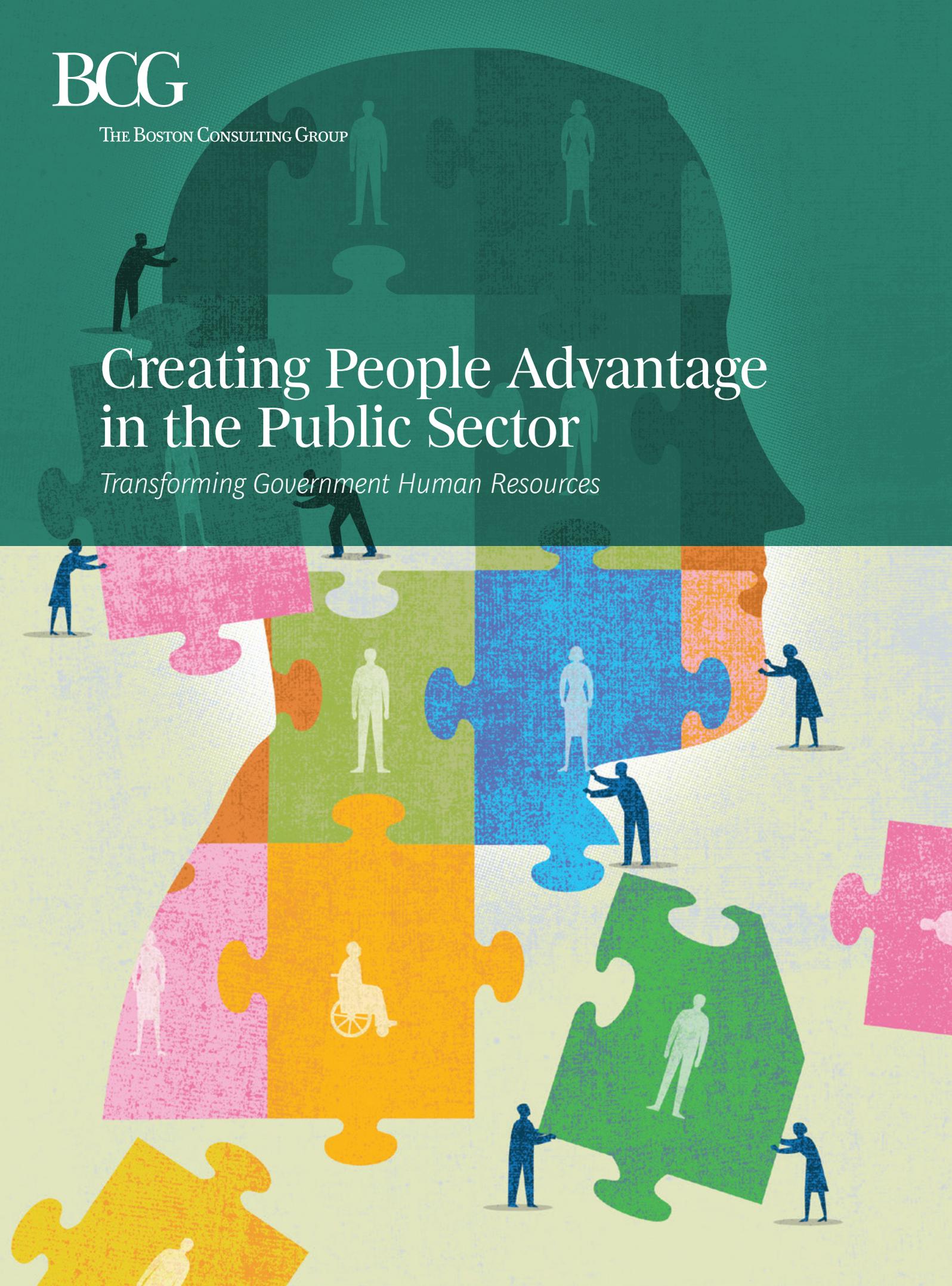


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Creating People Advantage in the Public Sector

Transforming Government Human Resources



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Creating People Advantage in the Public Sector

Transforming Government Human Resources

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AT A GLANCE

Many countries are facing a crisis in the management of public-sector human resources. Governments must transform their HR capabilities.

THE HR CRISIS STEMS FROM SEVERAL FACTORS

Tight budgets, a looming retirement wave, and the need to upgrade the talent base as governments go digital are making it critical for public-sector HR to up its game.

MAJOR CHALLENGES TO REMAKING GOVERNMENT HR

A BCG survey of more than 400 public-sector HR leaders found that there are major obstacles to HR transformation, including the need to develop analytic capabilities.

TEN TRANSFORMATIONAL MOVES

BCG has identified ten steps that can help government HR leaders drive effective change within their organizations.

MANY COUNTRIES ARE EXPERIENCING a crisis in public-sector human resource management stemming from mounting pressures on a number of fronts. Budgets are tight for numerous governments around the world, and human capital costs represent a major—if not the major—cost center. Employee compensation accounts for about 25% of government budgets on average (they are even higher, at about 30%, in Africa, the Middle East, and Central Asia). In addition, demands on government staff are increasing because of a growing need for services in some countries and rising expectations of government performance among citizens in general. At the same time, a looming retirement wave in many countries is creating a potentially problematic loss of institutional expertise. And all this is playing out at a time when governments must upgrade their talent base. This includes recruiting people with the skills to help them deploy new digital technologies, an area where talent is in limited supply and for which there is tremendous competition.

The bottom line: governments must dramatically improve how they recruit, train, and manage talent. And they must make HR into a strategic partner for public-sector leaders, one that plays a key role in helping to improve overall government performance. Governments that rise to this challenge will emerge with an organization that is more effective and efficient—and a workforce that is able to fully harness the potential of new technology.

Based on extensive experience working with public-sector organizations, BCG has identified ten steps that governments can take to ensure that their transformed HR organization is efficient and well-connected to internal stakeholders, that it takes a strategic approach to helping the overall organization, and that it has a full toolbox of the necessary skills and capabilities.

The Imperative for Change

Government HR leaders know only too well the pressures weighing on their organizations. First, there are the big constraints on public budgets, which frequently lead to large-scale reorganizations or severe staff cuts—or both. In the US, for example, the Department of Defense recently announced a sharp 8% cut in Army staff and a 17,000-person reduction in the civilian workforce. In France, Ministry of Defense staff was slashed from 330,000 in 2006 to 270,000 today. And in the UK, the government has reduced the number of civil servants by almost a fifth since 2010.

In addition, demands on government are only increasing. For example, in the wake of the global financial crisis, governments in many countries continue to play a

BCG has identified ten steps that governments can take to transform their HR organizations.

In many ways, remaking a public-sector HR organization is even more challenging than transformation in the private sector.

large role in areas such as assistance for the long-term unemployed. And providing these services often requires increased staffing and enhanced training and skills.

At the same time, citizens have increasingly high expectations when it comes to the quality and efficiency of public services, in part because more information is available about the performance of governments around the world. From the OECD's PISA rankings of student performance to the World Bank's Doing Business rankings to BCG's own Sustainable Economic Development Assessment, there is greater visibility into how governments are performing relative to peers.

Governments also need to upgrade their skills in many areas. Whether because increased outsourcing requires new contract management skills or because the latest digital tools demand high levels of technical expertise, governments need to bring critical skills onboard.

Compounding these challenges is the fact that many governments are facing an exodus from the workforce over the next decade. In OECD member countries, for example, one-third of employees are older than 50. As a result, a significant amount of hiring and training will be needed, as well as an overall rethinking of roles.

Transforming HR will require major initiatives... Taken together, the forces weighing on governments will trigger significant shifts. These will include changes in the scope and mission of some roles, improved processes in many areas of government, and mergers, reorganizations, and delayering programs. HR will play a central role in such initiatives, and government leaders must ensure that their organizations are up to the task. HR leaders certainly recognize the need for change.

In BCG's 2014 Creating People Advantage survey of more than 400 government HR leaders (conducted in partnership with the World Federation of People Management Associations), public-sector HR managers reported significant challenges, including the need to develop advanced analytic capabilities. (See the sidebar "The Current State of Public-Sector HR.")

In many ways, remaking a public-sector HR organization is even more challenging than transformation in the private sector. For one thing, the sheer size of the public-sector employee base has major implications for the national labor market—and therefore complicates the HR mission. In the OECD countries, for example, government employment in 2013 represented an average 19.3% of the total national labor force. (See the exhibit on page 7.) As a result, changes in government salaries or employment levels can affect consumer spending, while higher or lower levels of government outsourcing can affect private-sector employment. There are also institutional factors, such as strict rules on layoffs and restructurings, that can create barriers to change. (See the sidebar "A Balancing Act in Government HR" on page 8.)

...but some challenges will create opportunities. Some of the challenges to transforming HR could have long-term benefits—if they are handled well. The aging workforce, for example, will result in natural attrition in public-sector organizations—and an opportunity to upgrade talent and potentially eliminate some

THE CURRENT STATE OF PUBLIC-SECTOR HR

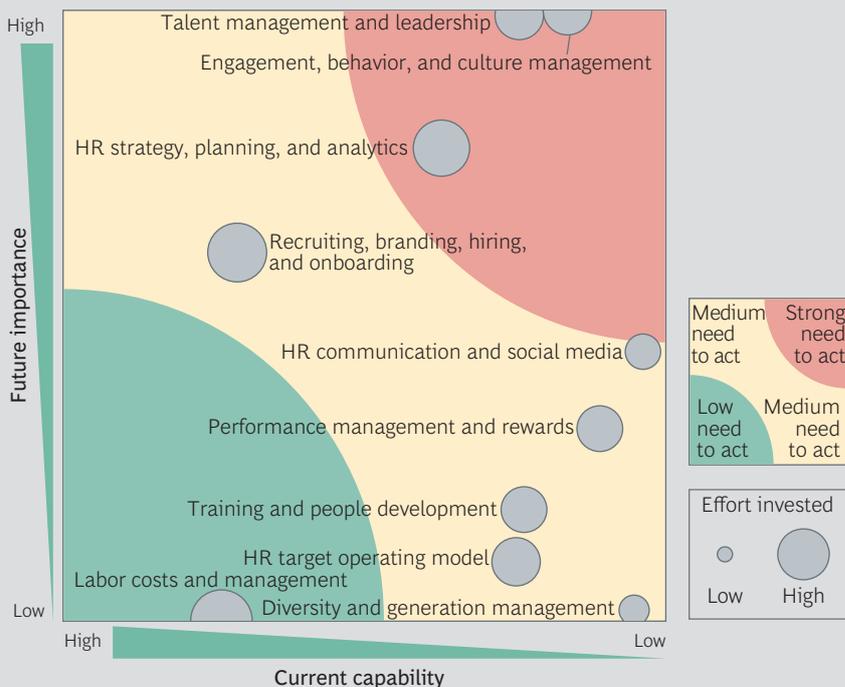
Public-sector HR leaders surveyed by BCG's Creating People Advantage team identified three areas requiring urgent action: engagement, behavior, and culture management; talent management and leadership; and HR strategy, planning, and analytics. These are areas that participants believe will be critical to future success but in which their current capabilities are low. (See Exhibit 1.)

Our survey found that HR is significantly less involved in the development of business strategy and in strategic decision making in public-sector organizations than it is in private-sector companies. (See Exhibit 2.) Also, HR metrics are used less in

day-to-day decision making in public-sector organizations.

Furthermore, while HR leaders across industries report that data tools are particularly useful when it comes to HR strategy, performance management, and recruiting, the use of such tools in the public sector is limited. (See Exhibit 3.) For example, public-sector organizations use KPIs much less frequently as part of HR efforts to boost productivity or manage personnel costs. In fact, not even 50% of public-sector organizations have a single data management system that contains all their relevant HR data. And only 40% have dedicated teams within HR to analyze that data.

EXHIBIT 1 | Three Areas Require Urgent Action in Public-Sector HR



Source: BCG analysis (n = 428).

THE CURRENT STATE OF PUBLIC-SECTOR HR (continued)

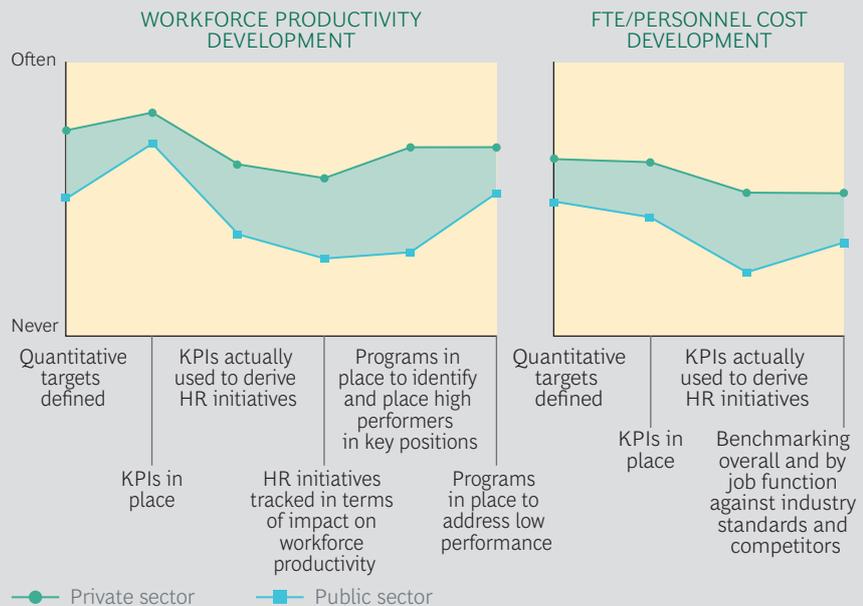
EXHIBIT 2 | HR's Strategic Role Is Smaller in the Public Sector Than in the Private Sector



Source: BCG/World Federation of People Management Associations, proprietary Web survey and analysis, 2014.

Note: There were 979 respondents to the survey, of whom 93 were from public-sector organizations and 886 were from private-sector companies.

EXHIBIT 3 | HR in the Public Sector Is Less Data-Driven



Source: BCG/World Federation of People Management Associations, proprietary Web survey and analysis, 2014.

Note: There were 979 respondents to the survey, of whom 93 were from public-sector organizations and 886 were from private-sector companies.

The gap between the public and private sectors could widen even further as many private-sector companies extend their analytical capabilities by harnessing big-data tools and advanced data analytics solutions. In order to avoid falling further behind, the public sector must not only adopt big-data tools but also find people with the skills to deploy them and develop a culture that can fully exploit them.

Certainly there are understandable reasons for the difference in analytical capabilities between the public and private sectors. In private-sector

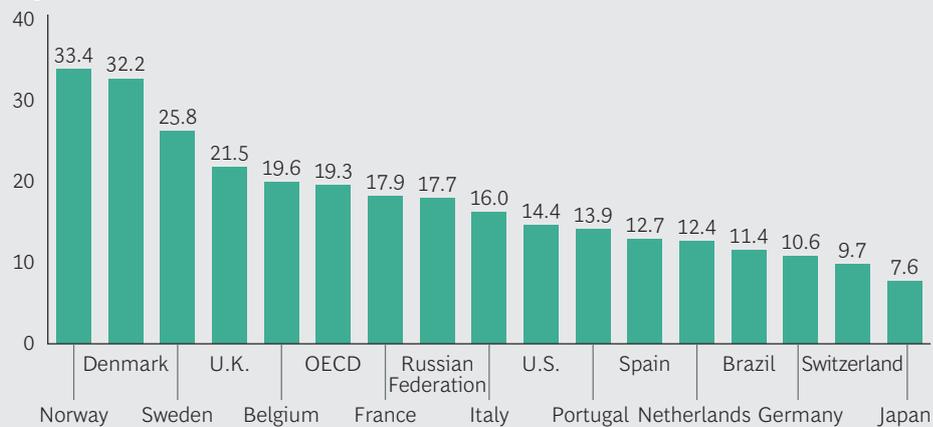
organizations, finance teams often drive the collection of HR data, which can be used to develop analytics for evaluating production costs, including staff expenses. In the public sector, however, bolstering profitability is not an incentive, so information on the costs involved in providing public services is often lacking. However, the fact that public-sector organizations have not used such HR analytics in the past does not mean that they cannot deploy them in the future. After all, if HR organizations are to make progress in meeting their most urgent challenges, they will need to address their capability gaps head-on.

positions through better use of technology. Of course, capitalizing on that opportunity will not be easy. For one thing, areas in which large numbers of employees are retiring will not necessarily be ones where positions can be eliminated.

Still, as governments recruit teams to harness new digital tools, they can make major improvements in efficiency. In the UK, for example, the Driving Standards Agency (now the Driving and Vehicle Standards Agency) started offering an online channel for booking driving tests in 2003. More than three-quarters of roughly 2 million annual transactions are now handled digitally. The result: one of two dedicated con-

Public-Sector Employment as a Share of the Total Workforce

% of workforce employed in government, 2013



Source: OECD, *Government at a Glance*, 2013, 2015.

A BALANCING ACT IN PUBLIC-SECTOR HR

Change is difficult no matter the setting. But public-sector leaders face a host of institutional challenges that make the task of revamping HR processes particularly complex.

For one thing, the policies and regulations governing public-sector HR often limit flexibility. In some countries, there are strict rules governing layoffs, promotions, and the use of performance-based compensation and other incentives. And there is often little freedom to move people into different jobs or locations. In part this is because the age of many public-sector workers makes them less amenable to major career changes.

In OECD countries, for example, the number of workers over 50 in the public sector is on average 26% higher than in the private labor force. In addition, because labor unions are generally more powerful in the public sector than in the private sector, government HR leaders need to involve them in the planning of any major transformation effort.

Complexity also presents hurdles. Government organizations are often fragmented, with silos within both central and local offices. This can make it difficult to get a comprehensive overview of the workforce and of potential opportunities to move people into different positions and locations. The employee base is also typically quite diverse, resulting in a variety of cultures and HR policies. Defense departments, for example, comprise both civil and military personnel—two very different types of workers.

Finally, the mission of government to better the lives of citizens affects how HR operates. Public-sector organizations are expected to be out in front when it comes to promoting equality and diversity in the workplace. Any changes affecting the government labor force therefore need to be assessed carefully in that context.

Taken together, these issues create real challenges for public-sector HR organizations—and offer more evidence of the need to deploy the ten transformation levers outlined here.

tact centers was closed in 2008, and the total number of employees involved in these transactions fell from 400 in 2003 to 75 in 2012.

Ensuring Efficiency and Connections with Stakeholders

The first set of steps required to transform a public-sector HR organization concern operational efficiency and the creation of strong connections with internal stakeholders, such as top management, rank-and-file workers, and unions. The combination and prioritization of these measures, like all the others discussed in this report, will differ based on the specific challenges and conditions of the particular country and government.

1. Improve the efficiency and effectiveness of the HR function. Leaders who want to truly improve their HR organizations should first ask themselves these questions:

- Who is doing what and at what level within the HR function, both locally and centrally?
- How much value is each core task or activity generating? Is the HR department focused on those activities that add the most value?
- Is HR properly using IT tools? For example, does it automate nonvalue-adding tasks, such as tracking employee holidays? And do these tools provide the data that operational managers really need?
- Are processes for connecting HR with other departments efficient and effective?
- Is the HR department attracting the best people? Is it recognized as a place to grow professionally?

In France, a major public agency took aggressive action to boost the efficiency of its HR functions. A detailed review of operations found that many employees—both at headquarters and in the local offices—were performing mainly low-value administrative work, such as reporting basic HR data, tracking absenteeism, and planning training sessions. In some cases, these tasks were even being done twice. HR teams were understaffed at the local level, and higher-value activities, such as leading IT projects or developing a strategic vision for HR, lacked resources. Using the lean approach, the agency conducted workshops tasked with redesigning processes and reorganizing functions, an effort that ultimately made it possible to leave certain positions unfilled after workers retired.

2. Build strong connections with internal stakeholders and management. Public-sector HR organizations need to cultivate strong relationships with internal groups, including top managers and staff running operations on the ground. One way to do this is to provide a regular flow of HR data and indicators regarding, for example, retirement projections, absenteeism, or needed skills by site. Such information can be invaluable to operational managers, but generating it requires the ability to identify useful sets of data and make them accessible with proven IT tools.

At the same time, HR leaders need to establish strong channels of communication with agency leaders. This ensures that the strategy of the HR organization and that of the overall government agency are aligned. It also gives HR a clear understanding of the issues that managers face in the field, which can lead to the development of customized solutions such as new training sessions.

HR leaders at the US Environmental Protection Agency have strengthened their ties with agency managers through tools such as the Skills Marketplace initiative, aimed at improving how staff are deployed across the organization. Designed by a joint team of HR managers and EPA staff in charge of programs and operations, the program was rolled out in 2014 after a two-year pilot. Participating employees can apply for short-term, mission-critical assignments and projects posted on an internal portal. A LinkedIn-style profile of their work on previous assignments forms the basis of their application. Those selected remain in their current role, devoting no more than 20% of their time to the new assignment. The objective is to direct time

Public-sector HR organizations need to cultivate strong relationships with top managers and staff running operations on the ground.

and talent toward critical projects while giving employees additional development opportunities. The program has received strong praise from frontline employees seeking to expand their professional skills and grow within the EPA.

3. Proactively develop relationships with unions. Given the high rate of union membership in the public sector—which exceeds that in the private sector of many countries, including the US, France, Poland, and Sweden—it is vitally important to involve unions in any major organizational change.

A strong partnership with unions can increase the odds of a successful transformation in several ways. First, during the design phase of the program, unions can provide insights on the potential obstacles to change based on their knowledge of the realities facing workers in the field. Second, if union leaders are involved in program design, they are more likely to become effective promoters and facilitators of change. And third, union leaders can provide valuable information during implementation about where problems are cropping up and how to address them.

Acting as a Strategic Partner with the Overall Organization

— Strategic workforce planning can help HR managers understand how actions taken within HR can support the organization's strategic goals.

While improving efficiency and building relationships are critical, HR leaders must also be able to think strategically. This means understanding not only the strategic challenges and ambitions of the organization but also the implications of those challenges and ambitions for HR. Tools like strategic workforce planning (SWP) can help HR managers understand how actions taken within HR can support such strategic goals as improving efficiency through digitization or through reorganizations and redeployments.

4. Anchor HR strategy in strategic workforce planning. The need for this approach in the public sector is growing, but putting it into practice requires a comprehensive strategy that includes accurate modeling of labor supply and demand. (See the sidebar “The Hallmarks of Successful Strategic Workforce Planning.”) SWP ensures that HR policies in recruiting, training, mobility, and retention within and across agencies, among other areas, are in line with the future needs of the organization. At the same time, it allows HR decisions to be closely linked to the organization's overall strategy. SWP can lead to a reevaluation of an organization's geographic footprint, for example, so that offices are located where critical talent is most available.

SWP becomes even more crucial in an era of budgetary pressure, when both public and private organizations often respond with short-term measures such as across-the-board headcount reductions to hit cost-cutting targets. Such moves, however, fail to take into account the skills and roles that will be needed in the future, raising the risk that strategic knowledge or expertise (in managing complex military bases and equipment, for example) will be lost. That can result in higher costs down the road if positions need to be restaffed. The need for SWP is particularly acute in countries such as France and Spain, where many public-sector jobs are essentially guaranteed for life, so hiring decisions have significant long-term implications.

5. Develop the organization's ability to deal with mergers and redeployments. Budget constraints and changing skill and personnel requirements call for new

THE HALLMARKS OF SUCCESSFUL STRATEGIC WORKFORCE PLANNING

SWP is based on an analysis of the types of skills and expertise required across an organization. The process starts with a segmentation of the employment base by job category. Different scenarios are developed that project how the supply of and demand for people in the positions within each category would change under different circumstances. It is critical to take into account the impact of digital technologies, which can have a significant impact on workforce size and skill requirements. Once gaps are identified based on the projections of supply and demand, HR can determine the right mix of actions to address the most critical shortfalls.

When it comes to training measures, organizations should be ambitious about developing internal talent. Retraining and moving people into new positions within the organization is a powerful—and sometimes an overlooked—way to fill critical positions. HR leaders also need to regularly revise their scenarios and

hypotheses. And like other programs, SWP can be piloted in local offices before being broadly deployed.

In Germany, the Federal Employment Agency (Bundesagentur für Arbeit) was concerned about the large number of employees approaching retirement age. In one division alone, half the employees were expected to retire in the next decade. To address this challenge, the agency kicked off two SWP pilots in February 2015, covering about 15% of the workforce. The team leading the effort created a model forecast of worker supply and demand based on parameters such as job type, geographic location, and age group. Combining the supply and demand projections into a single model, the team built an array of heat maps that showed the areas where shortages were likely to be critical and came up with concrete plans for filling the worker pipeline. The pilots have proven so successful that the approach is being rolled out throughout the entire organization.

strategies across government. Among the impacts of those strategic shifts: consolidation of teams, whether across locations or within a given department, and redeployments of staff to new roles. In both cases, HR has a clear role in supporting the agency or department's operational teams.

To succeed, HR must build a package of tools that can be easily disseminated in order to help operational teams with budgeting and with staff training, mobility, and reduction. The package should include organizational design tools that help define appropriate spans of control and communicate information about the restructuring.

Building the Right Capabilities

The transformed HR organization must have policies and procedures that ensure internal staff mobility, world-class recruiting, advanced training and development,

a well-crafted talent management system, and sound management of the contingent workforce.

6. Offer internal mobility options. Increased mobility contributes to richer career paths, greater worker engagement, and a better match between talent supply and demand. HR organizations need to design bold mobility schemes. This requires building a variety of connections to facilitate employee transfers and exchanges:

- Among departments within the same ministry or agency at both the central and local levels
- Among groups with similar roles at different public-sector organizations
- Among public and private organizations

Public-sector leaders in Germany have increased worker mobility by creating a new career option, the horizontal career track. They did so in response to the frustration of some experienced senior civil servants with the traditional vertical track, which often left them with little opportunity to move up in the organization. With the new approach, employees have the option of switching to a job at the same management level but with different duties and responsibilities.

7. Address recruiting challenges through improved branding, hiring, and onboarding. Recruiting is more than just scouting for talent. In addition to attracting and finding the right people, it includes building a strong employer brand, successfully bringing new hires onboard, and taking steps to retain top talent. A systematic and effective onboarding process is especially critical in order to reduce early attrition. And given the growing talent shortage in most developed countries, public-sector organizations must pay close attention to their branding as an employer. A number of factors determine that brand, including the degree of gender equality in the organization; opportunities for minorities, disabled workers, and senior citizens; and, most important, the corporate culture and overall satisfaction of employees.

The German railway operator Deutsche Bahn understands well the power of a strong employer brand as part of a holistic talent acquisition approach.¹ In 2012, when the company saw that it needed to hire up to 70,000 new employees over ten years, it decided to overhaul its talent acquisition strategy. The first step was to assess how it was viewed by current and potential employees. Deutsche Bahn launched a broad employee survey, scores of employee interviews, and extensive market research, as well as an ambitious branding campaign aimed at enhancing its image as an employer. It segmented its applicant base into four categories—high-school graduates, college graduates, professionals with an academic background, and professionals without an academic background—and tailored its branding and recruiting activities to each group. The overhaul paid quick dividends, with incoming applications up about 40% in the first year and an enormous increase in their attractiveness.

Central to any employer brand, of course, is the organization's culture. Faced with budgetary uncertainty and unresolved questions about the future of manned space

Given the growing talent shortage in most developed countries, public-sector organizations must pay close attention to their branding as an employer.

flight, the US National Aeronautics and Space Administration launched a broad initiative in 2013 to remake its culture. The effort comprised three elements: recognizing and rewarding innovation, engaging and connecting with the workforce, and improving the roster of supervisors and leaders. Among the most enthusiastically received initiatives was a “reverse mentorship” program, in which line employees mentor senior managers. Senior managers are now able to learn firsthand what their staff actually do, including the problems they face every day. The program has improved morale and given the agency’s leaders a much better understanding of what is happening at the heart of the organization.

8. Design and implement training and development processes. Development and training should be tailored to the needs of the workforce—segmented, for example, by age or employee potential. For those in leadership positions, training and development should be designed to develop complementary capabilities such as operational, strategic, and interpersonal and communication skills.

HR leaders also have a major opportunity to improve the efficiency of training outsourcing by, among many other examples, setting a minimum size for training sessions, using formal proposal processes, cutting costs through competitive bidding, and identifying where in-house trainers (rather than outsourced providers) can be used. Government training efforts can take a page from the playbook of large companies such as GE and Bertelsmann, which are using e-learning tools in their internal training centers as well as partnerships with external academic institutions.

The US Government Accountability Office, an independent, nonpartisan agency that monitors federal spending, has a well-tuned Professional Development Program. In their first two years at the agency, entry-level accountants and analysts—the majority of new hires at GAO—are assigned an employee mentor and sent on three increasingly specialized rotations across the organization, each lasting an average of six to ten months. The program provides a robust orientation for new employees and helps identify suitable long-term career paths.

9. Design an ambitious and structured talent management process. Talent management in the public sector should include, among other things, clearly defined individual and organizational goals, close monitoring of individual performance, and the development of action plans in cases where performance is falling short of agreed-upon objectives. In addition, in those countries where performance-based compensation is possible, workers whose performance exceeds expectations should receive monetary or other rewards.

Some governments, including Singapore and the United Arab Emirates, have become world-class leaders in talent management. Their programs involve sophisticated segmentation of the talent pool and the use of scholarships, competitive compensation structures, and clearly identified career paths. In Singapore, the Public Service Leadership Programme focuses on cultivating talent across a number of critical areas, from management of the economy to infrastructure and the environment to national security. Candidates go through a rigorous selection process that includes a written exam and interview. The program replaces Singapore’s highly

HR leaders have a major opportunity to improve the efficiency of training outsourcing.

successful Management Associates Programme, which offered promising entry-level officers a carefully designed management career track. (See *The Making of a Talent Magnet: Lessons from Singapore's Civil Service*, BCG Focus, May 2012.)

10. Manage the contingent workforce. In addition to building strong connections with the internal workforce, public-sector HR teams need to strengthen their external relationships, especially with subcontractors. In many governments, this contingent workforce plays a significant role, particularly when it comes to handling seasonal spikes in demand in areas such as tax collection and building maintenance.

Solid, long-term connections with the external workforce offer two key benefits. First, they can improve work quality. Building strong ties with talented technology-oriented freelancers, for example, can speed up the development of digital tools. Second, these relationships can help reduce costs by allowing more efficient management of peaks in labor demand, for example, or by coinvesting with outsourced providers in the training of contingent workers.

THE IMPERATIVE TO remake HR in the public sector is impossible to ignore. But governments must put the right pieces in place to drive the changes needed. First, they must dedicate adequate resources and talent to the effort. This means resisting the ever-present temptation to pare the HR budget and staff as overall government budgets tighten. Second, leaders should ensure that the right governance structures are in place, including a project management office to oversee and manage key HR initiatives. Third, governments must be willing to experiment through pilot projects that test new initiatives in specific ministries or regions before they are deployed nationally. And fourth, the effort must include collaboration among HR leaders in different ministries, agencies, and geographies in order to rapidly identify and share best practices.

With these key mechanisms in place, leaders can accelerate the transformation of the HR function and boost the overall efficiency and effectiveness of the entire government organization.

NOTE

1. Deutsche Bahn is a private company, but the Federal Republic of Germany is its only shareholder.

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