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Fédération Mondiale des Associations de Direction de Personnel
Weltverband der Vereinigungen für Personalführung
Federación Mundial de Asociaciones de Dirección de Personal

World Federation of Personnel Management Associations

Creating People Advantage

How to Address HR Challenges Worldwide Through 2015

Executive Summary

The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients in all sectors and regions to identify their highest-value opportunities, address their most critical challenges, and transform their businesses. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with 66 offices in 38 countries. For more information, please visit www.bcg.com.

The World Federation of Personnel Management Associations (WFPMA) is a global network of professionals in people management. It was founded in 1976 to aid the development and improve the effectiveness of professional people management all over the world. Its members are predominantly the continental federations which are made up of more than 70 national personnel associations representing over 400,000 people management professionals. For more information, please visit www.wfpma.com.

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Executive Summary

Throughout the sweep of history, talented individuals have always risen above the known limits of their time: Where would the world be today without the contributions of great minds like Albert Einstein, Adam Smith, and Leonardo da Vinci?

At the same time, many world-shaking accomplishments have demanded individual genius and the dedication of a cast of thousands. The cathedrals in Europe, the mosques in Asia and Africa, the Panama Canal, and the U.S. transcontinental railroad, for example, all emerged through the hard work and collective efforts of countless craftspeople and workers. These great structures all stand as testimony to human achievement.

People *can* make a difference when they dare to believe in creating advantage for themselves, their communities, and their future.

Creating People Advantage

The pace of change has accelerated dramatically in recent decades, producing seismic changes in business and society. One consequence of these shifts, which we outline below, is that people are more important than ever to success. Their importance will only grow in the future.

Companies are complex social systems that require clarity of purpose, guidance, and direction. Companies that fine-tune these systems by creating what we call *people advantage*—the ability to gain competitive advantage through people strategies—will race ahead of their competitors.

◇ *Talent and leadership are becoming even scarcer resources than ever before.* This scarcity results from dramatic changes in the complexities of business and the expectations of employees. Increasingly, people are the most important asset at many companies, and the fortunes of these so-called people businesses are closely tied to their leadership and the talent they employ.

◇ *The work force, on average, is growing older, and people are having fewer children.* Just a few years ago, companies were restructuring and reducing their work forces, but many will soon find it difficult to fill key positions and replace the valuable knowledge held by retiring employees.

◇ *Companies are becoming global organizations.* As businesses expand into new markets, they will face an increasingly complex HR environment, particularly as they try to recruit and retain foreign talent and integrate diverse cultures.

◇ *The emotional well-being of employees is more important than ever before.* While many employees once expected to stay at one company—or at least in one industry—until retirement, they no longer have that expectation. Indeed, employees increasingly will make job choices and sacrifices on the basis of family considerations and a desire for a life outside of work.

While the HR challenges are greater than ever before, so too are the opportunities for companies to excel through people strategies. On the following pages, we arm executives with an overall approach for creating a people advantage and with facts about the HR and competitive

environment of the future. This process and knowledge will help executives understand how best to tackle talent, leadership, and demographic challenges.

We believe very strongly that the HR function must be able to measure, count, and calculate the effectiveness of both its internal operations *and* the company's overall people strategies. One of the reasons that HR ranks lower on the corporate totem pole today than the finance department is that HR managers often cannot quantify their successes. Our hope is that this report will help rectify that shortcoming, raise the profile of HR to its proper place in the corporate hierarchy, and enable companies to start to create a sustainable people advantage.

## Understanding the Connections that Link HR to Metrics and Strategy

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 HR and people strategy is the cornerstone of their corporate strategy. One of the most effective ways to integrate HR and strategy is through the creation of a strategic work force plan.

To formulate and execute such a plan, executives should take two major steps. First, they should understand how their company's overall strategy drives the demand for people. Without this foundation of fundamental knowledge, the HR department lacks long-term guidance. Even so, few companies systematically analyze the future supply of and demand for employees under different growth scenarios and on a job-by-job basis. Such an approach enables companies to determine how many employees they are likely to need, which qualifications those employees should have, and when the companies will need them over the next 5, 10, or even 15 years.

Second, companies should also understand the four "bridges" that connect strategy and HR: sourcing strategy, performance strategy, development strategy, and affiliation strategy. These linkages must be in place.

◇ *Sourcing Strategy.* The activities a company undertakes in recruiting, hiring, internal staffing, HR marketing

Exhibit 1. HR Needs to Be Connected to Strategy While Relying on Metrics

Strategy

Metrics

HR

Source: BCG analysis.
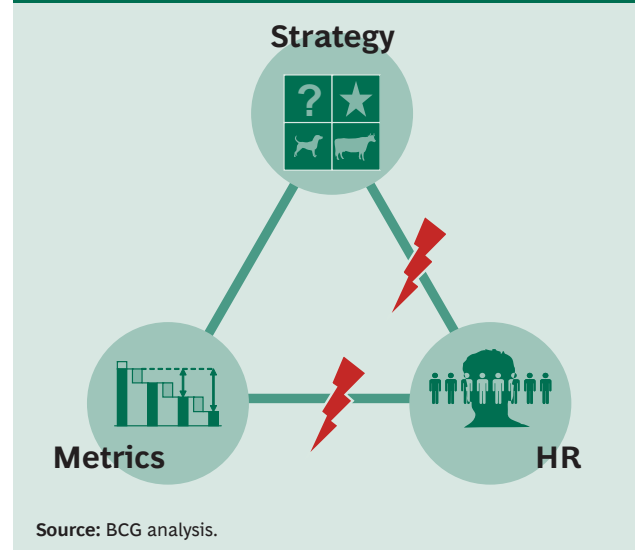
and branding, and diversity efforts should precisely target its work force needs as determined by the company's analysis of the future supply of potential employees in the labor market and its own future demand for workers.

◇ *Performance Strategy.* The company's approach to individual performance management, human capital metrics, and incentive systems should support overall corporate goals.

◇ *Development Strategy.* A company's efforts at developing its people and leaders must reinforce the corporate strategy.

◇ *Affiliation Strategy.* The company should establish systems to track compensation and retention, work-life balance, engagement and motivation among employees, and corporate social responsibility in order to make ongoing adjustments to these critical tools for building relationships with employees.

Companies need to be able to measure each of these four linkages so that top executives understand the quantitative dimensions of people issues in the same way that they grasp the financial impact of their strategic decisions.

By following the structured approach of the strategic work force plan, many companies discover that their HR and people strategy is *not* a cornerstone of the overall strategy. Still, the reality is clear: People drive strategy. Companies need to rely on metrics to make sure they know where their people are headed.

Many executives today have "dashboards" on their computer desktops that provide a quick picture of their company's traditional financial and business performance metrics. These dashboards should also highlight quantitative and qualitative HR metrics. Quantitative metrics could include employee attrition, recruiting success, or the value added per person—a new measure of productivity. Qualitative measures might include scores from employee surveys assessing leadership and employee engagement.

Until top executives have a fuller and more accurate view of HR activities, the HR function will not achieve its proper role within the corporation.

Deploying Operational Excellence to Bring the HR Function up to Speed

HR departments alone cannot execute a people strategy. Rather, a truly effective people strategy requires insight from line executives, supporting metric systems, and the demonstration of business impact. Another prerequisite is an effective and trusting partnership between line managers and the HR function. Furthermore, if the HR department does not have its own house in order, it will lack the time and the credibility required to play a strategic role.

The senior HR executive can build his or her reputation and credibility by focusing on three key areas: capabilities; accountability and efficiency; and cooperation.

Capabilities

Excellence starts at the top. The most senior HR executive therefore must have credibility with the company's chief executive and the executive team. Ideally, he or she should have the same status and power as the chief financial officer. Initially, the top HR executive can gain credibility by pursuing the following approaches, which have proven track records:

◇ Staffing the organization with high performers who possess a deep understanding of business issues

◇ Establishing the HR function as a step on the career path of high-potential employees

◇ Building the people management skills of line managers

Accountability and Efficiency

In addition to advising business executives on their people needs, top HR managers are also line managers of their own department. They need to ensure that their internal operations are effective and that they are optimizing the HR delivery model in three ways.

◇ They should automate processes, including the use of Web-based applications, in order to boost productivity and improve access to HR services for staff and managers. This step will also improve the consistency of their HR processes across their operations.

◇ They should use shared services and outsourcing arrangements whenever advantageous to handle the operational aspects of HR activities so that the HR function can concentrate as much as possible on value-adding activities.

◇ They should clearly distinguish among the various roles in HR: generalist, specialist, business partner, and administrator. Dividing the roles in this way will help HR employees develop deep competencies and simplify the career development tracks within and outside of the function. In other words, efficiency does not require that all HR managers be jacks-of-all-trades.

Cooperation

Large organizations depend on cooperation in order to achieve their goals efficiently. Yet employees and departments often do not cooperate because they do not pay the price for failing to do so. The HR function is well suited to address this issue and has the following duties:

◇ Designing key HR processes such as people reviews, career and mobility management, and compensation reviews so that corporate, departmental, and individual goals are achieved. This step requires an active and

courageous contribution from the HR department to overcome the natural tendency of individual managers to act as if their employees and resources "belong" to them and not to the corporation.

◇ Serving as experts on organizational issues to ensure that the proper accountabilities and metrics are in place to facilitate cooperation. This duty can encompass several dimensions, such as analyzing the number of layers in the organization and the spans of control; measuring and improving employee engagement; and establishing individual and collective accountabilities when defining roles and key performance indicators. Top HR executives also should possess the skills needed to coach managers and should provide them with insightful ideas on organization and people management.

Facing the Future

One of the difficulties that HR executives face is the challenge of comparing their company's practices with those of competitors. Chief financial officers can scan their Bloomberg terminals to discover the financing vehicles of their competitors. Likewise, chief information officers generally know what systems their peers are installing, often learning of them through word of mouth, vendors, or trade publications. By contrast, HR executives have not had many places to make similar comparisons—until now.

This report provides a comprehensive view of HR practices in the world today.

◇ **HR and other executives throughout the world identified the top future challenges in a Web survey that BCG and WFPMA conducted in 83 different countries and markets. The survey captured the views of more than 4,700 executives on 17 topics in human resources management and a total of 194 specific action steps associated with those topics. To deepen our understanding of the current and future HR landscape, we also conducted follow-up interviews with more than 200 senior executives globally.**

◇ The top eight future challenges in HR identified by the survey are the capabilities that executives expect to be the most important in managing human capital from

2010 through 2015—and in which they reported that their companies were currently weakest.

◇ On average, only 40 percent of all executives who perceived at least one of the eight globally critical topics as important for the future told us that their companies have begun tackling it today.

We believe that by understanding the quantitative results of this survey, executives will be able to lay the foundation to create strategic HR processes. We highlight the major themes of our analysis here.

In the near future, companies will face eight particularly critical HR challenges that fall into three strategic categories. (**See Exhibit 2.**)

◇ *Developing and Retaining the Best Employees.* The first category consists of the challenges of *managing talent*, *improving leadership development*, and *managing work-life balance*.

◇ *Anticipating Change.* The second category encompasses *managing demographics*, *managing change and cultural transformation*, and *managing globalization*.

◇ *Enabling the Organization.* The third category consists of *becoming a learning organization* and *transforming HR into a strategic partner*.

Corporations that can meet these challenges head on will build and sustain competitive advantage. In feedback gleaned from the Web survey and the follow-up interviews, we identified several possible actions for enhancing capabilities in each of the topics.

Developing and Retaining the Best Employees

◇ *Managing Talent.* This is the topic at or very near the top of the agenda in every region and every industry. It involves attracting, developing, and retaining all individuals with high potential—regardless of whether they are managers, specialists, or individual contributors—across all levels of the organization. Companies may soon find talent scarcer than funding, as individuals gain more employment options. To tackle this challenge, companies should consistently and deliberately

communicate their HR value proposition and marketing messages and identify new talent pools. In talent planning, they also need to take into account the future geographic footprint and future activities of the firm, and they should implement programs that will enable talent affiliation and development.

◇ *Improving Leadership Development.* Leadership development is closely linked to talent management. Furthermore, the value added by management and managerial engagement contribute critically to outstanding business performance in today's increasingly complex organizations—and leadership plays an essential role in generating both. Leaders convey the mission and sense of purpose of the organization. They serve as role models, are the primary developers of people, and engage the staff in highly visible ways. Corporations should invest considerable resources in defining specific leadership models, assessing their leaders, and designing development programs.

◇ *Managing Work-Life Balance.* Many employees are looking for more than just a paycheck these days. Employ-

ers will need to understand this quest in order to attract and retain talent. Some workers have multiple employment options and can pick a job on the basis of flexible work hours and other nonfinancial features. Other workers are willing to work beyond retirement age provided that they can take longer vacations than their career-track colleagues. Many younger employees simply have new and nontraditional expectations about work. Company responses to employees' needs may range from providing flexible work arrangements to addressing employees' growing desire to derive a sense of greater purpose from their work. Increasingly, companies will find it beneficial to offer "motivational management," under which some elements of compensation will consist of nontraditional and noneconomic features. Even when companies offer such initiatives today, however, employees often perceive that these options may hinder their careers and their standing within the company.

Anticipating Change

◇ *Managing Demographics.* With the work force in developed economies graying, companies need to manage

Exhibit 2. Globally, Eight Topics Demand the Most Immediate Action and the Greatest Attention

Sources: Proprietary Web survey with responses from 83 countries; BCG/WFPMA analysis.
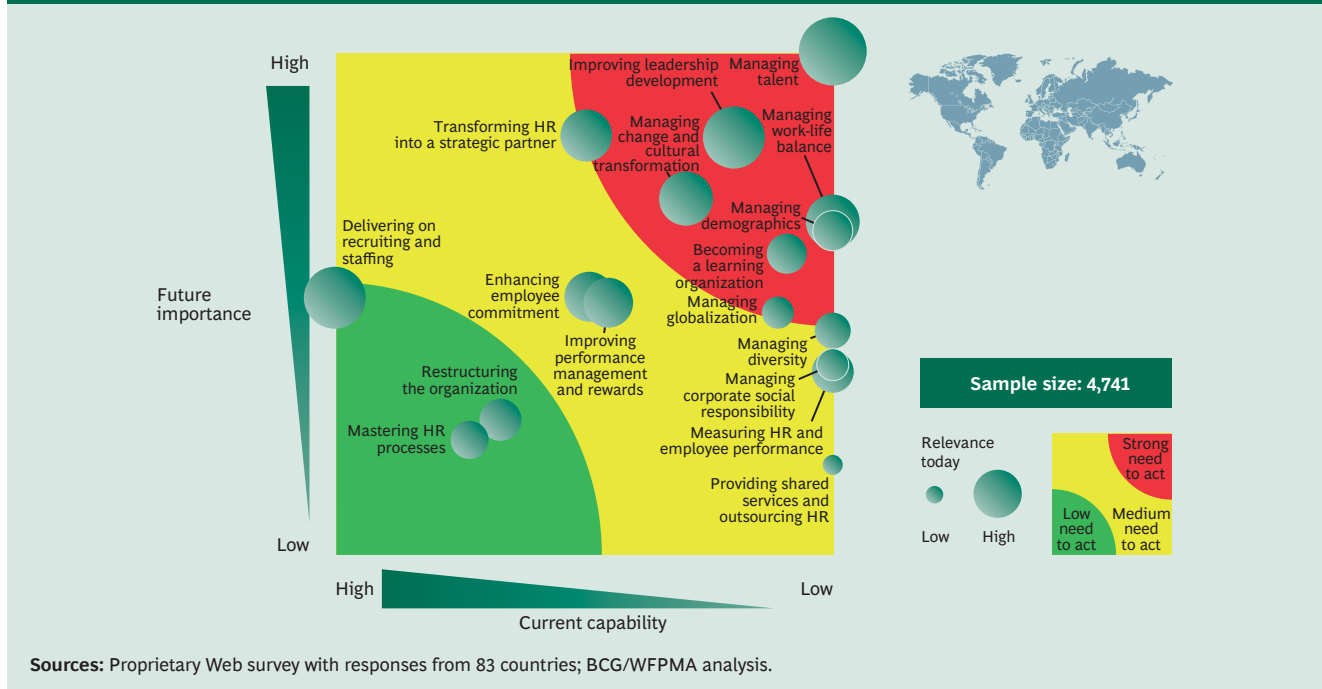
two risks: the loss of capacity and knowledge as employees retire and the loss of productivity as the work force ages. Companies can minimize their exposure to such demographic risk by creating a systematic approach to analyzing the future supply of and demand for employees under different growth scenarios. This approach will allow companies to determine how many employees they are likely to need, which qualifications those employees should possess, and when the organizations will need them. At the same time, companies across all industries need to analyze and understand the effects of an aging work force and then take dedicated and focused actions to address or mitigate those effects. For example, companies can add or enhance career tracks, shift work schedules, or adjust health-management programs so that an aging work force can maintain the highest levels of productivity.

◇ *Managing Change and Cultural Transformation.* This topic is not, as executives sometimes contend, merely a "soft" issue; all change should be hard-wired into an organization in a tangible and measurable way. As the pace of change quickens, managing corporate and cultural change becomes a critical capability, especially for companies in the consumer goods and technology industries as well as the public sector. Yet change is the toughest challenge that companies face, especially complex, high-stakes, breakthrough change. Companies need to develop an integrated approach that addresses both operational and organizational changes, focuses on the behaviors of employees, and uses rigorous tracking and reporting to stay on schedule and on budget. The HR function—together with the change-management leadership team—has a critical role to play.

◇ *Managing Globalization.* All large companies face globalization, as they either move into new global markets or face competition from them. Rapidly developing economies like Brazil, China, India, and Russia, will be critical to the success or failure of many companies. One of the main HR challenges that these companies will face in *managing globalization* is making sure that the right people are in place in the right locations and that there is effective and efficient cross-country and cross-cultural collaboration.

Enabling the Organization

◇ *Becoming a Learning Organization.* In a world driven by innovation and rapid change, *becoming a learning organization*—from top to bottom—provides a clear competitive advantage. Creating this advantage requires careful planning to ensure that the right people are being trained in the right ways. Few companies told us that they have found the ideal way to prepare their employees to cope with the complexities and accelerated speed in an increasingly global economy. This topic is particularly important since many national education systems are failing to arm potential employees with the skills that they will require to keep pace in the future. Corporate investments in learning and training activities are likely to increase significantly, and companies will need to monitor more systematically their return on these investments.

◇ *Transforming HR into a Strategic Partner.* While many HR executives told us that their companies are proficient in this topic, they nonetheless recognized its future importance. Executives who work outside the HR department, meanwhile, cited a big need for HR to improve its ability to become a strategic partner. As we mentioned earlier, one of the keys for success will be ensuring that HR professionals have the operating experience and business acumen required to add value to the business itself. Another key to success will be the ability of the HR department to optimize its delivery model through both appropriate organization and governance and the use of automation and shared services or outsourcing arrangements whenever relevant. Most of the topics presented in this report will require HR to assume the role of a strategic partner.

Executives in different regions tended to have different priorities. These differences reflect the cultural, economic, and demographic characteristics of the regions.

◇ In North America, participants perceive *managing talent*, *managing demographics*, *improving leadership development*, *managing work-life balance*, and *transforming HR into a strategic partner* as critical challenges.

◇ The two top future HR challenges in Latin America are *managing work-life balance* and *managing talent*.

◇ In Europe, *managing talent* and *managing demographics* emerge as key challenges.

◇ In Africa, executives identified *managing talent*, *managing work-life balance*, *managing globalization*, and *managing diversity* as major future challenges.

◇ The key HR challenges in Emerging Asia—a region of developing economies such as China and India—are: *managing talent, improving leadership development, becoming a learning organization*, and *managing work-life balance*.

◇ Executives in Established Asia—a region of mature economies such as Japan, Singapore, and South Korea—are primarily concerned with *managing talent, improving leadership development*, and *managing globalization*.

◇ In the Pacific Region, executives named *managing talent, improving leadership development, managing demographics*, and *managing change and cultural transformation* as critical future HR challenges.

Meeting the eight critical challenges looming on the horizon will be a Herculean task for HR executives— but these are not the only challenges they face. If they hope to gain the trust of senior executives, HR executives must also excel at the fundamentals of the HR function: restructuring the organization, delivering on recruiting and staffing, and mastering HR processes.

◇ *Restructuring the Organization.* While restructuring is commonly viewed as a cost-reduction exercise, the topic also applies to growth scenarios. As they restructure, companies need to ensure that employees and groups of employees are cooperating and that they remain engaged in the organization. The ability of HR to smoothly and effectively manage restructuring processes, such as labor relations and redeployment, is a key asset in all regions, not only the highly regulated ones, as it creates both agility and long-term affiliation.

◇ *Delivering on Recruiting and Staffing.* As skilled labor becomes harder to obtain, as employees' loyalty to a single company decreases, and as traditional means of delivering on recruiting and staffing—such as newspaper advertisements and Web pages—lose effectiveness, HR departments should renovate their current recruiting and staffing processes. In particular, they should pay close attention to HR branding and marketing activities. HR will also need to work closely with line managers on this topic, paying special attention to internal staffing. The time it takes a company to fill a new position is often a key performance indicator that is analyzed by corporate leaders.

◇ *Mastering HR Processes.* To be perceived favorably by senior management, HR functions should systematically assess and improve all basic HR processes. One of the first steps toward achieving this goal is separating administrative services from strategic tasks in order to increase efficiency and effectiveness. HR operations should then be treated with the same systematic and total-quality approach that is typically applied to industrial processes.

In addition to boosting their capabilities in the 11 topics described above—the top eight HR challenges and the three fundamental HR capabilities—companies will also want to determine which of the remaining six HR topics will warrant their investment: *managing diversity, enhancing employee commitment, improving performance management and rewards, managing corporate social responsibility, measuring HR and employee performance*, and *providing shared services and outsourcing HR.*

The best way for a company to start making decisions about its future focus and activities is by taking five major steps. By following this approach, companies will have a powerful tool to create their people advantage.

◇ *Understand the External Environment.* This analysis should include general trends, business challenges, and the corporate strategy.

◇ *Understand the Internal Environment.* HR needs are unique to every business. Companies should conduct an HR audit that uses both quantitative and qualitative indicators and that seeks to understand HR as an investment rather than merely as a cost.

◇ *Select the Most Critical of the 17 HR Topics and Set Priorities.* Companies should then examine which of the 17 HR topics are and will be most relevant for them—and analyze thoroughly their current capability in each topic.

◇ *Initiate Projects with Dedicated Teams.* For some topics, dedicated teams help to boost dramatically senior executives' perception of HR capabilities. On average, executives rated the performance of their company's HR function 18 percent higher when dedicated teams oversaw particular HR topics. Generally, teams are more successful if they consist of employees from both within and outside HR.

◇ *Secure Support from Top Management.* Certainly, most corporate activities are more successful when those at the top care about the outcome. When respondents reported having the support of top management, they rated their HR capabilities 20 percent higher than did executives who said they lacked such support. Unfortunately, only 40 percent of survey respondents reported that they received sufficient support from top management.

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