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European Association for People Management

Creating People Advantage 2013

Lifting HR practices to the next level

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CREATING PEOPLE ADVANTAGE 2013

LIFTING HR PRACTICES TO THE NEXT LEVEL

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OVERVIEW

The benefits of best-in-class people management are indisputable, yet companies struggle to translate their ambitions for their HR practices into concrete actions. For this year's Creating People Advantage report, The Boston Consulting Group, in partnership with the European Association for People Management (EAPM), used an empirical approach to quantify the differences between companies with high capabilities in managing people and those with low capabilities. In this way, we identified specific practices, in ten broad HR topics, that can lift companies' people management to a higher level. The report presents these specific practices in full detail, as well as some overall trends that we observed across most people-management areas.

First, companies must align their HR strategy with the overall company strategy along the complete HR value chain. Long-term strategic workforce planning, recruiting, performance management, and employee development require a holistic approach and systematic investments. The gears that drive HR activities need to mesh effectively.

Second, companies should break down the silos and ensure that business units and regions do not act on their own. Instead, they need clear governance and a structured HR model. Steering HR activities in a consistent manner across the complete organization calls for the proficient use of HR communications, including social media.

Furthermore, companies should continually monitor their HR activities and ground their decisions in objective data. They need to build predictive models on the basis of data that give an accurate picture of workforce supply and demand and that track HR KPIs. In this way, they can develop and channel their talent effectively and adjust their recruiting and training efforts to match business needs.

EUROPEAN TRENDS IN MANAGING PEOPLE

Since the publication of *Creating People Advantage 2012: Mastering HR Challenges in a Two-Speed World*, the operating environment for European companies has grown even more challenging. Lingering economic uncertainty across Europe, the accelerated pace of business, globalization, and digitalization have created a more difficult arena in which to compete, and the difficulty is compounded by growing talent shortages in key areas. Improved people-management capabilities can help companies navigate these challenges, yet it is often difficult to identify the concrete actions on which HR leaders should focus their efforts.

The 2012 global report established a clear connection between high capabilities in managing people and overall economic success. Building on that foundation, our aim for this report is to give HR leaders clear guidance by identifying actions with the greatest likelihood of getting companies from good to great in people management.

Data collected through an online survey generated 2,304 responses from executives in 34 European countries, across a broad range of industries. In addition, we conducted 37 in-depth interviews with HR executives from well-known multinational companies. One important change in the current survey is that we consolidated the 22 topics of the previous survey into 10 broader topics. This was done to concentrate on the most relevant HR areas and allow for more in-depth analysis in these areas. (For more about the methodology, see Appendix I; for a list of the executives we interviewed, see Appendix II.)

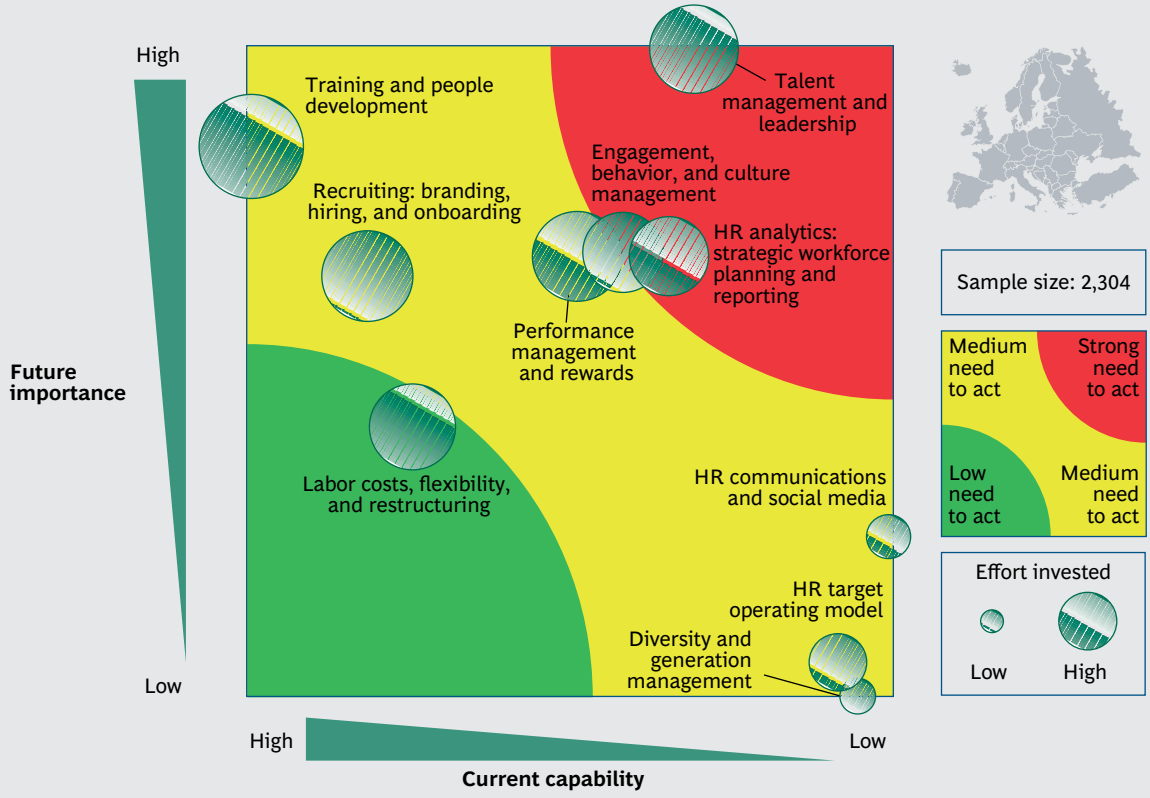
Europe's Top Priorities for 2013

By asking respondents to rate their company's current capabilities across ten key HR and people-management topics, along with the future importance of those topics, we generated a prioritization matrix. (See Exhibit 1.)

The three topics in the red zone—*talent management and leadership*; *HR analytics*; and *engagement, behavior, and culture management*—are those that should be the most urgent priorities for executives. Although executives gave those topics high ratings for future importance, companies on average rate their current capabilities as being rather low. Also among the individual countries—as well as among the different industries—represented in our survey, these topics were consistently ranked among those with the highest need to act. (See Exhibit 2.)

Current capabilities were rated lowest for *HR communications and social media, diversity and generation management*, and *HR target operating model*. These topics also received the lowest ratings for future importance. In our opinion, however, these topics, which are directly

Exhibit 1 | Respondents Identified Talent Management and Leadership as the Most Critical HR Topic; They Devote the Greatest Effort to Training



Source: 2013 BCG/EAPM proprietary Web survey and analysis.
Note: Average values of countries were weighted according to the countries' real GDP.

Exhibit 2 | Talent Management and Leadership, Followed by HR Analytics, Ranked Highest in Most Countries

High — National GDP — Low

HR topic \ Country	DE	UK	FR	IT	ES	RU	NL	TR	CH	SE	BE	AT	NO	DK	IE	FI	GR	PT	RO	UA	HR	SI	BG	MK	MT
Talent management and leadership	1	1	1	1	1	2	2	1	1	1	3	1	1	1	2	1	1	2	1	1	1	1	3	1	1
HR analytics: strategic workforce planning and reporting	2	2	6	2	3	6	1	5	2	2	1	3	4	3	3	5	4	3	8	6	8	4	2	4	4
Engagement, behavior, and culture management	7	4	3	3	2	4	5	3	6	4	2	9	2	4	1	4	2	4	5	4	3	2	1	5	3
Performance management and rewards	8	3	2	7	4	1	8	8	8	6	5	2	5	2	4	3	3	1	7	2	5	7	6	3	2
HR communications and social media	5	6	4	4	5	9	3	2	3	3	4	5	7	5	7	2	5	8	3	5	6	5	8	2	6
HR target operating model	6	7	7	6	8	3	9	4	7	9	10	6	6	6	5	7	9	7	6	3	4	8	4	6	7
Training and people development	10	5	8	8	6	5	4	7	5	8	6	10	8	7	6	9	6	5	2	9	2	3	9	8	5
Diversity and generation management	4	10	9	5	7	10	7	6	9	5	8	4	9	8	8	10	8	10	4	8	10	6	5	9	10
Recruiting: branding, hiring, and onboarding	3	9	5	9	10	8	10	10	4	7	9	8	3	9	10	8	10	9	10	10	9	10	10	10	9
Labor costs, flexibility, and restructuring	9	8	10	10	9	7	6	9	10	10	7	7	10	10	9	6	7	6	9	7	7	9	7	7	8

Rank 1 2 3 4 5

Source: 2013 BCG/EAPM proprietary Web survey and analysis.
Note: The data are from countries with more than 20 respondents. Rankings are based on the combined values of future importance and current capabilities. The sorting of HR topics is based on overall rankings. DE = Germany, UK = United Kingdom, FR = France, IT = Italy, ES = Spain, RU = Russia, NL = Netherlands, TR = Turkey, CH = Switzerland, SE = Sweden, BE = Belgium, AT = Austria, NO = Norway, DK = Denmark, IE =Ireland, FI = Finland, GR = Greece, PT = Portugal, RO = Romania, UA = Ukraine, HR = Croatia, SI = Slovakia, BG = Bulgaria, MK = Macedonia, and MT = Malta.

related to important megatrends, should not be underestimated. This is especially true of *diversity and generation management*, which, given the aging European workforce and the dwindling labor supply, will play a crucial role in the future.

Return on Effort Invested

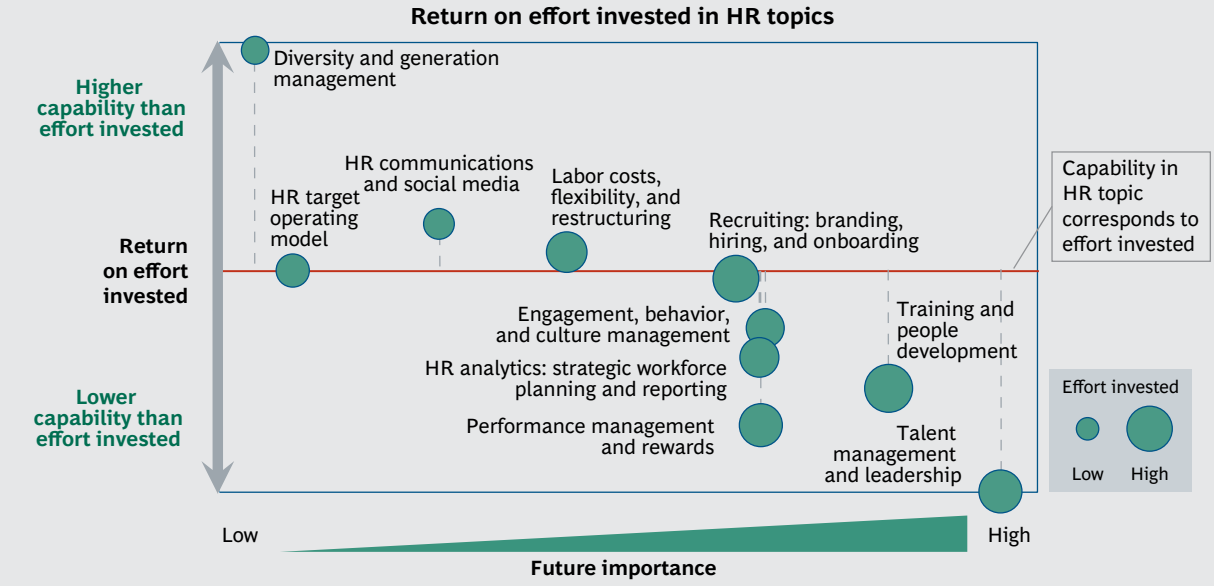
We considered the current capability levels of the ten HR topics in relation to the effort invested in them—time, money, and full-time employees over the past three years. That allowed us to assess how effective companies had been in their efforts to improve HR capabilities. (See Exhibit 3.) Topics above the horizontal line show higher ratings of capability than would be expected in view of the efforts invested in them over the past three years. Topics below the horizontal line, however, show a negative return on effort invested. Capabilities in these areas are lower than one would assume by looking at invested efforts: the investments did not lead to commensurate improvements.

In two topics, companies' capabilities clearly exceed the effort invested in them: *diversity and generation management* and *HR communications and social media*. If companies invest effort in these topics, they seem to generate a marked improvement in capabilities. These findings should motivate companies to increase their efforts in these areas.

By contrast, the lowest-efficiency topics were *talent management and leadership* and *performance management and rewards*. Current capabilities in these areas do not reflect the effort that companies have invested in them.

That said, ceasing investment effort in these topics is not an option, especially since their future importance is very high. These topics are complex and oriented to the future, and it takes longer for efforts invested in them to lead to visible results. It is, therefore, critical that companies adopt a long-term view. This is especially true for *talent management and leadership*, the topic that is seen as the most important for the future and that has the lowest return on effort invested.

Exhibit 3 | Talent Management Is Seen as the Most Important Future HR Topic, but Its Return on Effort Invested Is Lowest



Source: 2013 BCG/EAPM proprietary Web survey and analysis.
Note: Average values of countries were weighted according to the countries' real GDP; N = 2,304.

ROOT CAUSES OF SUCCESS

A KEY DIFFERENCE IN THIS year's report is that on the basis of empirical analyses, we sought to identify the root causes of people management success among highly capable companies across all ten of the survey's HR topics. In this discussion, the topics are arranged by order of the identified need to act.

Within each topic, we asked survey respondents who reported very high or very low current capabilities for their company—which also correlated with a high versus low return on effort invested—to provide more specific answers about subcomponents of that topic. (For details about the methodology, see Appendix I.) The results—shown graphically for each topic in the following section—establish a clear demarcation between highly capable and low-capability companies and highlight the activities that most clearly differentiate these groups. These activities represent the most effective drivers of success: the processes and functions that HR leaders should focus on to trigger meaningful improvements in people management performance and to increase their return on efforts invested. Exhibit 4 gives an overview of the most promising drivers of high capability in each of the examined sections.

For each of the ten HR and people-management topics, we provide detailed descriptions of the key differentiators between highly capable and low-capability companies.

Talent Management and Leadership

Talent management and leadership activities are used to identify highly capable employees and develop them for more senior positions of greater responsibility. It is a key means by which companies improve retention and fill their leadership pipeline. This topic showed the highest need to act and also the lowest return on effort invested. In our examination of highly capable companies, we identified the actions that companies should take in order to increase their capabilities and the return on effort invested in this area. (See Exhibit 5.)

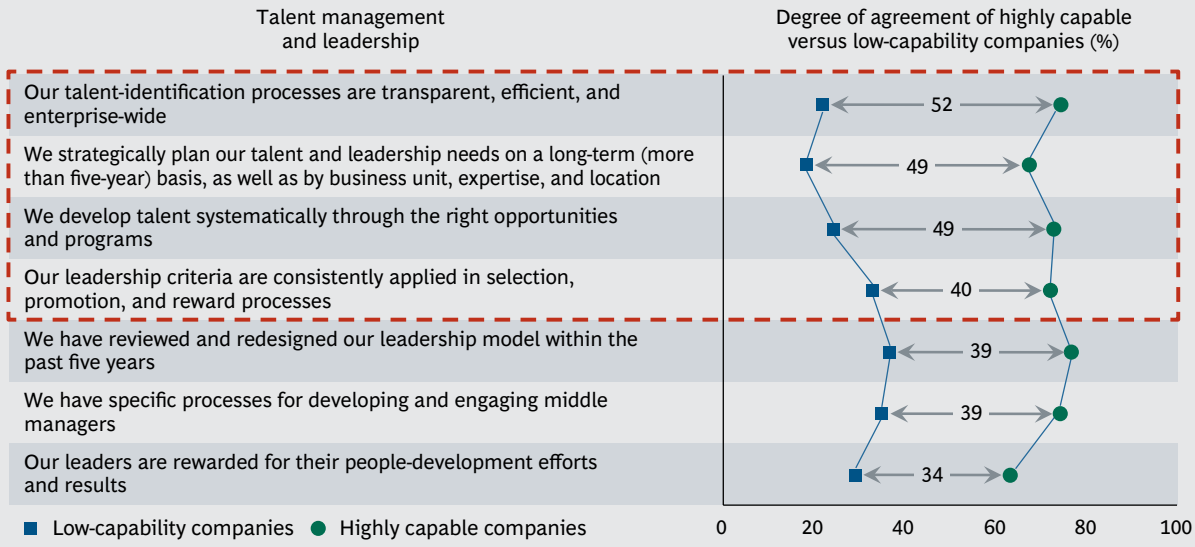
Break down the silos. When asked whether their talent-identification processes were transparent, efficient, and enterprise-wide, respondents of highly capable companies showed an average degree of agreement of 74 percent, compared with just 23 percent among low-capability companies.[1] Highly capable companies succeed in breaking down the silos of business units and locations, thereby enriching their talent and leadership pipelines. In this way, talented employees are not proprietary assets for individual managers; rather, these employees support the organization as a whole. In addition, everyone

Exhibit 4 | Thirty People-Management Measures That Make the Difference

HR topic	HR measure	Usage by highly capable versus low-capability companies
Talent management and leadership	Establish transparent, efficient, and enterprise-wide **talent-identification processes**	3.3x
	Strategically plan **talent and leadership needs** on a **long-term** (more than five-year) **basis** and by business unit, expertise, and location	3.6x
	Develop talent systematically through the **right opportunities and programs**	3.0x
	Consistently **apply leadership criteria** in selection, promotion, and reward processes	2.2x
HR analytics: strategic workforce planning and reporting	Define a clear process for **measuring HR and workforce KPIs**	2.2x
	Implement a **demand model linked to such driving forces as business strategy, productivity, and technology**	2.2x
	Establish a systematic and regular **process** to **update analyses and plans**	2.0x
Engagement, behavior, and culture management	Invest significantly in **developing company culture**	2.3x
	Measure **behavioral change** and associated **result improvement**	2.4x
	Establish a **management cascade process** to define actions for **improving engagement**	2.2x
Performance management and rewards	Define **clear performance criteria** for each job function	3.4x
	Consistently apply **performance criteria** in the **feedback and promotion process**	3.3x
	Establish a **compensation and benefits policy** that fosters the **right results and behavior**	2.6x
HR communications and social media	Define a **clear and integrated** HR communications and social-media **strategy**	3.7x
	Foster **effective monitoring of the company's social-media presence**	2.8x
	Provide **dedicated employees** responsible for **social-media activities**	2.8x
HR target operating model	Foster the business's **acceptance of HR business partners** as strategic sparring partners for all people-related topics	2.3x
	Foster delivery of high-quality service by **bundling HR expertise**	2.2x
	Create an **effective balance** of **localized and globalized HR roles** and responsibilities	2.5x
Training and people development	Use **learning and development activities for insights** regarding strategy development	2.6x
	Foster the **commitment of senior management** to learning and development	2.0x
	Establish a **clear link** between **business strategy and learning and development**	2.0x
Diversity and generation management	Invest systematically in **building senior employees' capabilities**	1.9x
	Systematically apply **cross-cultural team-building activities** and **cultural-awareness trainings** in diverse teams	1.9x
	Establish processes that **encourage junior employees to share their opinions**	1.6x
Recruiting: branding, hiring, and onboarding	Define the **recruiting strategy** for different candidate pools, entry levels, and channels	2.5x
	Develop an **employer value proposition** systematically on the basis of a **thorough analysis**	2.4x
	Establish a systematic **process** for **cultural onboarding of new hires**	2.2x
Labor costs, flexibility, and restructuring	Strive for **transparency on workforce supply and demand**	1.9x
	Maintain **flexibility in the workforce** by implementing **tools and methods**	2.0x

Source: BCG analysis.
Note: For each HR measure, we divided the average usage among the highly capable subset by the average usage among the low-capability subset. For example, average usage values of 74.5 percent and 22.9 percent for the top HR measure result in the displayed multiple of 3.3. Highly capable companies had a maximum capability rating of 5 for each respective HR topic; for low-capability companies, the rating of future importance was at least three points higher (on a scale of 1 to 5) than the value of capability. HR topics were sorted according to average need to act. Companies all have more than 50 employees.

Exhibit 5 | Root Causes of Success in Talent Management and Leadership



Source: 2013 BCG/EAPM proprietary Web survey and analysis.
Note: We define highly capable companies as those with a self-reported capability score of 5 in this HR topic. We define low-capability companies as those with a self-reported score of future importance that is at least three points higher than the self-reported score of current capability. Both scales range from 1 to 5. All companies have more than 50 employees. Degree of agreement (from 1 for "disagree" to 5 for "agree") has been turned into a percentage value by linear transformation. Highly capable companies n = 94; low-capability companies n = 258; total N = 2,304.

should have a fair shot at rising to leadership roles, and the evaluation and decision processes should be perceived as transparent and unbiased.

"Talent does not belong to individual managers but to the organization as a whole. By realizing this concept, we have been able to optimally allocate across the group and enhance the career development of our best people, because they're no longer limited to a particular silo."
Jean-Claude Le Grand, director of International HR Development at L'Oréal

Plan your talent for the long term and invest. About 60 to 80 percent of a company's leaders are typically promoted from within, and, in general, it takes 10 to 12 years for talent to rise to top-leadership positions. Because of this long development process, it is key to strategically plan talent and leadership needs on a long-term basis instead of simply reacting to ad hoc short-term trends. Highly capable companies have predictive models in place for planning for their talent needs at least five years into the future—by business unit, expertise, and location. This allows them to manage their talent proactively and, for example, to modulate the career pace of certain employees to prevent temporary oversupplies or talent gaps. As Société Générale's approach makes clear, planning for the long term also implies maintaining talent development programs in times of crisis. (See the sidebar "Société Générale Succeeds in Retaining Talent While Undergoing a Major Transformation Process.")

Make talent, not war. Best-practice companies analyze the experiences that a future leader requires in order to succeed, and they systematically develop their talent by offering the right trainings, opportunities, and programs. By motivating talented employees to migrate to strategic, high-growth zones (for example, through rotation

SOCIÉTÉ GÉNÉRALE SUCCEEDS IN RETAINING TALENT WHILE UNDERGOING A MAJOR TRANSFORMATION PROCESS

Société Générale, a French multinational banking and financial-services company, successfully managed to keep and develop its talent throughout a workforce reorganization. As a result of the global financial crisis, the company had experienced significant turbulence dating back to 2007, and it needed to reduce its cost base and simplify the organization to become more agile and adaptive. Bank leaders proposed a vast transformation program that would reorganize its operations in all divisions worldwide.

The reorganization forced the bank to reduce the total number of employees, and, working in conjunction with the strong French labor unions, it agreed on a new social contract, which among other measures, included a voluntary process for layoffs. At the same time, the bank's leadership insisted on continuing to develop internal talent and preventing the loss of key employees.

The strategy built on robust talent processes that Société Générale had put in place in 2009.[1] Among other improvements, there was a highly efficient talent-cycle process that included regular performance reviews, succession plans, and mobility management. The company also established a standard talent-governance model that it could apply in all regions.

The high level of transparency associated with the talent pipeline and international standardization proved crucial when the bank had to reduce its workforce in 2012. In order to ensure that it would retain key talent, Société Générale systematically reviewed more than 3,000 key employees (high-potential employees and high performers, ranging from emerging talent to prospective senior executives) out of a total workforce of more than 150,000. In doing this, the bank leadership demonstrated that it still recognized talent and that Société Générale would remain an employer that offered promising career options.

Another important pillar of the talent strategy was a new "mobility campus," which was staffed with former line managers and strong members of the HR function and which helped organize thousands of internal transfers efficiently. The mechanism allowed the bank to triple the number of transfers in a short period of time, so employees could shift from divisions and areas with overcapacities to those with greater need. To support these employees, the mobility campus also trained them in the skills they would need in their new roles, helping them adapt quickly and further increasing the retention of key talent.

These talent-management measures are still in place today, and as Société Générale's head of group HR, Edouard-Malo Henry, says, they "enable us to retain our best performers and prepare our future with high potentials, while running the necessary bank transformation."

This simultaneous process of reducing the workforce and developing and retaining key talent is symptomatic of a broader shift that has unfolded over the past several years. While traditionally the primary focus of companies was to attract, retain, and motivate talent, today, in many cases, the challenge is to reduce and retain at the same time.[2]

NOTES

1. See *Creating People Advantage in Times of Crisis: How to Address HR Challenges in the Recession*, BCG report, March 2009.
2. See *Reduce and Retain: Adjusting Workforces for the New Reality*, BCG article, December 2012.

and international-mobility programs), companies can proactively develop their talent according to their needs instead of being forced to buy talent.[2]

Walk the talk through consistent leadership criteria. Highly capable companies have clearly defined leadership criteria that pervade the HR value chain. By systematically applying their leadership criteria in all selection, promotion, and reward processes, these companies give transparent guidance to their employees and make sure that the talent that best fits the company's strategy makes it to the top.

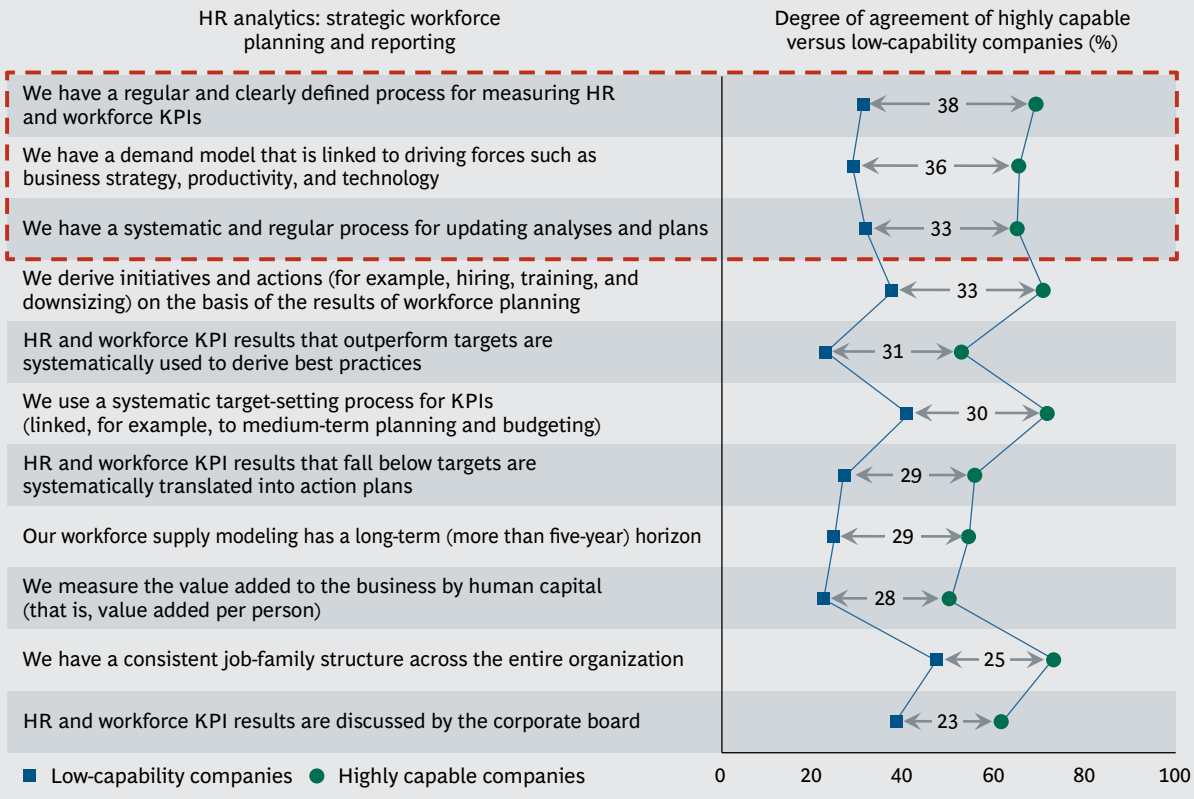
HR Analytics: Strategic Workforce Planning and Reporting

We define *HR analytics* as those activities that companies use to forecast workforce supply and demand and to track and report HR and workforce KPIs. Implicit in this activity is the analysis of data to make predictions, as well as the monitoring and improving of HR and people management processes.

This topic showed the second-most-urgent need to act, as well as a low return on effort invested. In digging deeper into the results, we identified the key actions that companies should take in order to increase their capabilities in *HR analytics*. (See Exhibit 6.)

Build predictive models. Highly capable companies have a regular and clearly defined process for measuring HR and workforce KPIs (the difference in the degree of agreement between highly capable and low-capability companies was 38 percentage points), and they use this as the basis for building predictive models

Exhibit 6 | Root Causes of Success in HR Analytics



Source: 2013 BCG/EAPM proprietary Web survey and analysis.
Note: We define highly capable companies as those with a self-reported capability score of 5 in this HR topic. We define low-capability companies as those with a self-reported score of future importance that is at least three points higher than the self-reported score of current capability. Both scales range from 1 to 5. All companies have more than 50 employees. Degree of agreement (from 1 for "disagree" to 5 for "agree") has been turned into a percentage value by linear transformation. Highly capable companies n = 132; low-capability companies n = 161; total N = 2,304.

regarding workforce engagement, performance, and behaviors. Using data to establish predictive models gives a quantitative foundation to decisions along the complete HR value chain—from selecting the most promising candidates in the recruiting process to predicting attrition and identifying the characteristics of successful leaders. Furthermore, the regular collection of HR data helps a company spot issues that need to be addressed and to quantify the success of people management initiatives.

"In the past, HR decisions were often driven by conventional wisdom, but without links to hard facts. In today's new environment, we are already improving our analytics to study, plan, and monitor workforce dynamics, including strategic workforce planning. In addition, analytics will help us internally sell all proposed HR actions, such as investment needs, learning development, and hiring plans."
Paolo Cornetta, group head of HR, UniCredit

Accurately assess job demand. Best-practice companies have a demand model linked to their business strategy that enables them to predict job profiles that will be needed by business unit and location. By using strategic-workforce-planning tools that enable companies to compare workforce supply with demand, HR can anticipate future shortages and surpluses and mitigate their impact on the company through proactive measures (such as increased recruiting efforts). To integrate workforce planning with the corporate strategy and finance, HR employees should work closely with line managers. As Syngenta demonstrates, strategic workforce planning can also lead to revamping the overall business strategy. (See the sidebar "Syngenta Uses Strategic Workforce Planning as a Strategic Tool to Support Its Growth Profile.")

"Over the past four years, we have developed a much more quantitative and scientific approach to mapping available internal and external talent, and comparing this to future needs by job function and capability."
Hugo Bague, group executive, organizational resources, Rio Tinto

Don't do it only once—update it. Highly capable companies have a systematic and regular process for updating their HR and workforce analyses and plans. When they measure KPIs, companies need to make sure that they are still in line with the company's strategy. This assessment should be done on a regular basis. The same is true for predictive models: to improve the precision of predictions, the models should be updated regularly with the newest available data.

Engagement, Behavior, and Culture Management

Engagement, behavior, and culture management includes the degree to which the organization can establish company-specific norms and behaviors for employees, engage and retain them, and give them the sense that they are contributing to something meaningful.

With high ratings of future importance and only moderate current capabilities, this topic also shows a high need to act. We identified several key activities for companies that want to improve their capabilities in *engagement, behavior, and culture management* and to increase their return on effort invested. (See Exhibit 7.)

SYNGENTA USES STRATEGIC WORKFORCE PLANNING AS A STRATEGIC TOOL TO SUPPORT ITS GROWTH PROFILE

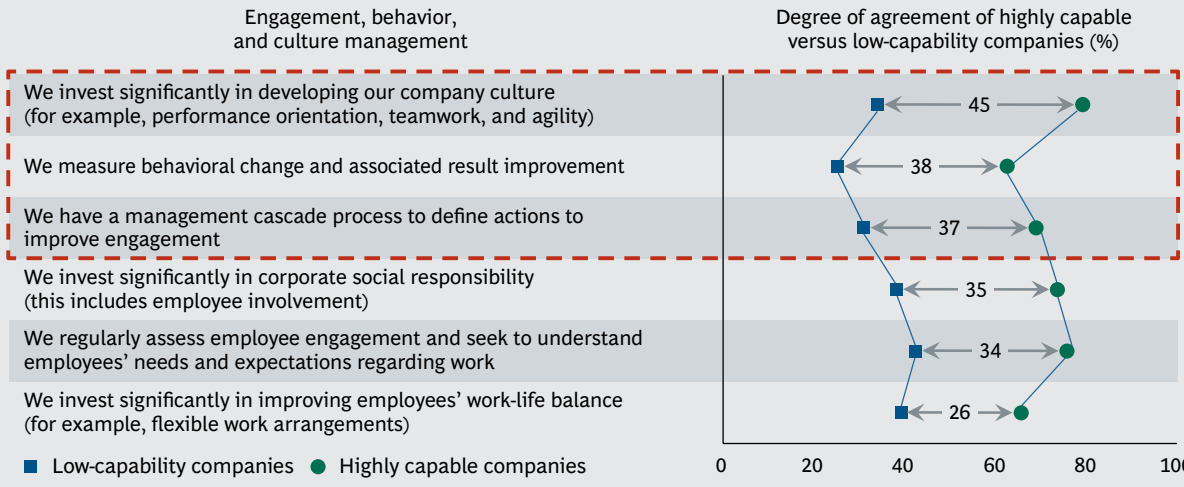
Syngenta, a large global Swiss chemical company that manufactures seeds and pesticides, launched a plan to increase its sales from $14 billion in 2012 to $25 billion in 2020. Achieving that growth would require an increase in staff, and Syngenta needed to accurately forecast the future demand and supply of employees, especially for key roles. It turned to strategic workforce planning.

The approach entails not only identifying the gaps in future demand and supply but also defining initiatives that can close those gaps. To start, the company ran two pilot tests on units with particularly rare job profiles. For these pilot areas, Syngenta analyzed both supply and demand for key positions, and then it performed a gap analysis by comparing the two. The model focused on more than merely adding employees in a linear relationship to sales. In fact, Syngenta held brainstorming sessions to challenge the forecast workforce demand and to determine whether there were other means of achieving the planned increase in sales. To generate new ideas, business units were asked to respond to hypothetical scenarios—for example, what they would need to do to hit the goals with no increase in staff size.

This innovative approach inspired open discussions and led to new ideas on how forecast capacity requirements could be reduced. Ultimately, in both pilot units, leaders identified specific measures with the potential impact of reducing employee demand growth by more than 50 percent. In this way, the people strategy challenged and ultimately changed the business strategy.

In order to spread this impact across all business units on a long-term basis and for all business units, Syngenta's leadership decided to install a global strategic-workforce-planning team. The team's objectives: to continually monitor future employee demand and supply, provide a means to challenge business strategy, and inspire discussions on how to do things differently.

EXHIBIT 7 | Root Causes of Success in Engagement, Behavior, and Culture Management



Source: 2013 BCG/EAPM proprietary Web survey and analysis.
Note: We define highly capable companies as those with a self-reported capability score of 5 in this HR topic. We define low-capability companies as those with a self-reported score of future importance that is at least three points higher than the self-reported score of current capability. Both scales range from 1 to 5. All companies have more than 50 employees. Degree of agreement (from 1 for "disagree" to 5 for "agree") has been turned into a percentage value by linear transformation. Highly capable companies n = 95; low-capability companies n = 193; total N = 2,304.

Be proactive in shaping your culture. Best-in-class companies realize that the right corporate culture does not simply grow organically. Instead of waiting to see whether employees' behaviors might destroy value, they invest significantly in developing their culture. (See the sidebar "A Pharma Company Changes the Culture at a Production Site.") Although many leaders think that shaping the culture is mainly a communication effort, success requires actively changing the environment in order to embed cultural shifts and make behaviors stick.[3] In many cases, this is a big investment and can mean transforming processes that have a strong impact on the company's culture, such as budgetary oversight and control, strategic planning, capital expenditure controls, and performance and career management. And generally, it is the leaders themselves who must change their behavior. For example, a leader who wants to foster an entrepreneurial culture must not micromanage his employees.

Measure how much value your culture is creating. Highly capable companies have measurement tools in place that gauge the impact of culture initiatives and their influence on employee behavior. Leaders should implement systematic and recurring surveys with a very long reach (such as engagement and culture surveys) to assess how changes to the culture affect the bottom line and to identify negative trends. With the emergence of Web-based surveys, it is much easier to do this today than it was in the past.

Use a clearly defined management cascade. Best-in-class companies use a management cascade process to improve engagement and steer their culture in the desired direction. Although senior managers need to be onboard and supportive of culture initiatives, they are too far removed from front-line workers to succeed in delineating specific steps. It is crucial that management use the right mix of communications channels, which should include leader-led face-to-face discussions through organized management cascades (extending down at least four or five management levels). Furthermore, when they undergo cultural-change processes, many successful companies use a co-design, or "middle out," approach to make sure that middle managers really care about the organization rather than that they are simply conveying the change. The middle managers can also adapt initiatives to local peculiarities.

"After the formation of our European-level organization and some M&A activity in the Balkans, we faced a challenge in managing cultures. At the European level, our culture focused on results, while at the level of business units and countries, the organizations had their own very distinct cultures. Our challenge is to find the right balance between European group culture and operating-company culture in each local market."

Vassilis Stavrou, executive vice president, human resources, organization development, and sustainability, Delhaize Europe

Performance Management and Rewards

Performance management and rewards includes the assessment of how employees work, along with the effectiveness of incentives to improve performance. This involves activities such as monitoring employees' performance, providing constructive and timely feedback, and using a compensation model that links rewards to key behaviors that the company seeks to foster.

Although this topic received high ratings of future importance, the return on effort invested is very low. We identified the key aspects that companies should focus on in order to advance from good to great performance management. (See Exhibit 8.)

A PHARMA COMPANY CHANGES THE CULTURE AT A PRODUCTION SITE

A long-established and successful pharmaceutical-production site recently was facing new competitive challenges and cost pressures. The senior leadership was concerned about the level of responsibility and accountability among employees, how well they followed through on plans, and their ability to work cross-functionally rather than in isolated silos.

The senior leaders developed a blueprint for a new organization structure and recognized the need to make fundamental changes in the way things worked at the site. They chose to use what is commonly referred to as the ABC approach. The rationale underpinning this approach is that the behaviors (the Bs) you get are a result of the antecedents (the As) and consequences (the Cs). If you want different behaviors, you have to change the context. The ABC methodology enables leaders to pinpoint high-impact behaviors (positive and negative) and either reinforce or change the context that leads to these behaviors. The approach was implemented in the following four phases:

Identifying the Key Behavioral Issues. The process began with an analysis of key behavioral issues at the site, analysis of existing data (including employee surveys and the output of workshops and focus groups), and integration of this bottom-up insight with top-down insight from senior-leader interviews on the key behavioral challenges.

Understanding the Antecedents and Consequences. The team then conducted more in-depth analyses to identify the root causes of high-impact behaviors (both positive and negative) in a number of specific situations—for example, new-product introduction and the implementation of projects. Interviews and workshops with the employees involved helped uncover the antecedents and consequences that were driving both positive and negative behaviors.

Designing Solutions and Developing Action Plans. Once the root causes were better understood, the challenge was how best to change the antecedents and consequences in order to get the desired behaviors. Through brainstorming sessions, interviews, and cross-functional workshops with employees and managers in key operational areas, the team identified concrete changes to implement. For example, one antecedent was to prioritize initiatives and ensure that all team members understood their roles and management's expectations. And a meaningful consequence was peer recognition of accomplishments and constructive feedback.

Implementing the Changes. In the last step, the team prepared the action plans and began implementation. This included tightly defining role accountabilities and decision rights as part of the organization design work and implementing changes in the tracking and review of progress on key metrics.

Overall, the process strengthened accountability, improved prioritization, and increased collaboration. It helped the site ensure that important organizational changes were accompanied by real change in the way people did things at the site. This was not just an exercise in moving boxes on an organization chart: it was a step change in the way the site operated.

Make expectations clear. Highly capable companies have clearly defined performance criteria for each job function and, thus, ensure that employees know what is expected of them. In order to spur behavior that is truly beneficial for the company, leaders must carefully analyze which KPIs really drive the company's overall success and support its overarching strategy. The KPIs by which an employee is evaluated should be clear-

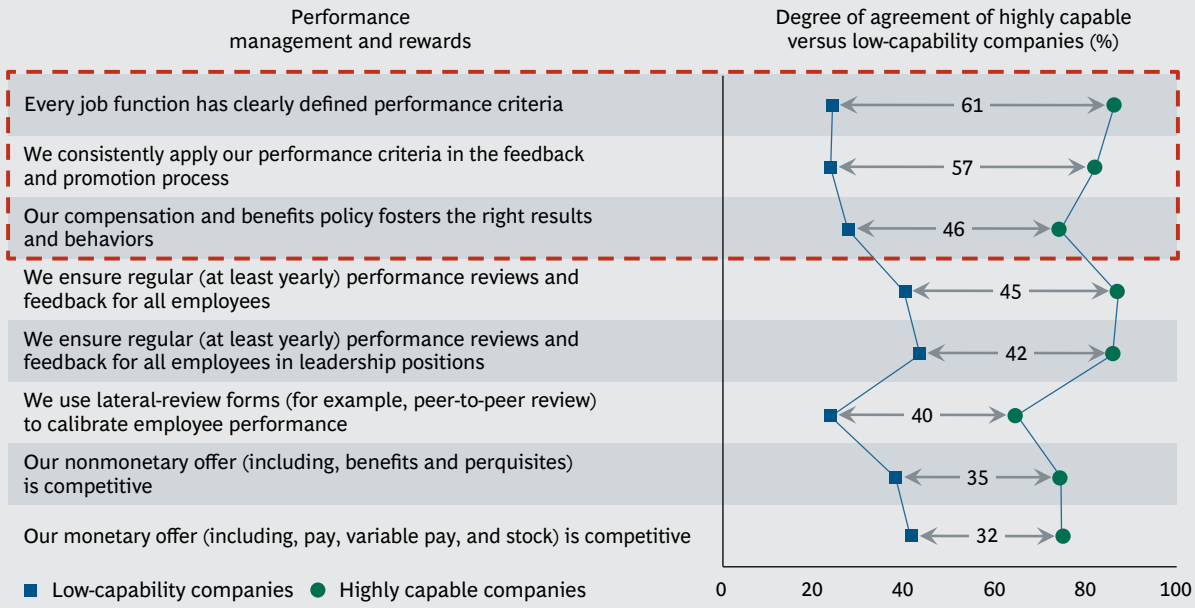
ly measurable, and companies should limit them to a manageable number. (See the sidebar "Henkel Rebuilds Its Performance-Management System Around Accountability and Gets Results.") Moreover, performance criteria must be updated in line with changes to the strategy—otherwise compensation and benefits might end up incentivizing yesterday's target behaviors.

"The biggest challenge is to establish a differentiated performance-evaluation process that clearly distinguishes between outstanding and weak performance. Differences in performance have to be communicated openly and need to be linked to clear consequences."
Uwe Tigges, chief human resources officer, RWE

Build a meritocracy governed by consistent performance criteria. Highly capable companies apply consistent performance criteria in the feedback and promotion process, and they align performance metrics both vertically and horizontally across the organization. By transparently and consistently linking individual results to bonuses and individual employees' careers, companies foster a sense of fairness, eliminate any perceptions of favoritism and bias, and make sure employees know that good work will pay off.

Reward both results and behaviors. In the past, many organizations assessed results and behaviors separately. Employees with the right behaviors received promotions, while those who delivered results got bonuses. Today, best-practice companies are moving toward a more comprehensive system for measuring performance, in which behaviors and results are linked to and rewarded through a transparent system of incentives. This holistic approach is described by Ivana Bonnet, human resources director at Crédit Agricole CIB: "In the new corporate- and investment-banking context, we have to make sure that all business lines work together effectively to

Exhibit 8 | Root Causes of Success in Performance Management and Rewards



Source: 2013 BCG/EAPM proprietary Web survey and analysis.
Note: We define highly capable companies as those with a self-reported capability score of 5 in this HR topic. We define low-capability companies as those with a self-reported score of future importance that is at least three points higher than the self-reported score of current capability. Both scales range from 1 to 5. All companies have more than 50 employees. Degree of agreement (from 1 for "disagree" to 5 for "agree") has been turned into a percentage value by linear transformation. Highly capable companies n = 108; low-capability companies n = 172; total N = 2,304.

HENKEL REBUILDS ITS PERFORMANCE-MANAGEMENT SYSTEM AROUND ACCOUNTABILITY AND GETS RESULTS

Henkel, a global manufacturing company based in Germany, recently conducted a major cultural shift to become a performance-driven organization. With 47,000 employees and a heritage that dates back to 1876, Henkel had grown quite solid by the middle of this century's first decade, when it held the second or third spot in many product categories but lacked a strong competitive spirit.

In 2008, the board named Kasper Rorsted as its new CEO. He started by outlining a bold set of financial goals and restructuring the company. He also took steps to revamp the company's culture, rewriting its values and vision statement to focus on excellence and a strongly customer-oriented approach. To make these changes stick, however, Henkel would need a new performance-management system.

At that point, the company's performance-management system was not sufficient to thrive in such a competitive environment. According to Rorsted, during the five-year period that ended in 2008, 95 percent of the company's employees hit their individual targets. However, during that period, the company did not hit its overall targets even once. Such dramatic gaps between individual and overall goals can be found at many companies. The company needed a new system with stronger management capabilities and increased individual accountability.

Henkel's approach involved the introduction of a four-by-four grid by which the company's 9,000 managers would be rated on their performance and future potential. The ratings would be assigned during collaborative roundtable sessions consisting of a group head, his or her direct reports, and a moderator from the HR department. Each manager's performance and potential was discussed for about ten minutes and was given a designation on the grid. Only a certain percentage of managers could be in each of the four performance categories—both within each operating unit and across the company.

In this way, the new system imposed tough choices. The grid gave the company a way to compare the performance of managers across locations and business units and, thus, discover its most promising future leaders. Moreover, it introduced a means for identifying poor performers and offering them specific training to improve their performance. In that way, the system brought transparency to the way that managers were evaluated, helping them calibrate their own performance and motivating them to be accountable and improve over time.

The new, high-performance culture was reflected in a new reward system, which linked bonuses to the financial performance of the overall company, team performance (that is, the manager's business unit), and individual performance. In previous years, bonus payouts had been linked to complex scorecards with numerous KPIs; today, the performance on each of the three levels is measured with a maximum of three clearly defined KPIs.

As Kathrin Menges, executive vice president, human resources, puts it, "The new performance-management system is an integral part of our corporate culture and the basis for the development of our employees. We believe that in highly competitive international marketplaces, the quality of our global team plays a decisive role. With clear and unequivocal feedback, rewards in recognition of individual performance, and tailored development plans, we want to ensure that our 47,000 employees around the world are well prepared to take on the challenges they confront every day. In the end, it's our people who make the difference."

HENKEL REBUILDS ITS PERFORMANCE-MANAGEMENT SYSTEM AROUND ACCOUNTABILITY AND GETS RESULTS (continued)

The new system has helped turn Henkel into a highly performance-driven company, and its financial results since the system was introduced have been very positive. Despite the harsh economic environment, from fiscal 2008 through 2012, Henkel's total revenues grew by 17 percent, and its adjusted profit margin increased from 10.3 percent to 14.1 percent.[1]

NOTE
1. Robert Simons and Natalie Kindred, "Henkel: Building a Winning Culture," Harvard Business School Case 112-060, February 2012.

optimize client service and adopt more long-term-oriented business behaviors. Therefore, we base rewards around integrated holistic performance measures, which are grouped into four clusters: business results, human capital management, cross-business-unit collaboration, and corporate social responsibility."

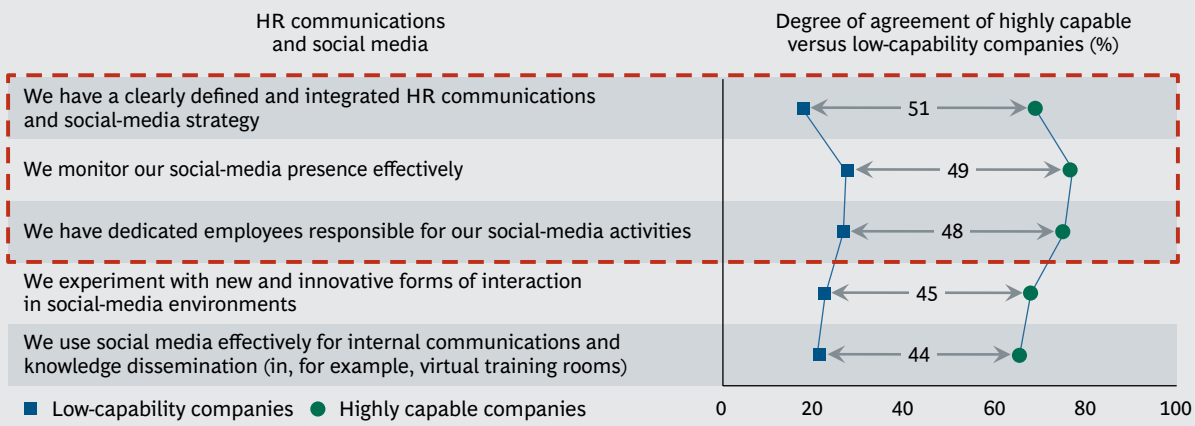
Look beyond financial performance. Our results show that competitive monetary and nonmonetary offers have relatively little effect in differentiating highly capable and low-capability companies. This result is in line with earlier BCG findings showing that employees generally look far beyond a mere compensation package and benefits. In our experience, employees are willing to forego a significant component of their salary if other aspects of the work experience are positive. Besides money and benefits, the "total offer" is being assessed according to the work environment, the job's development opportunities, and the employer's reputation.

HR Communications and Social Media

HR communications and social media includes activities aimed at consuming, sharing, and creating information and knowledge from within the HR department. Implicit in this category is the use of different communication channels, including digital media.

On average, companies' current capabilities in *HR communications and social media* were lower than for any of the other HR areas we analyzed. As Exhibit 9 shows, highly capable

EXHIBIT 9 | Root Causes of Success in HR Communications and Social Media



Source: 2013 BCG/EAPM proprietary Web survey and analysis.
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companies in this area focus on several activities. With the increase in digitalization and the entry of Generation Y into the job market, these activities should be high priorities for companies—especially as our analysis of return on effort invested shows that such investments seem to pay off.

Be ahead of the social-media game. With the emergence of social media, companies have become fully transparent. Dozens of social-media tools give both employees and candidates a holistic means of assessing the company—without controls or oversight. Best-in-class companies are proactive and have a clearly defined and integrated *HR communications and social media* strategy that is built on multimedia; leverages, for example, traditional Web channels, e-mail, company intranets, and social networks; is consistent across these channels and also across different functions (for example, ensuring that client and employee communications are aligned); and is tailored to match the preferences of relevant target groups. (See the sidebar "How Social Media Can Improve Recruiting.")

Take the pulse of the Web. By monitoring its social-media presence and actively listening to what people are saying, a company can gain valuable and actionable insights. Companies should use these insights to assess current social-media activities and, if necessary, to craft measures for improving their external image. A helpful tool is an employee Web survey that measures how much employees advocate and promote their company. This is a good indicator for the company's e-reputation, and companies can improve results by linking managers' compensation to the results.

Integrate digital activators and social-media experts. Although many companies are still struggling to use new media proficiently, highly capable companies have dedicated employees for social-media activities. These employees can act as surveyors and digital activators. They monitor activity in social-media communities and channels and provide content to actively shape the company's external image. Moreover, some companies have "digital activators," who use social media to stimulate discussions and viral spread and to maintain strong ties with alumni. The precise impact of social media in business is still unfolding. However, one thing is clear: social media will only become more important over time.

HOW SOCIAL MEDIA CAN IMPROVE RECRUITING

Given the growing importance of social media—not only for the younger generations but also for all other audiences—companies need to actively address the capability gap shown in our survey. One of the areas in which social media already play a decisive role is recruiting. To become best-in-class, companies should use an integrated approach for external communications from HR, addressing all stages along their recruiting processes.

- *Employer Branding.* Use all media channels and platforms to create a comprehensive portrait of the company that resonates with a wide base of potential employees. Reach out to target candidates with campaigns on the company website, online job forums, and social networks.
- *Recruiting Strategy.* Recruit through appropriate channels. Use career networks to identify relevant candidate groups by applying filters that isolate specific functional expertise, qualifications, and regions.
- *Candidate Recruiting.* Be sure that the online application process is as streamlined as possible, making the most of online-screening tools, interview simulations, and online tests.
- *Onboarding.* Use both the company intranet and external social networks to help new employees get situated.

HR Target Operating Model

The *HR target operating model* includes effective HR processes, organization, and governance, and positions HR as a strategic business partner. On average, companies showed low-capability ratings regarding their *HR target operating model*. Exhibit 10 shows what companies can do to improve. (See the sidebar "E.ON Implements a New HR Target Operating Model.")

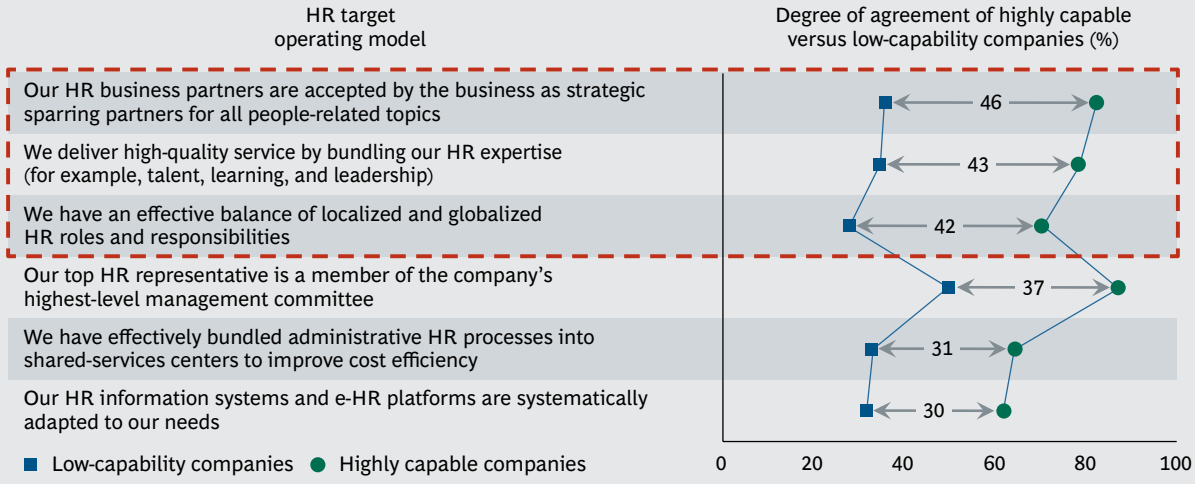
Make your HR a strong sparring partner of the company's leaders. If HR is to link its processes effectively with the company's overall strategy—and adapt the strategy to HR—HR leaders must be accepted by the business as strategic sparring partners for all people-related topics. That said, HR staff must understand that there is a balance. In some cases, ambitious HR executives consider themselves change agents and start thinking strategically before they have built up sufficient credibility in the organization. Instead, they must build from a base of HR expertise and then apply that to strategic considerations.

In fact, there are levels that HR professionals must work through before they can achieve the true strategic-partner role. The first is making HR processes function smoothly and efficiently. The next is being a good partner to business units by helping managers evaluate the performance of their staff, transitioning poor performers out, promoting top performers, and training those in the middle. At that point, HR business partners will have built up a profound understanding of the business and will be able to dedicate their time to business-related strategic tasks. As Kjetil Kristiansen, head of HR for the Norwegian holding company Aker ASA, put it, "A key objective for human resources is to understand the business context and the real implications for HR—and not run HR in isolation from the business. That is crucial for success."

Build critical-mass HR expertise instead of fragmenting it. In order to avoid a silo approach, HR has to bundle its expertise across multiple areas, such as talent, learning, and leadership. This requires strong collaboration and is usually more easily achieved with centers of expertise, which can offer high-quality services and create clear points of contact for company leaders and business units.

Translating this theoretical HR model with HR business partners and centers of exper-

Exhibit 10 | Root Causes of Success in the HR Target Operating Model



Source: 2013 BCG/EAPM proprietary Web survey and analysis.
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E.ON IMPLEMENTS A NEW HR TARGET OPERATING MODEL

E.ON, one of the world's largest investor-owned power and gas companies—with more than 72,000 employees—launched an extensive efficiency-improvement and cost-cutting program in mid-2011. At the time, the Germany-based company had very heterogeneous HR structures in its global and regional units—from well-established and mature HR functions with clearly defined HR governance systems in some markets (such as Sweden and the U.K.) to fully decentralized HR departments in other regional units. In order to increase the efficiency of HR across all units, the management board decided to globally reorganize the HR function into a new target operating model (HRTOM).

Due to high cost pressures and changing market conditions, E.ON implemented this new model companywide and within an ambitious timeframe. It led to huge changes for the HR departments as well as line managers. The new HRTOM introduced three distinct HR roles for all global and regional units.

- *HR centers of competence (COCs)* are responsible for groupwide governance and HR policies. Located in Düsseldorf and Essen, they provide centralized topic expertise for areas such as talent management and employer branding, global learning, HR controlling and planning, rewards, and employee relations and labor law.

- *The HR business service center (BSC)* in Berlin provides a set of clearly defined global HR services, such as recruiting, executive HR services, and learning, and it steers the regional services in each country to ensure consistent and efficient service delivery for all global and regional units.

- *HR business partners (BPs)* are located in the units and act as an interface between central HR topic experts within the COCs and BSC and the line managers for their specific unit. They advise the line managers on strategic HR topics and provide coaching and guidance.

There are some outstanding aspects of E.ON's approach.

Enabled HR Employees and Line Managers. The new HRTOM strongly supports HR employees in meeting the requirements of their new roles by conducting workshops and training for their expected tasks, as well as in handling the transition phase. Using a train-the-trainer concept, the BPs also support the line managers during the transition, helping them understand the changes in HR processes and systems.

Colocation of COCs. In order to ensure efficient and bundled HR competences, the COCs are located close to group management instead of having client experts spread across all units. This colocation fosters frequent interaction among HR experts and leverages synergies in the respective competency fields.

Focus on Value Creation in the BSC. The BSC is designed not only to realize economies of scale but also to create value through more efficient services. One example is recruiting. By managing applications on a global level, E.ON increases the efficiency as well as the quality of application management. Since the recruiting department is not limited to a single management unit, applicants can be forwarded to a position in a unit or country where they are likely to deliver the biggest value.

Careful Selection of BPs. Since the BPs provide the interface between HR experts and line managers in the management units, they are crucial in driving acceptance of the new HR processes and systems. Accordingly, E.ON put great effort into the

E.ON IMPLEMENTS A NEW HR TARGET OPERATING MODEL (continued)

selection of outstanding candidates. After defining a detailed job description—requiring qualifications that included HR and business expertise—E.ON performed audit procedures with external support during the selection process to guarantee that the right candidates were placed in the right positions.

Clearly Defined Governance Model. By establishing a holistic governance model with clearly defined roles and responsibilities for all three HRTOM roles, E.ON prevents responsibility overlaps and redundant HR tasks. Instead of the former HR generalists in all units, all HR expertise is now concentrated in the COCs. Meanwhile, the BPs have more broad-based expertise, allowing them to focus on business-related and strategic HR aspects. To ensure the efficient steering of the new HR function, E.ON established central governance bodies—such as an HR board for strategic topics—and a product and process committee for process-related topics. Members of the HR governance bodies come from all three HR roles.

Although E.ON is still in the implementation phase of the new model, the HRTOM project has significantly reduced costs and—more important—created the prerequisites for higher quality in the delivery of global HR services.

tise into real-world practice is a sizable challenge for many companies today. Merely *creating* these HR roles does not mean that they will be applied effectively. As Albina Nash, senior HR director at PepsiCo Russia, noted, "We have an HR business-partner model, but we're not fully satisfied. It's not clear who's responsible for which types of business tasks, especially in some geographic markets. In part, this is likely because we're currently integrating multiple acquisitions. We'll need to establish and maintain the right structure to clarify roles."

Establish the right balance of global and local responsibilities. Global corporations require global HR departments. However, they must also remain flexible and adapt to local requirements and customs. In many cases, the ideal solution is an effective companywide balance of global standards that are implemented through localized roles and responsibilities and organized under a central global HR function. As the 2012 survey showed, globally standardized activities are often perceived as more effective, yet sometimes companies need to be able to adjust to local markets.[4] Although strategic activities should be globally standardized, for its functional and administrative activities, each company has to adapt the degree of standardization to its unique needs.

Training and People Development

The *training and people development* topic includes all activities aimed at helping employees improve their performance and learn new skills that will prepare them for new roles within the company. This area comprises a broad range of programs, such as formal classroom training, job rotations, and tuition reimbursement for self-directed learning.

Companies devote the most effort to *training and people development*, and this area shows the highest average capabilities. With the third-lowest return on effort among all ten HR topics, however, there is a lot of room for improvement, specifically by focusing on the activities highlighted in Exhibit 11.

Use training as a way of engaging employees in the company's strategic agenda. Highly capable companies use learning and development activities to generate strategic insights. Some companies have approached the challenge by forming corporate universities. While in the past, corporate universities were used primarily to deliver specific training to

employees, many today serve as strategy platforms and actively support the development and execution of the company's strategy. (See the sidebar "Success Factors for Corporate Universities.")

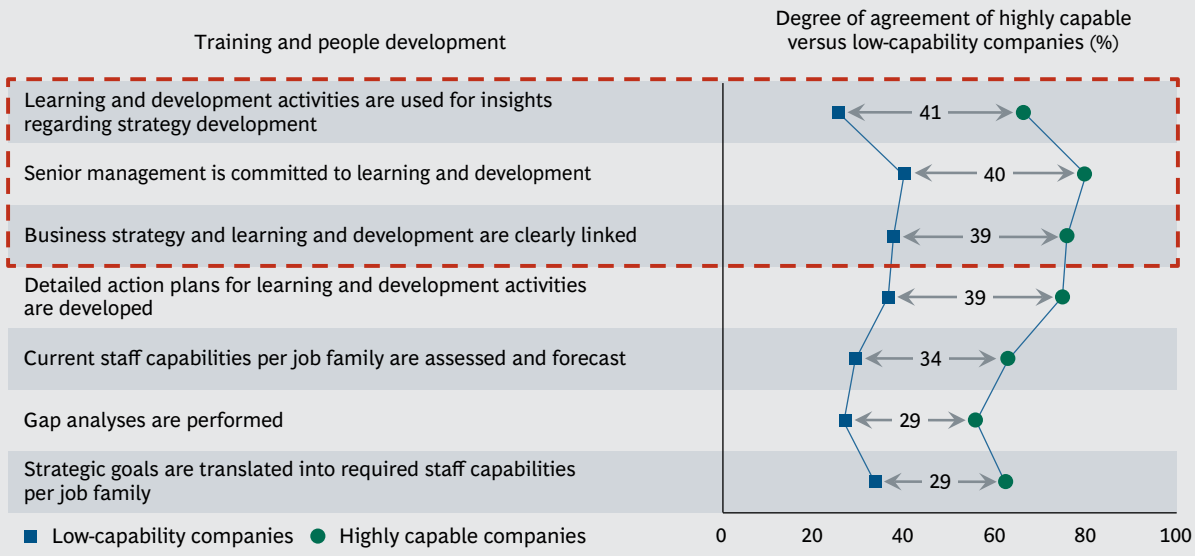
Fundamentally, the company's overall strategy should not result in a one-way flow of mandates and directives from management to employees. Rather, leaders need to make sure that there is a two-way exchange, in which the strategy stays responsive to the ideas, insights, and current capabilities of the entire organization.

Make your company's leaders your faculty. Highly capable companies are distinguished by their leaders' commitment to learning and development. This commitment goes beyond providing financial resources: above all, these leaders actively promote, support, and participate in learning and development activities and act as sponsors for important programs.

Allocate your training resources according to your strategic goals. Highly capable companies have established a clear link between their business strategy and their learning and development programs. To achieve this, companies need to regularly assess the kinds of capabilities that are required for creating value and reaching their strategic goals and then allocate their learning and development resources accordingly. This high level of reactivity becomes even more important in times of rapidly changing market conditions, which require adaptations in the company's overall strategy.

"Our learning and development model is strongly linked to our business strategy and leverages HR business partners. Our corporate university is the vehicle for all learning and development activities globally, with a clear value-creation approach."
Teresa Manobens, talent management and corporate university director, Gas Natural Fenosa

EXHIBIT 11 | Root Causes of Success in Training and People Development



Source: 2013 BCG/EAPM proprietary Web survey and analysis.
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SUCCESS FACTORS FOR CORPORATE UNIVERSITIES

Many companies that strive to develop their talent turn to corporate universities. In the past, corporate universities focused on training design and delivery. Currently, these organizations are expanding to support overall corporate strategy and culture. Corporate universities are no longer simply training centers: many are dedicated strategy platforms that act as partners with senior leadership. (See the exhibit below.)

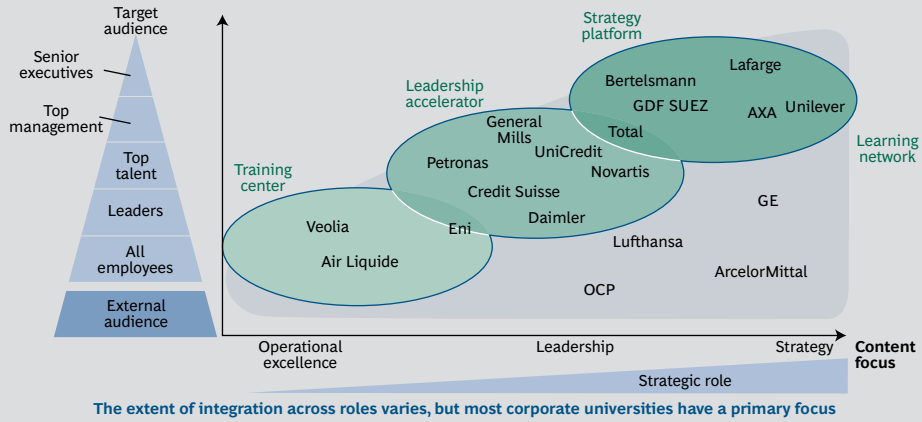
To guide businesses in fortifying their existing corporate universities and provide a roadmap for organizations aiming to create them, BCG recently conducted a major study to identify trends and best practices.[1] This study identified seven key success factors.

- *Engage the CEO.* HR leaders should develop a close relationship with the CEO to shape offerings and ensure that the corporate university is widely accepted. Individual board members should sponsor specific programs.
- *Connect to the company strategy.* Learning objectives should support the corporate strategy by building needed capabilities. Development programs for top talent should prepare employees to forge new strategic pathways.
- *Stay close to the business.* Establish close collaboration in needs assessment and include business representatives on an advisory board.
- *Provide high-caliber offerings.* Restructure the staff to include learning experts who can provide high-quality programs that outperform those of competitors.
- *Create a link to employee development processes.* Integrate performance management and development, and provide programs that support new assignments and positions.
- *Measure the value.* Assess capabilities and skill needs, and measure the impact of learning programs. Invoice business units at full cost so that they can easily compare the value of the offering with open-enrollment options.
- *Market internally and externally.* Communicate the ways in which the corporate university is a key component of the employee value proposition. Use consistent "one face to the customer" branding internally and externally.

NOTE

1. See *Corporate Universities: An Engine for Human Capital*, BCG Focus, July 2013.

THE FOUR MAIN ROLES OF CORPORATE UNIVERSITIES



The extent of integration across roles varies, but most corporate universities have a primary focus

Sources: Expert interviews; BCG analysis.

Diversity and Generation Management

Diversity and generation management includes managing employee differences in gender and age as well as, for example, social, cultural, and religious disparities. Globalization and demographic shifts have increased the relevance of this topic in HR, and that trend is likely to continue for the foreseeable future.

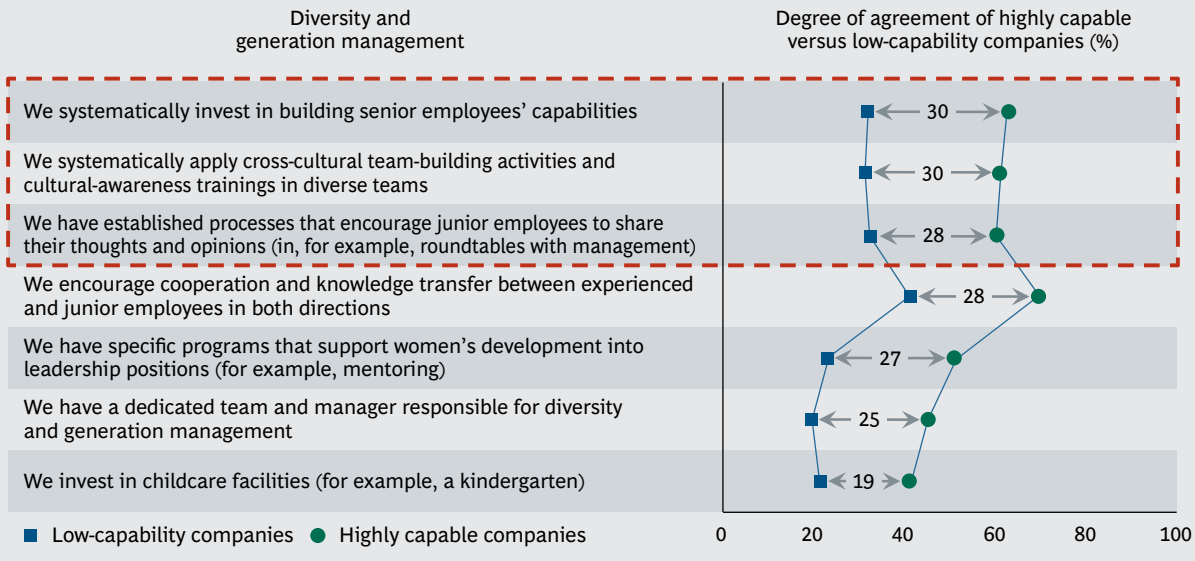
The surprisingly low rating of the future importance of *diversity and generation management*—in fact the lowest of all ten HR topics—shows that many companies do not grasp a core aspect of diversity. Such measures are not about being "nice" or complying with regulations. Instead, they are tools for generating better business results and will be even more important as the workforce ages and Europe's talent supply decreases. The high return on invested effort that we identified in our analysis should motivate companies to intensify their comparatively weak efforts.

Looking at the subcomponents of *diversity and generation management*, we identified levers that companies should focus on for improving their capabilities. (See Exhibit 12.)

Tap the senior talent pool. Best-in-class companies do not just attract and develop young talent: they also systematically invest in building senior employees' capabilities. The extremely high rate of early retirement in Europe—in some countries more than one out of two employees retire before the statutory age—shows that most companies are neglecting the potentially high value of senior employees. Because they have critical expertise, they are a valuable resource. This is especially important given current demographic shifts: people are living longer, and the talent shortage is growing. Companies that foster lifelong learning and take steps to attract, develop, and motivate senior talent will turn this demographic change into a competitive advantage.

Build on your differences. It is not enough to build a diverse workforce: in order to connect a company's cultural diversity to real productivity gains, HR leaders should systematically apply cross-cultural team-building activities and cultural-awareness training. This is how best-in-class companies create a spirit of collaboration. Companies should tap into this wellspring of ideas and insights to boost company operations. In addition, promoting diversity in recruiting processes can dramati-

EXHIBIT 12 | Root Causes of Success in Diversity and Generation Management



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cally increase the size of recruiting pools: some 50 percent of potential future leaders are women, who need the same opportunities as men to succeed within the company.

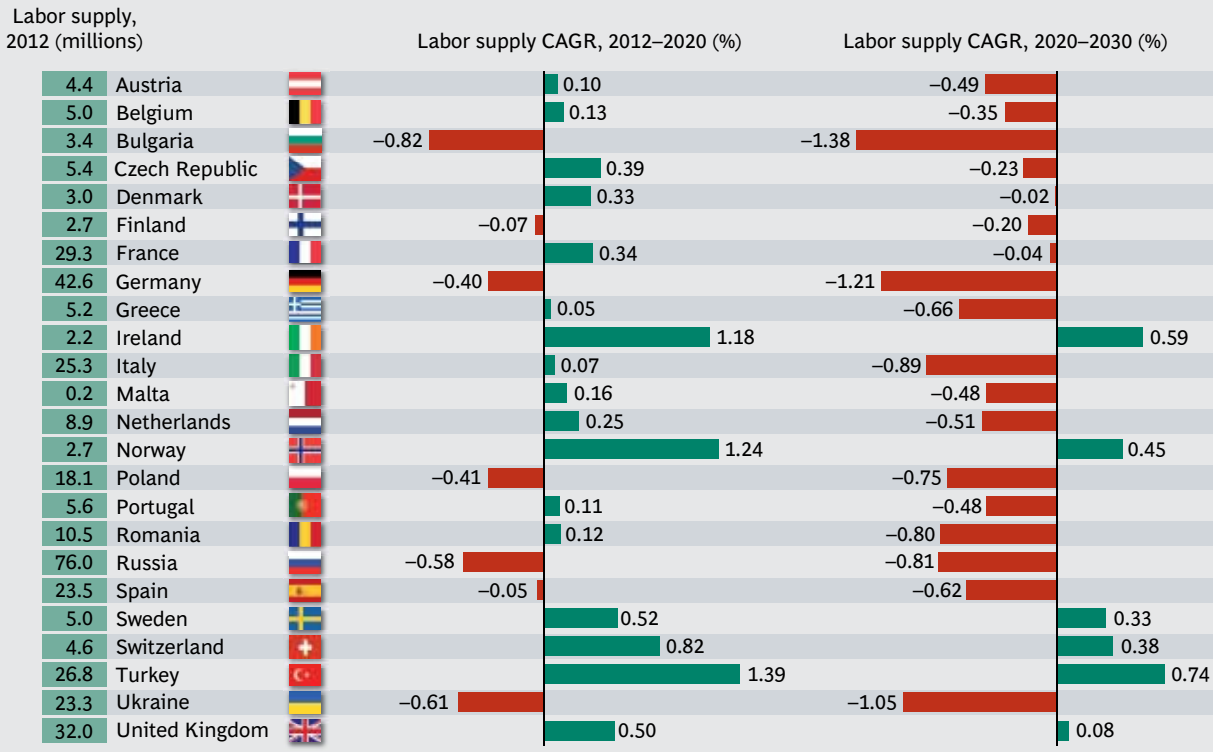
"We have overcome the traditional thinking about performance, and today we are proud to promote and support career advancement whether the employee is a 60-year-old cashier or a 30-year-old manager. People see that meritocracy pays off, and they do their best because they know it will be recognized."
Gianfilippo Pandolfini, chief operating officer, Banco Nazionale del Lavoro

Listen to your junior employees. Best-in-class companies have established processes that encourage junior employees to present their opinions. In this way, these companies make sure that their younger employees understand that their opinions matter, and this encourages them to actively think about strategic options and present their ideas for consideration.

A good means of establishing such an exchange is to regularly host management roundtables, which also help company leaders establish contact with the companies' future leaders.

As Exhibit 13 demonstrates, most European countries will face a profound workforce shortage in the future. This underscores the need for companies to attract the largest potential workforce by focusing on untapped pools through diversity initiatives. (See the sidebar "Key Drivers in Diversity and Generation Management.")

Exhibit 13 | The Labor Supply in Most European Countries Will Decrease Sharply in the Next Decade



Sources: U.N. population database; ILO Laborsta database; BCG analysis.
Note: The figures for 2030 assume the same participation rate by sex and age groups as for 2020. Labor supply = forecast of the total population (age 15 and over; five-year age groups) × labor force participation rate (per five-year age group).

KEY DRIVERS IN DIVERSITY AND GENERATION MANAGEMENT

Companies still have a long way to go to ensure that the best talent—regardless of gender, ethnicity, or any other measure of diversity—makes it into leadership positions. In a recent benchmark study based on interviews with roughly 100 HR managers in 44 international companies, BCG identified a number of best practices that drive success in diversity initiatives.[1]

- *Diversity by itself is not the main objective.* Instead, it is a means of bringing new perspectives and insights to the way a company or business unit operates, ultimately leading to better performance.
- *Diversity must be a top priority for leaders.* A company's CEO and senior managers must have the primary responsibility for establishing and achieving diversity objectives, and they must act as role models.
- *Diversity does not mean preferential treatment for women or minorities.* Business leaders must communicate that diversity is about hiring and promoting the best employees—not through preferences or quotas but through fair, open, and transparent processes for applicants and employees.
- *Diversity is not a PR gimmick.* For diversity initiatives to be credible, the company must back up its communications with actions, and it must make itself accountable by ensuring that progress is visible and measurable.
- *Diversity is local and global.* For most major initiatives, it's important to integrate international staff from various units. Initiatives that have a global reach must always take unique local factors into account.
- *Diversity is not just for women or minorities.* Men and majorities must be equally represented on any diversity project team. The goal is not the promotion of a specific group but a balance that reflects society at large—in the initiative and throughout the business units.
- *Diversity is cross-divisional.* Successful initiatives do not get handed down from HR to the business units. Rather, involving representatives from units outside of HR at an early stage can ensure broader acceptance, help structure change initiatives correctly, and guarantee a companywide shift in mindset.

NOTE

1. See *Shattering the Glass Ceiling: An Analytical Approach to Advancing Women into Leadership Roles*, BCG Focus, August 2012.

Recruiting: Branding, Hiring, and Onboarding

Recruiting includes the complete process of people sourcing—from employer branding to recruiting strategy, recruiting process, onboarding, and retention. As our results show, on average, companies rate their capability comparatively high in recruiting. Given the growing talent shortage in most European companies however, companies should be more than merely good at recruiting: they must be better than others. (See the sidebar "Deutsche Bahn Revamps Its Employer Brand to Win New Talent.") As Exhibit 14 shows, our survey clearly identified some measures that companies should take.

Adapt recruiting strategies to target audiences. Highly capable companies know there is no one-size-fits-all approach. Rather, each category of hiring and job function is akin to a subpopulation, complete with its own priorities, requirements, and incentives. For example, although career opportunity is the

DEUTSCHE BAHN REVAMPS ITS EMPLOYER BRAND TO WIN NEW TALENT

Deutsche Bahn, Germany's leading transportation and logistics company, with operations in more than 130 countries and about 300,000 employees, recently implemented a very successful employer-branding campaign. In the past several years, employers have become subject to increasing numbers of requirements while talent pools have become smaller, and media connectivity has grown more pervasive. As a result, candidates' expectations regarding potential future employers are now higher, and competition for talent is far more intense. To meet its future demands, Deutsche Bahn estimated it would need at least 70,000 new employees over a ten-year period.

To address this challenge, Deutsche Bahn began by analyzing the components of all its talent-acquisition-related activities—from employer branding to recruiting strategy, candidate recruiting, and onboarding—and then launched a portfolio of measures to strengthen its image and recruit new employees. The starting point was a thorough employer-brand audit, which analyzed both internal and external sources to develop an understanding of the current position and perception of the company among potential job candidates.

The results were astonishing: although 99.7 percent of possible applicants knew the Deutsche Bahn brand, only 5 percent could imagine working for the company. These findings revealed that the high brand awareness did not lead to the right employer-brand perception. This needed to be addressed.

Next, the company developed a comprehensive target-group segmentation in order to identify applicants' needs and define the criteria that applicants take into account when choosing an employer. Specifically, Deutsche Bahn segmented its applicant base into four categories: high school graduates, college graduates, professionals with an academic background, and professionals from a nonacademic background.

In the next step, Deutsche Bahn developed an employer value proposition and tailored employer-branding and recruiting activities to each of the four target groups, using the key brand messages it had identified. Besides aligning the employer value proposition for different target groups with their requirements and preferences, Deutsche Bahn also determined which information channels the different target groups used. This allowed the company to

most important job criterion for employees in most European countries, in China compensation comes first. And while Generation Y places high value on corporate social responsibility and personal development, the priorities of older generations in the workforce are different. Accordingly, companies should look below the surface, analyze subcategories, and adapt their recruiting strategies for different job positions, target groups, entry levels, and recruiting channels. This is especially important for attracting the best talent, who always have the greatest choice of suitors.

Promote the company from within. Best-in-class companies have a systematically developed employer value proposition, both internally and externally. Companies should systematically assess internal perceptions of the brand among employees and understand how those perceptions influence the expectations of external job candidates. Next, they should develop a credible employer-brand positioning, with core attributes differentiated by target groups, and prioritize specific steps to implement the new brand positioning. Although defining the brand's key messages and consistently promoting them is essential for a positive employer brand, it is not enough. Given today's widespread corporate transparency, leaders need to make sure that their employees are the organization's best promoters. To achieve this, the

develop a media strategy and to adapt its cross-channel marketing campaign with tailored messages.

In order to secure long-term success in talent acquisition, Deutsche Bahn reorganized all talent-acquisition-related activities into one unit: employer branding, social media, university relations, and strategic recruiting are now bundled in the corporate center, while local recruiting activities are being carried out by seven regional recruiting teams.

Within just one year, the effort had yielded strong results.[1] The number of applications had increased by 40 percent on average (and as much as 80 percent in specific target groups), contributing to the hiring of 11,000 new employees in 2012. Employer attractiveness improved significantly as well: in major employer rankings such as the Trendence School Leavers Barometer, Deutsche Bahn climbed 21 places in one year, reaching the top 30. Furthermore, Trendence recognized the campaign as the "Employer Branding Innovation of the Year."

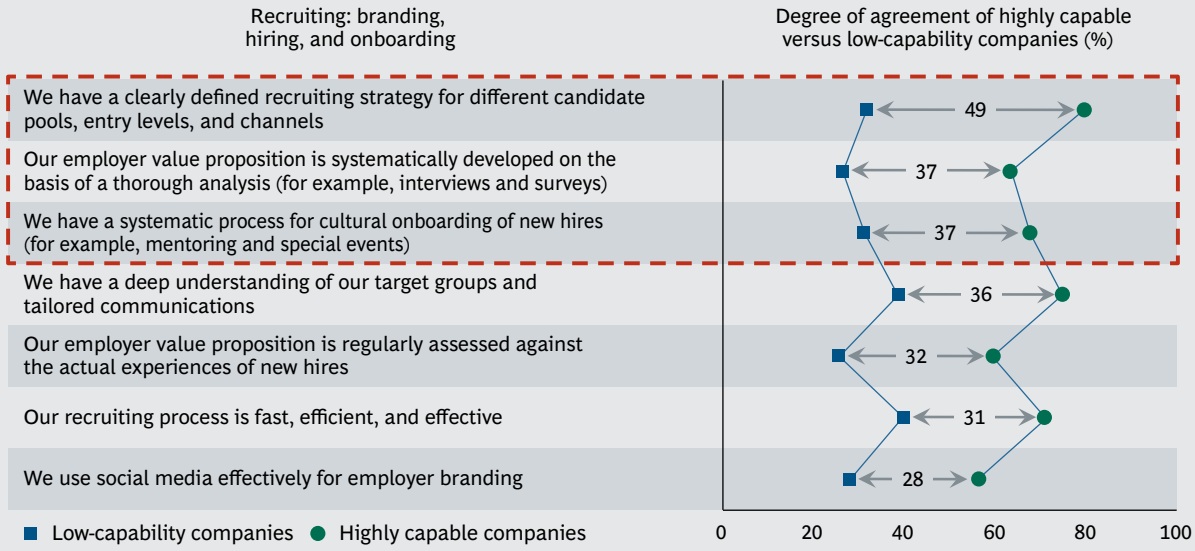
Internally, among Deutsche Bahn employees, the employer brand turnaround was well received. As Kerstin Wagner, Deutsche Bahn's head of talent acquisition, put it, "Our employees are the essential part of our campaign. They authentically transport our image and tell potential employees why it's worth working for DB. To become one of Germany's top employers, it was vital to continuously inform, involve, and inspire our employees—to take them with us on the journey. We also created a 'poster generator' tool, providing them with a great possibility to create posters for their individual jobs using predefined elements from the campaign. All over Germany, more than 12,000 employees decorated their workspaces to proudly show their support for the campaign and our DB 2020 objective."

NOTE
1. The material in this example comes from Deutsche Bahn campaign reporting, Trendence School Leavers Barometer, Trendence Employer Branding Innovation of the Year 2013, interviews with Deutsche Bahn representatives, and BCG analysis.

employer brand needs to resonate internally, and the day-to-day workplace experience needs to match the brand's internal promise. The best employer value proposition is useless and can even lead to loss of reputation if it does not keep its promises.

Reduce early regretted attrition with systematic onboarding. The third major difference between highly capable- and low-capability-company recruiting is a systematic process for cultural onboarding of new hires. The recruiting process does not stop on the employee's first day, and HR must ensure that each new employee is positioned and comfortable as quickly as possible in order for him or her to begin contributing to the company's success. As abundant case experience shows, a systematic new-hire-onboarding process not only increases productivity but also leads to a reduction in "regretted attrition"—the loss of employees that the company wants to retain—in the first and second years of employment. That reduction can be as great as 50 percent. Such a systematic process comprises not only administrative and professional onboarding of new hires but introduction to all relevant cultural aspects of the organization as well. To ensure that they are factoring in culture, companies should employ a set of specific programs, such as orientation events for new hires and mentors.

Exhibit 14 | Root Causes of Success in Recruiting



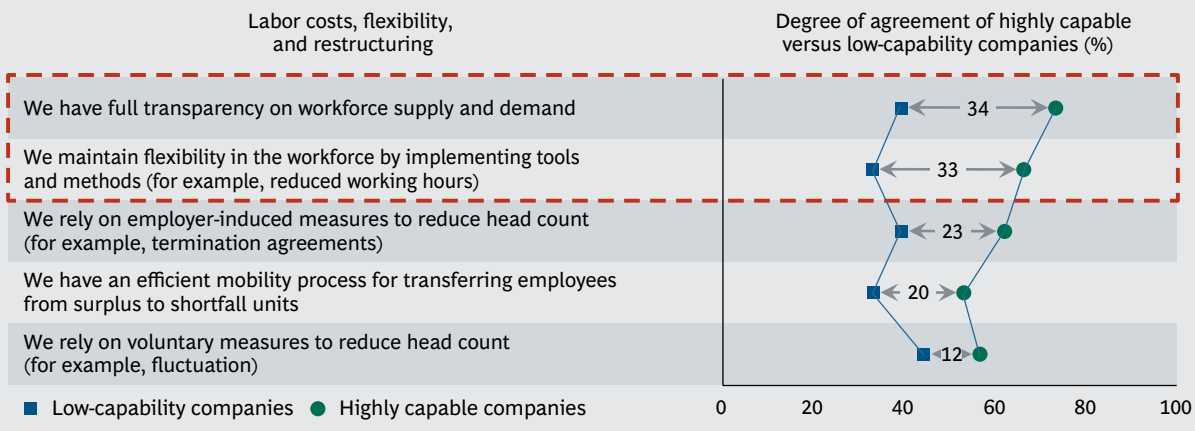
Source: 2013 BCG/EAPM proprietary Web survey and analysis.
Note: We define highly capable companies as those with a self-reported capability score of 5 in this HR topic. We define low-capability companies as those with a self-reported score of future importance that is at least three points higher than the self-reported score of current capability. Both scales range from 1 to 5. All companies have more than 50 employees. Degree of agreement (from 1 for "disagree" to 5 for "agree") has been turned into a percentage value by linear transformation. Highly capable companies n = 180; low-capability companies n = 107; total N = 2,304.

Labor Costs, Flexibility, and Restructuring

Labor costs, flexibility, and restructuring includes the company's ability to react to a changing business environment. Our results indicate that companies do not see a high need to act on their capabilities in *labor costs, flexibility, and restructuring*. However, given heightened economic volatility, organizations often have to scale up and down in dramatic fashion, adapting the workforce size and capability set much more rapidly than in the past. Exhibit 15 shows areas of focus for improvement.

Facilitate change through workforce-planning transparency. Best-in-class companies have full transparency on workforce supply and demand across regions, countries, locations,

Exhibit 15 | Root Causes of Success in Labor Costs, Flexibility, and Restructuring



Source: 2013 BCG/EAPM proprietary Web survey and analysis.
Note: We define highly capable companies as those with a self-reported capability score of 5 in this HR topic. We define low-capability companies as those with a self-reported score of future importance that is at least three points higher than the self-reported score of current capability. Both scales range from 1 to 5. All companies have more than 50 employees. Degree of agreement (from 1 for "disagree" to 5 for "agree") has been turned into a percentage value by linear transformation. Highly capable companies n = 163; low-capability companies n = 111; total N = 2,304.

business units, and skill clusters. This information is not limited only to the company leaders: it is communicated openly within the company. When undergoing transformations due to strategic changes, companies should be transparent about workforce implications, working openly with both employees and employees' representatives and unions. Landesbank Baden-Württemberg demonstrated that such transparency enables companies to have a well-framed transformation process with a clear schedule and reduces resistance to implementation. (See the sidebar "Detailed Management of Reduction Helped Landesbank Baden-Württemberg Navigate a Restructuring.") Above all, this transparency not only

DETAILED MANAGEMENT OF REDUCTION HELPS LANDESBANK BADEN-WÜRTTEMBERG NAVIGATE A RESTRUCTURING

Landesbank Baden-Württemberg (LBBW) is among the leading federal-state banks in Germany, with almost 12,000 employees. The bank was considerably affected by the global financial crisis that began in 2008. As part of a broader EU restructuring program, LBBW had to be subsidized with about €5 billion in public funding. One precondition for receiving the funding was that LBBW reduce its baseline workforce of full-time employees by 2,500 in a four-year period.

The bank began by creating an HR implementation plan to reduce positions across all functions. The massive downsizing required fundamental changes to the underlying business model. To achieve this, the bank analyzed all business segments of the current business model regarding revenue potential, risk, and cost impact and developed a new business plan and medium-term plan. Subsequently, the bank put in place precise targets for each function and department and communicated the required changes throughout the company. This high level of transparency was essential to restructuring the organization successfully and reaching a quick, fact-based agreement with the unions and worker councils. In an open dialog with the union, the bank negotiated new labor agreements and set up a transparent head-count-reduction process.

In the second phase, the bank executed the implementation plan in conjunction with respective HR departments in individual business units. It regularly validated the top-down targets and the formulation of the concrete measures needed to realize the defined targets over a sustained period of time. To build on this progress, the bank generated standard controlling and reporting tools for future workforce supply-and-demand monitoring processes.

Throughout the process, the open dialog helped employees anticipate future changes and reduced resistance among the staff. It also helped manage employee representative relations. Overall, LBBW was able to reach roughly 90 percent of its reduction goals by 2012—a year ahead of schedule—without enforced layoffs. Furthermore, the process strengthened the role of HR within the organization and improved relations with the workers' representatives. HR became a strategic hub for controlling the EU project, an interface to the work council and trade union, and a partner in negotiating new labor agreements. Most important, through these measures, the bank was able to recover fully from the financial crisis.

helps managers and HR leaders anticipate and meet future needs, it also allows employees to manage their career proactively.

"HR challenges have changed in recent years, following the evolution of the business and of the external environment. Today, companies require far greater flexibility in the workforce."
Senior HR executive, European utility company

Make sure you have high flexibility within your workforce. Highly capable companies have a two-layer workforce: a core group that covers capabilities and knowledge of high strategic importance and a second layer consisting of external providers and freelancers. This second layer allows for flexible workforce adjustments and enables companies to stay ahead of shifting business priorities. To maximize flexibility, companies should establish clear processes and requisite control mechanisms to handle workers in these relationships. Other tools that companies should use include annual working-time accounts, leaves of absence, and transfers among locations and business units. This ability is increasingly important and also helps companies retain key employees.[5]

Notes

1. Disagreement corresponds to an agreement value of 0 percent, while a value of 100 percent reflects full agreement. For more details, see the Methodology in Appendix I.
2. See "Make Talent, Not War: Building a Strong Leadership Advantage" in *Creating People Advantage 2011: Time to Act; HR Certainties in Uncertain Times*, BCG report, September 2011. See also "Building Up Your Critical Assets: Talent and Leadership Development" in *Creating People Advantage 2012: Mastering HR Challenges in a Two-Speed World*, BCG report, October 2012.
3. See *High-Performance Culture: Getting It, Keeping It,* BCG Focus, June 2013.
4. See "HR Governance: Global or Local?" in *Creating People Advantage 2012: Mastering HR Challenges in a Two-Speed World*, BCG report, October 2012.
5. See "Reduce and Retain: Adjusting Workforces for the New Reality," BCG article, December 2012.

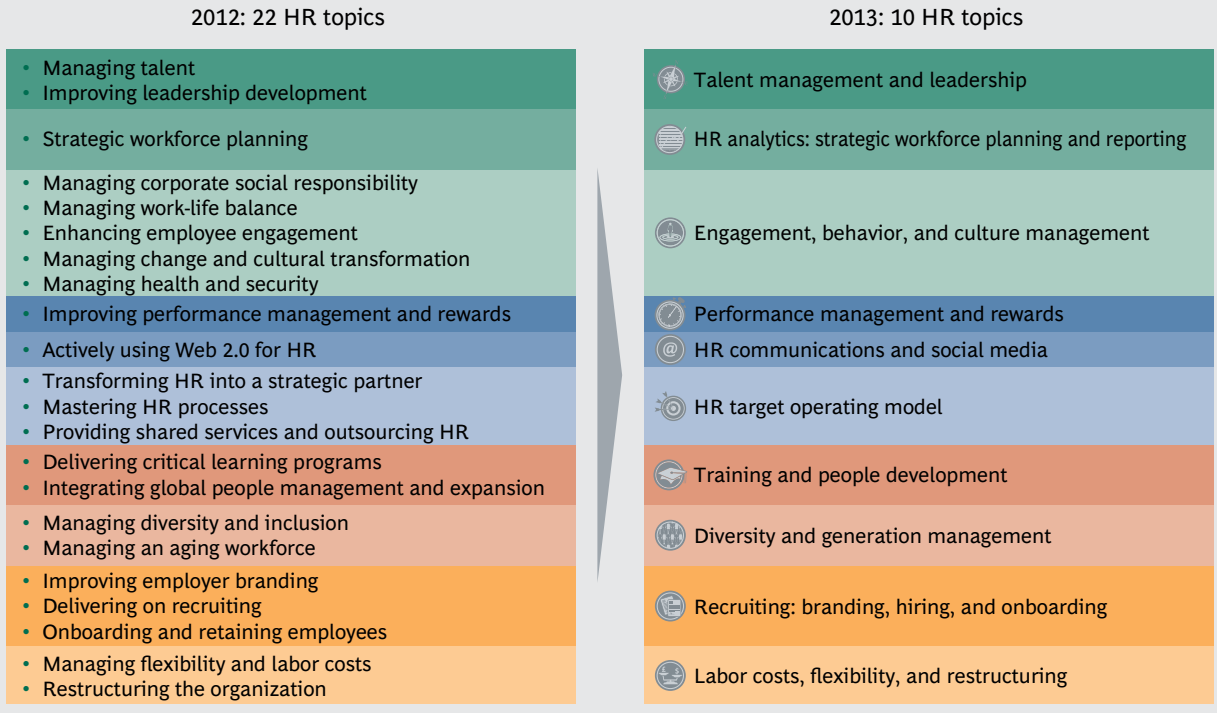
APPENDIX I

METHODOLOGY

In the years since 2006, when we started our Creating People Advantage research, we have added new topics and removed others on the basis of changing trends and shifting priorities. Last year's global report covered 22 topics. To concentrate on the most relevant areas and allow for a deeper analysis, we have merged these topics into 10 broader topics for this year's survey. (See Exhibit 1.)

Respondents rated each topic on a five-point scale regarding future importance, current capability of the company, and effort invested in this topic in terms of time, money, and full-

EXHIBIT 1 | This Year's Report Consolidates the 22 HR Topics of the 2012 Report into 10 Broader Topics



Source: BCG analysis.

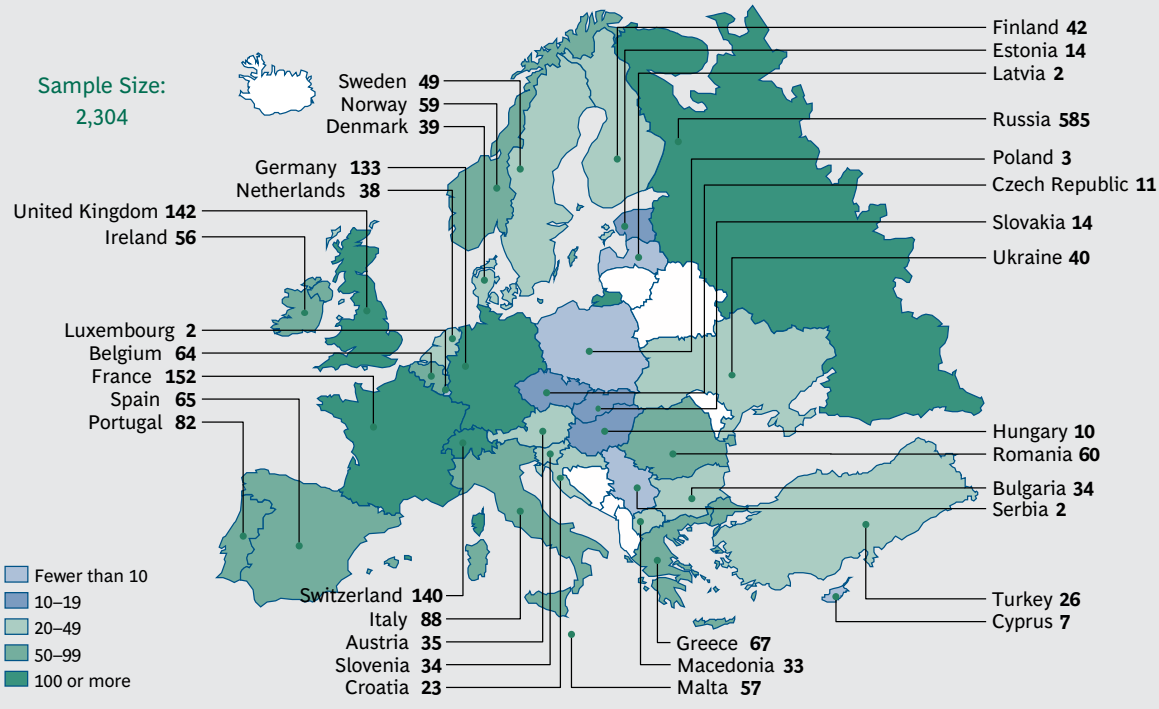
time employees over the past three years. A methodological advancement compared with our studies in prior years is that we weighted the resulting values according to each country's real GDP for 2012. (Countries with fewer than 20 respondents were subsumed, and their responses were weighted according to their average GDP.) In this way, the resulting matrices shown in Exhibits 1 and 3 on pages 5 and 6 of this report more accurately represent Europe.

In the next part of the survey, our aim was to identify the root causes of high capabilities among companies in each of the ten HR topics. In order to differentiate between highly capable and low-capability companies, we used a filter mechanism in our online survey. Respondents who had rated their company highly capable (with a maximum rating of 5) or as being a low-capability company (with a rating of 1 or 2) in an HR topic were presented with more detailed questions regarding this specific topic. (Furthermore, for low-capability companies, the rating of future importance for the topic under consideration had to be at least three points higher than the capability rating to make sure there really was a substantial capability gap.)

In these deep-dive questions, respondents were presented with HR activities within each topic and asked to specify the degree to which they agreed that their company performed the activity or not—on a scale of 1 (disagree) to 5 (agree). Then, comparing the average degrees of agreement between highly capable and low-capability companies, we were able to identify the key drivers of high capability in the respective HR topic. (We also converted the 5-point response scale to a 100-point percentage scale, with "disagree" corresponding to 0 and "agree" corresponding to 100 percent, to make comparisons easier.)

This year 2,304 executives from 34 European countries responded to the online survey, which was conducted from February through April 2013. (See Exhibit 2.) The respondents included primarily HR executives (87 percent of the sample), with the remainder comprising non-HR executives. Responses came from a broad range of industries: the largest number of responses came from services, the public sector, industrials, and consumer goods.

EXHIBIT 2 | Survey Results Include Responses from More Than 2,000 Executives Across 34 European Countries



Source: 2013 BCG/EAPM proprietary Web survey and analysis.
Note: Of the total, 74 respondents did not specify a country, and 22 respondents indicated that they work primarily outside of Europe.

APPENDIX II

EXECUTIVE INTERVIEWEES

The authors would like to thank the following executives for their valuable contributions in discussing the findings of this report. (This list includes only those who have agreed to make their names public.)

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United Kingdom

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Gavin Howe
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APPENDIX III

SUPPORTING ORGANIZATIONS

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

Personnel Managers Club (PM Club), Belgium

Bulgarian Human Resources and Development Association (BHRMDA), Bulgaria

Cyprus Human Resource Management Association (CyHRMA), Cyprus

People Management Forum (PMF), Czech Republic

The Association of Human Resource Managers in Denmark (PID), Denmark

Estonian Association for Personnel Development (PARE), Estonia

Finnish Association for Human Resource Management (HENRY), Finland

Association Nationale des Ressources Humaines (ANDRH), France

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

Greek People Management Association (GPMA), Greece

Hungarian Association for Human Resources Management (OHE), Hungary

Chartered Institute of Personnel and Development (CIPD), Ireland

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

Latvian Association for Personnel Management (LAPM), Latvia

Macedonian HR Association (MHRA), Macedonia

Foundation for Human Resources Development (FHRD), Malta

Nederlandse Vereniging voor Personeelsmanagement & Organisatieontwikkeling (NVP), Netherlands

HR Norge, Norway

Associação Portuguesa dos Gestores e Técnicos dos Recursos Humanos (AGP), Portugal

HR Management Club, Romania

National Personnel Managers' Union (ARMC), Russia

Slovak Association for Human Resources Management and Development (ZRRLZ), Slovakia

Slovenian HR Association (SHRA), Slovenia

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

Sveriges HR Förening, Sweden

HR Swiss - Schweizerische Gesellschaft für Human Resources Management, Switzerland

İnsan Yönetimi Derneği (PERYÖN), Turkey

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

NOTE TO THE READER

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