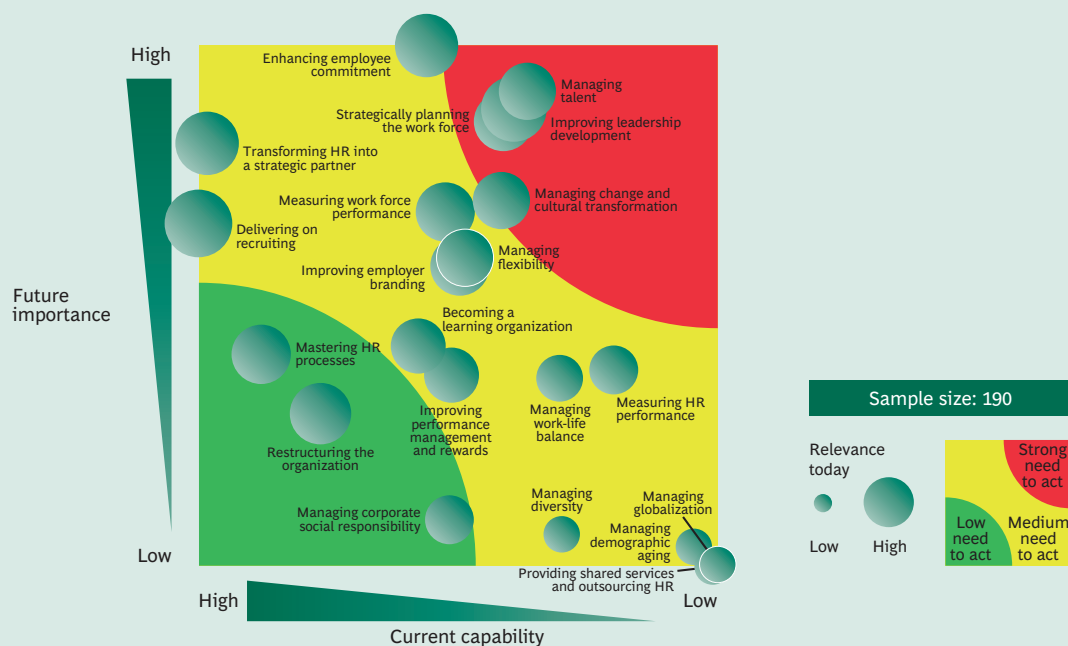
Sources: Proprietary online survey with responses from the consumer goods industry; BCG/EAPM analysis.

Exhibit 5. Energy Companies Will Include Strategically Planning the Work Force Among Their Top Priorities



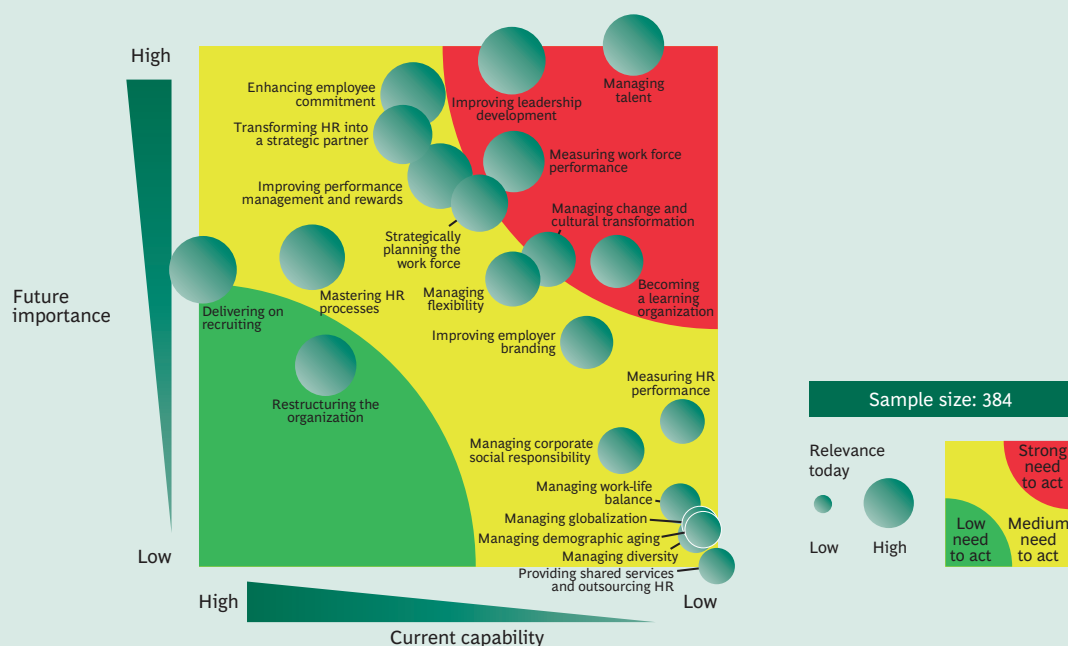
Sources: Proprietary online survey with responses from the energy industry; BCG/EAPM analysis.

Exhibit 6. Health Care Executives Are Emphasizing the Need for Managing Talent, Improving Leadership Development, and Strategically Planning the Work Force



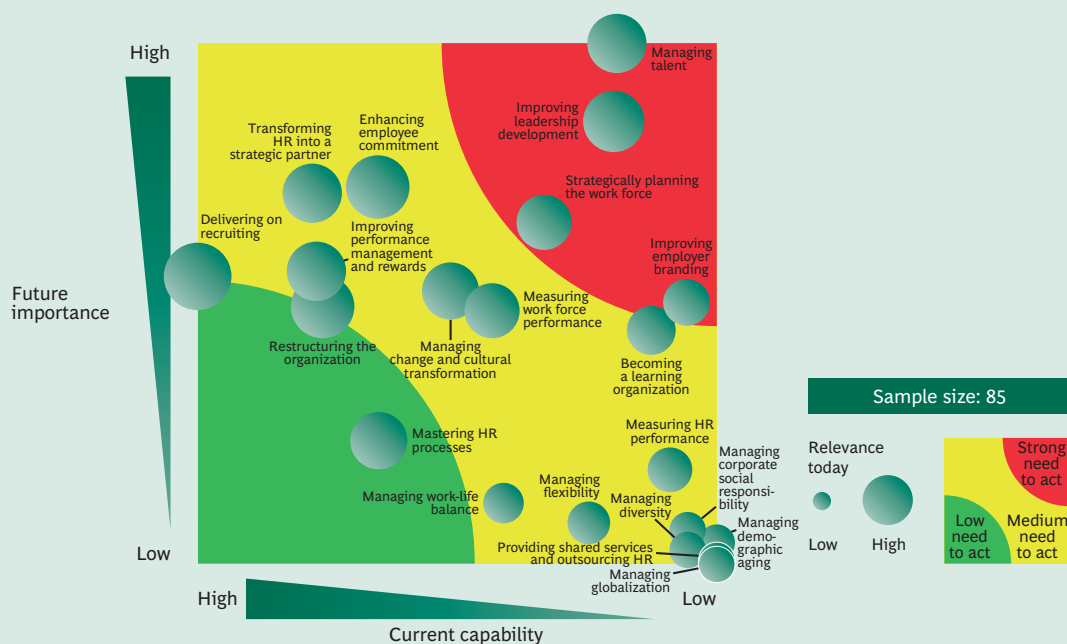
Sources: Proprietary online survey with responses from the health care industry; BCG/EAPM analysis.

Exhibit 7. Measuring Work Force Performance and Becoming a Learning Organization Are Among the Priorities for Industrial Goods Executives



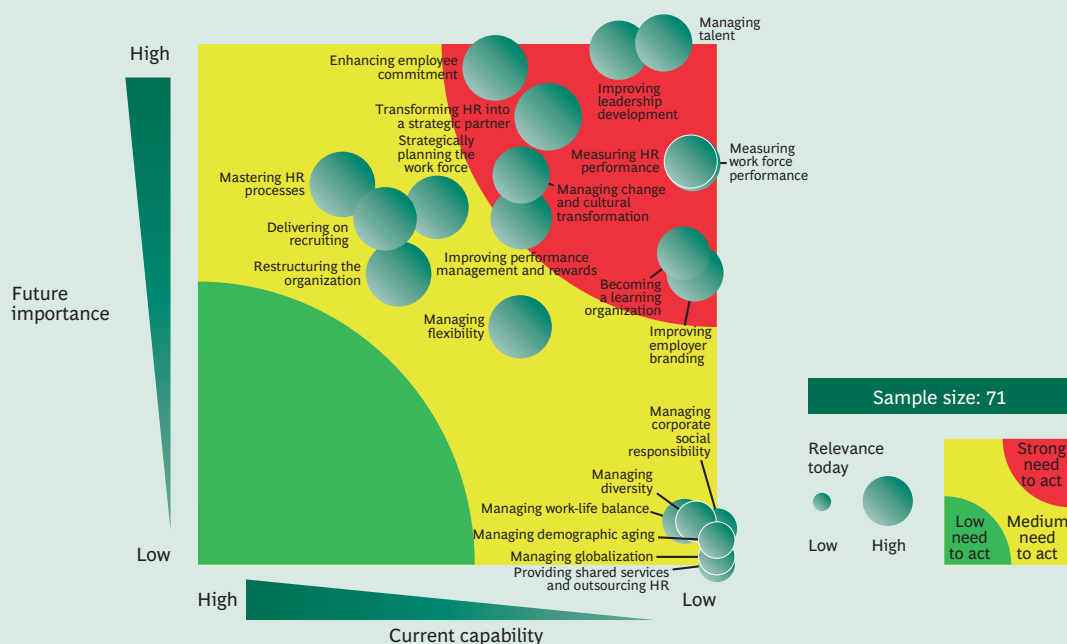
Sources: Proprietary online survey with responses from the industrial goods industry; BCG/EAPM analysis.

Exhibit 8. Insurance Executives Identified Improving Employer Branding as One of Their Critical HR Challenges



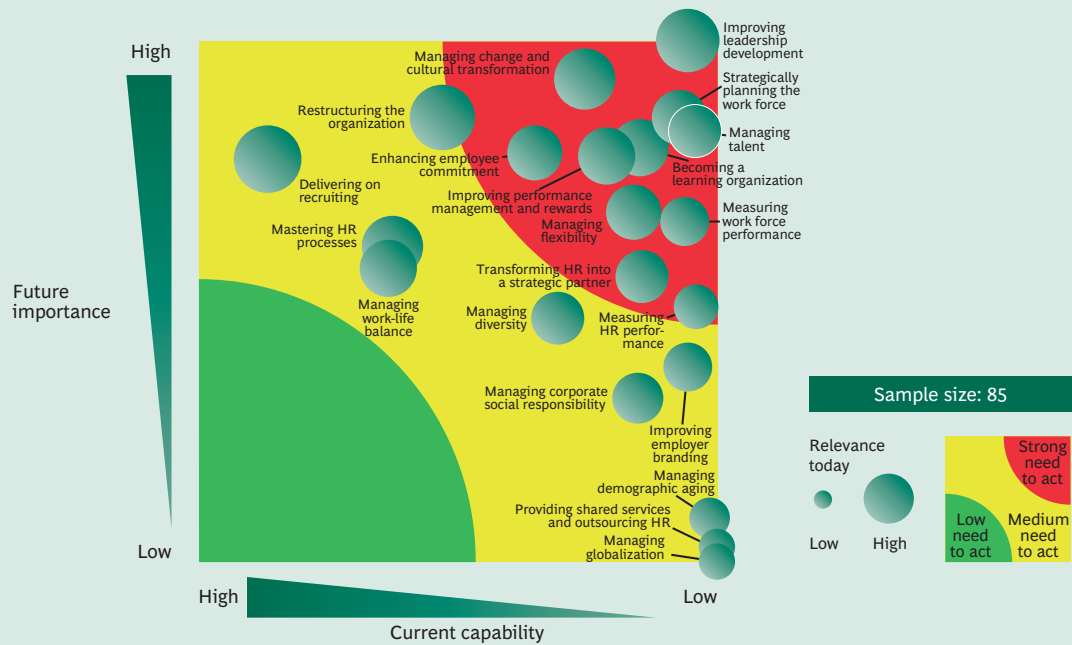
Sources: Proprietary online survey with responses from the insurance industry; BCG/EAPM analysis.

Exhibit 9. Executives in the Media and Entertainment Industry Cited a Medium or Strong Need for Action in All 21 Topics



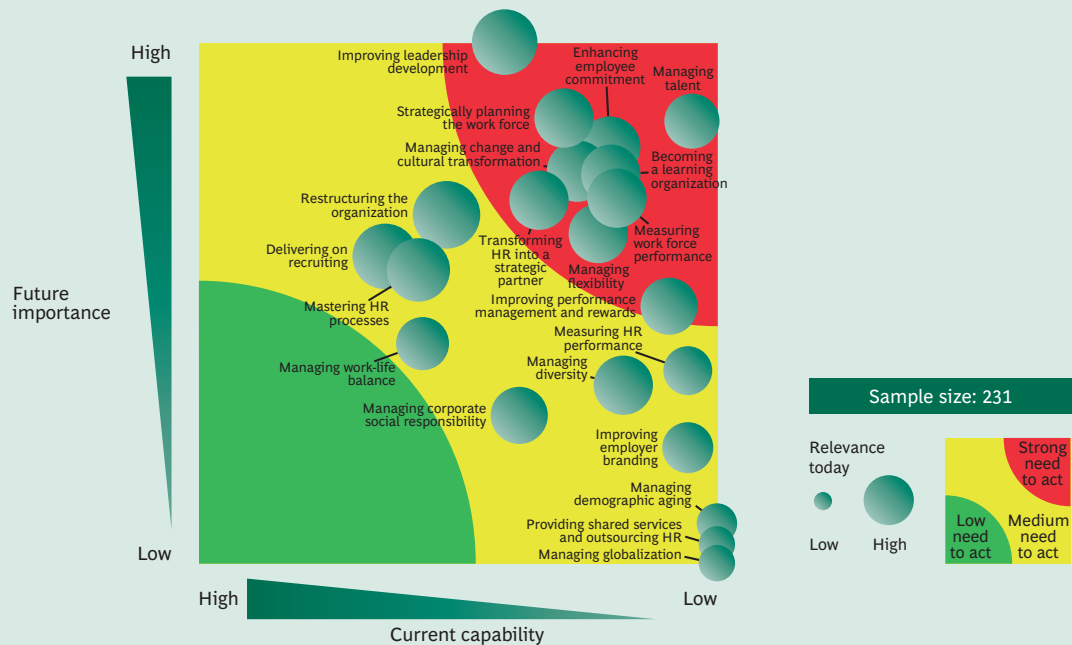
Sources: Proprietary online survey with responses from the media and entertainment industry; BCG/EAPM analysis.

Exhibit 10. Nonprofits Must Achieve Improvement in Many Topics



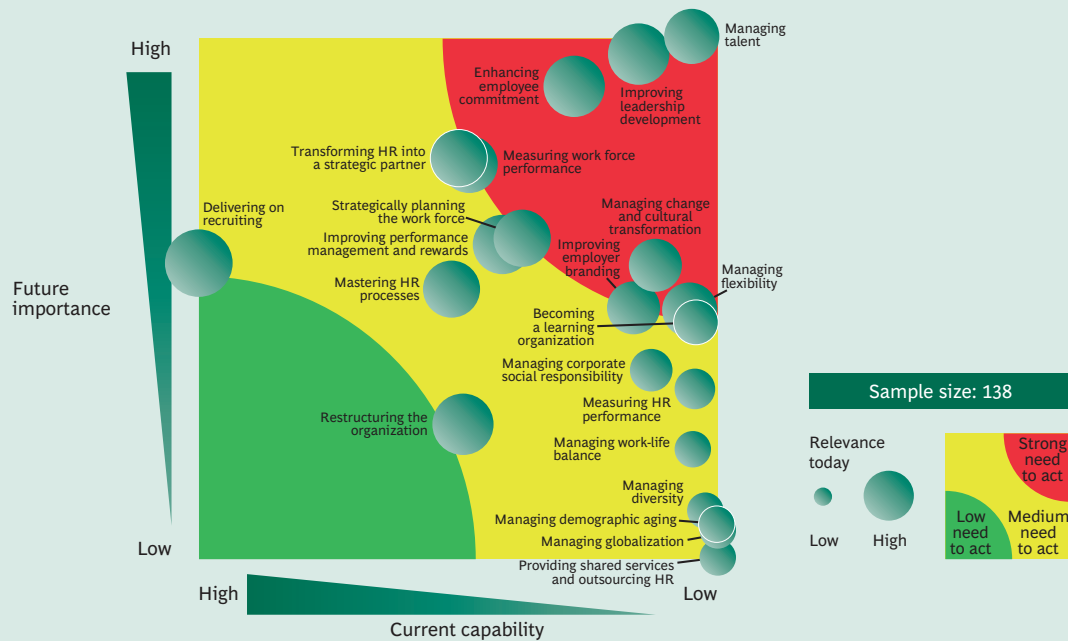
Sources: Proprietary online survey with responses from the nonprofit sector; BCG/EAPM analysis.

Exhibit 11. Public Sector Executives Expect to Focus on a Full Menu of Challenges



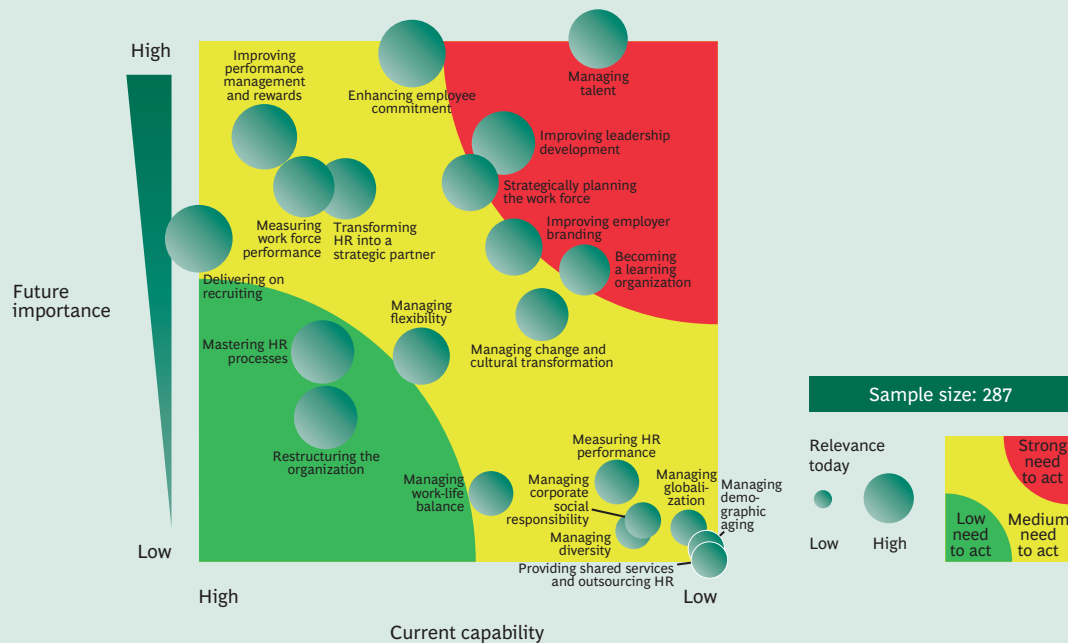
Sources: Proprietary online survey with responses from the public sector; BCG/EAPM analysis.

Exhibit 12. In Retail, the Most Critical Topics Are Managing Talent, Improving Leadership Development, and Enhancing Employee Commitment



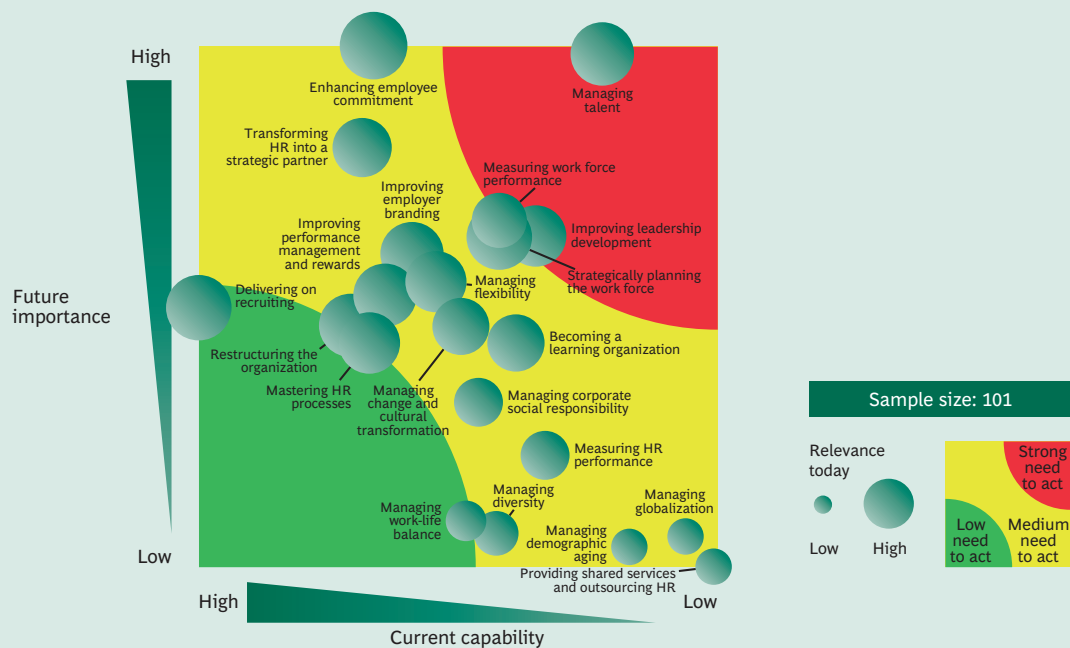
Sources: Proprietary online survey with responses from the retail sector; BCG/EAPM analysis.

Exhibit 13. Technology and Communications Companies Will Focus on Managing Talent, Becoming a Learning Organization, and Improving Leadership Development



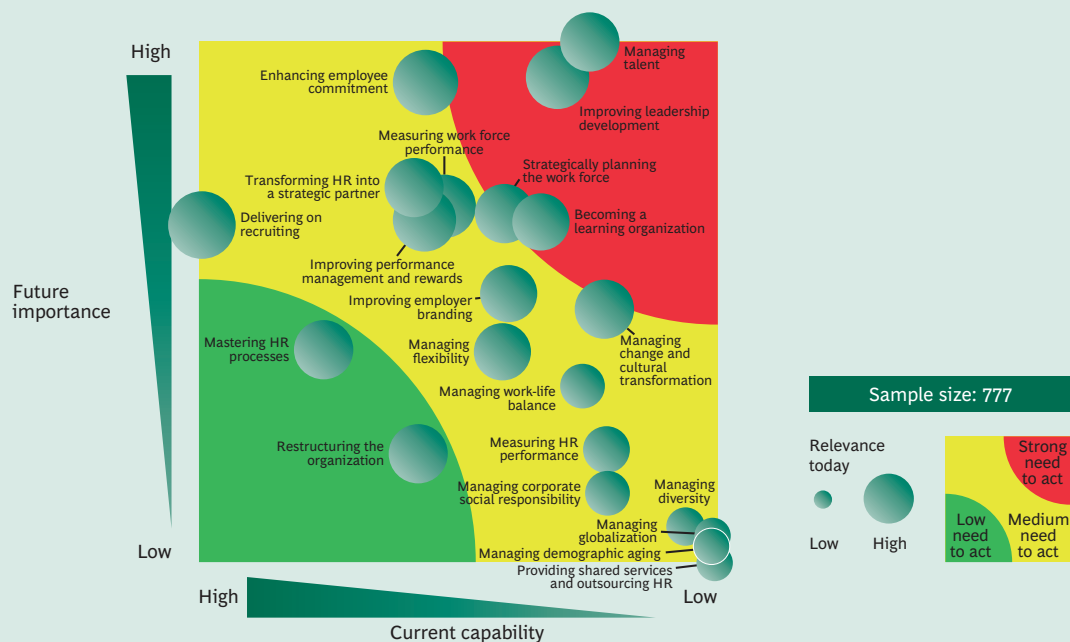
Sources: Proprietary online survey with responses from the technology and communications industry; BCG/EAPM analysis.

Exhibit 14. Managing Talent Will Be a Primary Focus in the Travel and Tourism Industry



Sources: Proprietary online survey with responses from the travel and tourism industry; BCG/EAPM analysis.

Exhibit 15. Among the Top Challenges in the Services Industry Are Becoming a Learning Organization and Strategically Planning the Work Force



Sources: Proprietary online survey with responses from the services industry; BCG/EAPM analysis.



Appendix IV

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 EAPM.

In 2008, when revisiting our list of 17 topics, we again conducted literature research and expert interviews in order to update our findings. We extended the list to 21 topics and updated the definitions of some topics. (See the exhibit “To Ensure a Shared Understanding of the 21 Topics, the Survey Provided Standard Definitions.”)

The online survey consisted of two parts: one mandatory part and then a second part seeking responses in any of three optional sections. In the mandatory section, respondents were asked questions about themselves and their organizations. They were presented with a list of the 21 topics and asked to identify the four that they deemed to be most important for the future. Furthermore, they were asked to rate all 21 topics, assessing current and future importance and rating their company’s current capabilities in the topics on a scale of 1 (low) to 5 (high).

To allow for a cross-country comparison in our analysis, we standardized the assessment of current and future importance for each country and industry. This step

allowed us to adjust for any high- or low-scoring tendencies among online survey participants in particular countries and markets. The capability ratings were then standardized across all the European countries so that we could draw direct comparisons.

In the three optional sections, respondents could answer questions on HR in turbulent times, HR in fast-growth markets, and HR and metrics.

We conducted the online survey from November 2008 through January 2009, receiving 3,348 responses from executives in 33 European countries. In conjunction with that survey, we interviewed 109 senior executives from December 2008 through April 2009. In these one-on-one interviews, we explored HR topics and practices in greater depth, tried to understand how companies were addressing the recession, and discussed sustainable HR practices.

To Ensure a Shared Understanding of the 21 Topics, the Survey Provided Standard Definitions

Topics used since 2007

Becoming a learning organization	Means used by a company to create a cycle of continuous improvement concerning its internal knowledge and the links to its employees
Delivering on recruiting¹	Sourcing and attracting sufficient human resources, which incorporate all processes and systems designed to find and recruit the right employees for particular positions
Enhancing employee commitment	Delivering tools, systems, and processes for line managers to use in engaging their employees
Improving leadership development	Developing individuals into leaders who are capable of influencing, motivating, and enabling their staff to reach both corporate and individual goals
Improving performance management and rewards	Aligning individual objectives with business goals, leading to more efficient processes and a clearer direction for employees
Managing change and cultural transformation	Leading organizational change and cultural transformations, both on large and small scales
Managing corporate social responsibility	Contributing to society beyond a company's regulatory and legal obligations
Managing diversity	Understanding and embracing social differences for the mutual benefit of both employees and companies
Managing globalization	Managing the social, economic, and cultural effects on the work force that result from the growing economic interdependence of countries
Managing talent¹	Providing highly capable employees the opportunity (through the right staffing) to perform, excel, and advance—thereby retaining them
Managing work-life balance	Managing jobs and careers in a way that helps employees succeed in their career and family
Mastering HR processes	Establishing basic HR processes that follow professional standards
Providing shared services and outsourcing HR	Transforming HR by outsourcing or bundling HR functions in shared-service centers
Restructuring the organization	Supporting the organization in all HR issues linked to restructuring
Transforming HR into a strategic partner	Ensuring that the HR strategy in all respects is systematically linked to the business strategy, the external environment, and the HR needs of the company

New topics in 2009

Measuring HR performance	Measuring the impact of various HR functions in quantitative and qualitative ways in order to improve those functions
Measuring work force performance	Measuring work force performance in a strategic way and rewarding individual contributions
Strategically planning the work force	Forecasting work force demand- and-supply scenarios from a strategic, long-term perspective
Managing demographic aging	Adapting to the shifting age structure and the resulting loss in productivity and capacity
Improving employer branding	Proactively developing and marketing the brand of a company to prepare for attaining operative excellence
Managing flexibility	Setting up and preparing the organization to react to the changing environment quickly and efficiently

In previous reports, these were one topic: Measuring HR and employee performance

In previous reports, these were one topic: Managing demographics

Source: BCG/EAPM analysis.

¹Previous reports had the topic *delivering on recruiting and staffing*; in this report, staffing is part of *managing talent*.



Appendix V

Executive Interviewees

In interviews, the following senior leaders shared their insights and discussed our findings. We thank them for their valuable contributions. This list is not complete; it includes only those interviewees who have agreed to have their names published. We list the interviewees from the 11 focus countries first.

Austria

Dr. Georg Horacek
HR Senior Vice President
OMV

Dr. Georg Reiser
Head of Corporate HR
Voestalpine

Bulgaria

Emil Georgiev
HR Director
Eurobank EFG Bulgaria

Valentina Grozdanova
Executive HR Director
Devnya Cement (Italcementi Group)

Jenina Jileva
HR Manager
Financial Supervision Commission

Anne Marcoul-Brune
HR Manager
Aurubis

Vesna Nencheva
Psychologist
Enemona

Sonya Slavcheva
Former HR and Administrative Director
Globul

Hristo Stoyanov
HR Manager
Tesy

Kalin Stoyanov
HR Manager
K&K Electronics

Peter Vassilev
HR Manager
EPIQ Electronic Assembly Bulgaria

France

Laurent Choain
Group Head of HR and Director of
Senior Executive Management
CNCE (Caisse Nationale des Caisses d'Epargne)

Gilles-Henri Dubouillon
Vice President, HR
Saint-Gobain Building Distribution

Hervé Gentieu
HR Director
Procter & Gamble France

Frédéric Goux
HR Director
La Banque Postale

Cathy Kopp

HR Executive Vice President
Accor

Jérôme Nanty

Senior Executive Vice President, HR
Caisse des Dépôts et Consignations

Philippe Rouxel

HR Director
Rockwool France

Marie-Christine Théron

General Director of HR
SFR

Frédéric Thorat

Head of HR for International Retail Services
BNP Paribas

Véronique Rouzaud

Senior Vice President, HR
Veolia Environnement

Germany

Dr. Harald Borner

Head of Top Talent Management
SAP

Thomas Breuer

Executive Board Member for HR
RheinEnergie

Dr. Wolfgang Brezina

Chief Human Resources Officer and
Member of the Management Board
Allianz Deutschland

Christoph Dänzer-Vanotti

Chief Human Resources Officer and
Member of the Management Board
E.ON

Alwin Fitting

Chief Human Resources Officer and
Member of the Management Board
RWE

Günther Fleig

Former Human Resources and Labor Relations
Director and Member of the Management Board
Daimler

Prof. Gerold Frick

General Manager
Deutsche Gesellschaft für Personalführung e.V.

Prof. Dr. Claus E. Heinrich

Former Chief Human Resources Officer and
Member of the Management Board
SAP

Nikolai Juchem

Head of Corporate Communications and Marketing
Demag Cranes

Prof. Dr. Norbert Klusen

Chief Executive Officer
Techniker Krankenkasse

Dr. Frank Kullak

Global Human Resources Business Partner
Bayer Schering Pharma

Stefan Lauer

Chief Officer of Aviation Services and Human
Resources and Member of the Executive Board
Lufthansa

Dr. Wolfgang Malchow

Chief Human Resources Officer and
Member of the Management Board
Bosch

Zygmunt Mierdorf

Chief Information Officer, HR Executive Vice
President, and Member of the Management Board
Metro

Dr. Thomas Nöcker

Personnel Director, Member of the Board of Executive
Directors, and Member of Management
K+S

Dr. Richard Pott

Head of Strategy and Human Resources, Director of
Labor, and Member of the Board of Management
Bayer

Dr. Michael Prochaska

Group HR Director
Franz Haniel & Cie.

Dr. Gerhard Rübling

Executive Vice President
Trumpf

Thomas Sattelberger

Chief Human Resources Officer, Director of Labor, and
Member of the Management Board
Deutsche Telekom

Ulrich Sieber

Group Manager of HR
Commerzbank

Ulrich Weber

Chief Human Resources Officer and
Member of the Executive Board
Evonik Industries

Thomas Wessel

Chief Executive Officer
RAG Bildung

Steffen W. Wurst

Chief Human Resources Officer and
Member of the Management Board
Schenker

Ireland

Eamon Drea

Vice-President for Staff
University College Dublin (UCD)

Jack Golden

HR Director
CRH

Tony Hession

Group Head of HR and Organization Development
Irish Life & Permanent

Larry Kelly

HR Director
Wyeth

Niall Saul

HR Director
McNamara Construction

Italy

Luciano Carbone

Director of Personnel
SEA (Aeroporti di Milano)

Massimo Cioffi

Executive Vice President of HR
Enel

Mauro de Gennaro

Director of HR, Organization, and Quality
Aeroporti di Roma (ADR)

Gianpiero Giacardi

Central Director for HR, Organizational Development,
and Quality
Atlantia (Autostrade Group)

Roberto Maglione

Executive Vice President of Human Resources
Finmeccanica

Enrico Meraldi

Director of HR and Organization
Lavazza

Giovanni Orestano

Head of Resourcing, Learning, and Development
Vodafone Italia

Gianluca Ventura

HR and Organization Director
Vodafone Italia

Netherlands

Kees Blokland

HR Director
NS Nederlandse Spoorwegen (Dutch National Railways)

Heiko Hutmacher

Senior Vice President of HR and Organization
AkzoNobel

Hein Knaapen

HR Director
Royal KPN

Wim Kooijman

Executive Vice President of HR and Industrial Relations
KLM Royal Dutch Airlines

Hayko Kroese
Global Head of HR Management
Philips

Cees J.M. van Rijn
Chief Financial Officer and
Member of the Executive Board
Nutreco

Herna Verhagen
Managing Director of Group HR
TNT

Norway

Beate Hamre Deck
HR Director
Statkraft

Wenche Hagan
Municipal Director
Oslo Municipality

Vuokko Hassel
HR Director
Coop Norge

Cecilie Heuch
Director, Corporate HR and Organization and
Member of the Executive Board
Det Norske Veritas

Jens R. Jenssen
Senior Vice President, HR
StatoilHydro

Kristin Slyngstad Klitzing
Senior Vice President of HR and Organization
Norske Skog

Marit Kobro
HR Director
Helse Sør-Øst

Sissel A. Lindland
Senior Vice President of Corporate HR
Aker Solutions

Randi Løvland
HR Director
Posten Norge

Hilde Myrberg
Executive Vice President, Corporate Functions and SVP
Human Resources
Orkla

Tor Saglie
Director
NAV (Norwegian Labor and Welfare Administration)

Håkon Sæther
HR Director
Telenor Norway

Cathrine Foss Stene
Senior Vice President, HR
Schibsted

Russia

Svetlana Chekalova
Head of HR Department
Sibur

Anouk De Blieck
HR Director, Russia and CIS
Citibank

Svetlana Borisovna Epikhina
Head of HR Department
Inter Rao UES

Nadezhda Filippova
Senior Vice President and Director of the Personnel and
Corporate Development Department
VTB24

Irina Likhova
HR Director and Member of the Management Board
MegaFon

Dmitry Volokhov
HR Director
Gazprom Neft

Spain

José Buqueras
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Telefónica Móviles España

Juan Manuel Cruz

Area General Manager of HR Administration
Acciona

Pedro Díaz

Director of HR and Organization
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General Director of Security, Organization,
and Human Resources
Renfe

Javier Macián Pérez

Former Executive Director of HR
Repsol

Arturo Molinero

Head of HR
Carrefour

José Antonio Molleda

Director of Strategy, Corporate Development, and HR
Multiasistencia España

Marta Panzano

HR Director—Europe, Middle East, Africa, Asia,
and Australia
Cemex

Carmen Recio

HR Director
Orange Spain (France Telecom España)

Valeriano Torres

HR Director
Gas Natural

United Kingdom

Hugo Bague

Global Head of HR
Rio Tinto

Stephen Sidebottom

Head of HR
Nomura International

Maria Stanford

HR Director
Selfridges

Andrew Webster

International HR Director
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Training Department
Millennium bcp

Pedro Raposo

HR Director
Banco Espírito Santo (BES)

Vasco Ferreira da Silva

HR Director
Galp Energia

Sweden

Magnus Hahn

HR Director
Scania

Switzerland

Dr. Siegfried Hoenle

Head of Credit Suisse Business School
Credit Suisse



Appendix VI

Supporting Organizations

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

Personnel Managers Club (PM Club), 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 Personnel 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

Foundation for Human Resources Development (FHRD), Malta

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

HR Norge, Norway

Polish Human Resources Association (PHRA), Poland

Associação Portuguesa dos Gestores Técnicos dos Recursos Humanos (APG), Portugal

HR Club, Romania

National Personnel Managers' Union (ARMC), Russia

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

Swedish Association of Human Resources Management, Sweden

HR Swiss—Schweizerische Gesellschaft für Human Resources Management; Société suisse de gestion des ressources humaines, Switzerland

Personel Yonetimi Dernegi (PERYÖN), Turkey

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



For Further Reading

**Creating People Advantage:
How to Address HR Challenges
Worldwide Through 2015**
A report by The Boston Consulting
Group and the World Federation of
Personnel Management Associations,
April 2008

**The Future of HR in Europe:
Key Challenges Through 2015**
A report by The Boston Consulting
Group and the European Association
for Personnel Management,
June 2007



Note to the Reader

This report, the third installment in our research on current and future HR challenges, presents new and detailed results on the situation in Europe. 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 many leading companies around the world on a wide range of HR issues, helping with HR strategy, management, key performance indicators (KPIs), and strategic work force planning. BCG has assisted its clients in managing talent, organizing HR functions, managing performance, redeploying the work force, 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 the EAPM's programs, HR executives garner insights and exchange ideas to enhance corporate and personal capabilities in HR.

We believe that our findings will appeal to HR professionals and CEOs alike. Based on the positive feedback from our previous reports, we plan to continue our regular research, examining the most critical issues facing companies.

Acknowledgments

We would like to thank the more than 100 executive interviewees for their time and insight; each executive who agreed to have his or her name and position published in this report is listed in Appendix V. We also thank Matthieu Brucker, Sonja Dittrich, and Tobias Modjesch for their research and analysis and Mark Voorhees for his help writing the report.

Furthermore, we thank the following people for their help in coordinating and conducting interviews across Europe and for their expert advice: Alfonso Abella, Christian Adler, Ignacio Alvarez, Jens Baier, Carlos Barradas, Matthias Becker, Lamberto Biscarini, Rolf Bixner, Wolfgang Bock, Michael Book, Vladislav Boutenko, Stépan Breedveld, Fabio Cantatore, Elisa Crotti, Christopher Daniel, Thomas Dauner, Robert Davies, Leyre de Álvaro, Filiep Deforche, Rocio del Blanco, Andrew Dyer, Judith Eimannsberger, José Manuel Fernández-Bosch, Grant Freeland, Ketil Gjerstad, Peter Goldsbrough, John Gooch, Bent Hansen, Hans-Michael Hauser, Rolf Hülsenbeck, Michael Imholz, Rune Jacobsen, Barry Jones, Simon Kantor, Jaap Kerstjens, Klaus Kessler, Martin Koehler, Torsten Kordon, Philip Krinks, Børge Kristoffersen, Michael Leicht, Daniel López, Iván Martín, Duncan Martin, Fiona McIntosh, Stéphanie Mingardon, Heinz Möllenkamp, Riccardo Monti, Lucian Morariu, Yves Morieux, Olga

Narvskaia, Donna Peevska, Philippe Peters, Hannes Pichler, Stefan Rasch, Rainer Reich, Rafael Rilo, Harald Rubner, Gunther Schwarz, Martin Seibold, Stefano Siragusa, Ekaterina Timofeeva, Jan Dirk Waiboer, Magín Yáñez, Jan Zenneck, and many other BCG colleagues as well as representatives of the EAPM.

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