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CREATING PEOPLE ADVANTAGE 2012

MASTERING HR CHALLENGES IN A TWO-SPEED WORLD

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CONTENTS

3 EXECUTIVE SUMMARY

6 THE BIG PICTURE: GLOBAL TRENDS IN 2012
7 The World’s Top Priorities for 2012
9 Under the Radar, But in Need of Attention
10 The Perception Gap on Critical Capabilities

12 THE CASE FOR INTEGRATED SOURCING MANAGEMENT

20 BUILDING UP YOUR CRITICAL ASSETS:
TALENT AND LEADERSHIP DEVELOPMENT
20 Building Talent: Six Essential Steps
21 How Do Companies Stack Up?

24 MANAGING PEOPLE IN THE WORLD’S FASTEST-GROWING ECONOMIES
24 Falling Short in Key HR Capabilities
25 Wanted: Strong Managerial, Leadership, and Technical Skills
25 Employee Development and Retention Strategies

28 ENABLING WORKFORCE FLEXIBILITY IN A TWO-SPEED WORLD
29 Understanding Surpluses and Shortages
31 Coping with Contradiction: Managing the People Side of Transformation

34 HR GOVERNANCE: GLOBAL OR LOCAL?
35 Where Global Governance Counts Most
36 When Maintaining Local Flexibility Matters

37 APPENDIX I: FOCUS REPORT—FROM CAPABILITY TO PROFITABILITY

47 APPENDIX II: METHODOLOGY

48 APPENDIX III: EXECUTIVE INTERVIEWEES

51 APPENDIX IV: SUPPORTING ORGANIZATIONS

54 NOTE TO THE READER
Business leaders throughout the world continue to struggle with the complexities of a two-speed world: they face economic crisis in Europe and weak growth in the developed economies while also facing rapid growth in the developing world. Volatility and uncertainty have become the new constant. These realities create difficult people-management challenges that range from keeping up with supply-and-demand fluctuations to ensuring an adequate talent pipeline for the future. Aggravating these challenges are the growing talent shortage and rising leadership deficits, which are fueled in part by profound demographic changes and are expected to worsen significantly in the coming years. This situation creates a buyer’s market for talented individuals.

Many companies recognize that today, more than ever, their people have become their most critical competitive asset. But they need to sharpen their efforts, integrate processes for greater impact, and manage globally while allowing for regional adaptation. That’s a tall order—particularly considering the resource squeeze that has forced many HR organizations to do more with less.

This global report, the third conducted by The Boston Consulting Group and the World Federation of People Management Associations (WFPMA), examines critical trends in people management by exploring 22 key HR topics that our Creating People Advantage research has explored every year since 2007. (The first joint BCG/WFPMA report was completed in 2008. BCG has also partnered with the European Association for People Management in three similar surveys with a European focus.)

- We explore the topics in terms of both their current and future importance to companies and how they relate to companies’ existing strengths. We also probe the practices and strategies that highly capable companies have implemented to boost their people-management efforts.
• The online survey polled 4,288 executives from companies throughout numerous industries, 102 countries, and six major regions. We also interviewed 63 executives (both within HR and beyond) from well-known companies all around the world.

• This report presents our findings and analysis of the 22 HR topics that constituted the core of the survey. Also included are short case studies on individual companies.

• In addition, we have inserted in the Appendix of this report our Creating People Advantage prepublication highlighting one of the most significant findings from our research this year: the correlation between companies’ capabilities in people management and their economic performance.

This year, the critical topics—those considered of the greatest urgency—remained the same as in our 2010 global survey. Three topics stand out as the most critical.

• Managing talent ranks at the top of our survey respondents’ critical list. Given the growing scarcity of talent worldwide, this is hardly surprising.

• Improving leadership development, another still-critical topic, was rated second highest in urgency.

• Strategic workforce planning maintained its ranking as a crucially important topic for the future, as companies struggle with forecasting long-term scenarios for workforce supply and demand.

Each of the report’s six chapters focuses on the people management topics of highest relevance this year. Drawing on the survey findings and interviews, we offer analysis of the current performance and challenges, along with strategies and tactics to help leaders set priorities and take action.

• “The Big Picture: Global Trends in 2012” provides a summary of survey results, showing the topics executives consider most important today and in the future—and which ones most need improvement.

• “The Case for Integrated Sourcing Management” emphasizes the importance of a holistic approach to people sourcing, from people planning and employer branding to formulating a recruiting strategy and retaining employees. By integrating their sourcing activities, companies can ensure consistency across their messages and achieve important synergies.

• “Building Up Your Critical Assets: Talent and Leadership Development” discusses the importance of six key—and highly interdependent—steps in developing talent and leadership, from developing a talent strategy to creating a talent magnet culture.
• “Managing People in the World’s Fastest-Growing Economies” delineates the specific skill shortages and capability gaps that plague companies operating in high-growth markets.

• “Enabling Workforce Flexibility in a Two-Speed World” highlights a rising challenge facing the majority of companies in our survey: simultaneous workforce shortages in some areas and surpluses elsewhere. The chapter describes useful strategies for deploying talent effectively to reconcile these imbalances.

• “HR Governance: Global or Local?” looks at the three levels of HR governance that companies currently practice across 16 key HR activities. Moreover, we also discuss what could be the most effective approach in each activity.

An additional element rounds out and enhances the content of the report.

The Focus report From Capability to Profitability: Realizing the Value of People Management compares the practices of high-performing companies against those of lower-performing ones in key areas and in dozens of activities, including talent management, leadership development, and performance management and rewards. The report finds that companies that demonstrated proficiency in 22 key HR areas experienced revenue growth that was up to 3.5 times higher and profit margins that were 2.1 times higher than those of less capable companies. Such data may provide important insights as leaders decide how best to invest their people-management resources.
Since the previous BCG/WFPMa global survey was conducted in 2010, we’ve witnessed improvements in capabilities across some topics. (A European survey was conducted in 2011.) The shaky global economy and chronic business uncertainties appear to have motivated many companies to sharpen their people-management skills—a trend that recognizes and affirms the competitive advantage that people increasingly represent. At the same time, several topics retained low ratings in both future importance and companies’ capabilities—a situation we consider risky. As Exhibit 1 shows, 4,288

EXHIBIT 1 | Nearly 4,300 Executives in More than 100 Countries Responded to the Survey

Sample Size: 4,288

Source: 2012 BCG/WFPMa proprietary web survey and analysis.
Note: There were 59 respondents who did not specify a country.
executives from six major regions and more than 100 countries responded to our online survey this year.

The respondents, a mix of HR executives (88 percent of the total) and non-HR executives (12 percent), represented companies spanning more than 15 industry sectors. The services, public, and industrial goods sectors collectively accounted for 35 percent of the responses. We also conducted 63 in-depth interviews with a mix of HR and non-HR executives from well-known companies throughout the globe. (For more about the survey methodology, see Appendix II; for a list of executive interviewees, see Appendix III.)

The World’s Top Priorities for 2012
Each year, through our survey and in-depth interviews, the Creating People Advantage study looks at how challenges in HR and people management are evolving; we base our analysis on 22 topics that we have identified as key priorities among our survey respondents. As we have in the past, the latest survey asked executives three questions on each HR topic: How capable was their company in that topic today? How important was the topic currently? And what future importance did they assign the topic? The most pressing challenges—those ranked most important in the future and in which companies also showed the lowest current capability—appear in the “red zone” in the matrix shown in Exhibit 2.

In 2012, three topics fell within the red zone: managing talent, improving leadership development, and strategic workforce planning.

Managing talent continues to top the list of critical topics; it remains apparent that companies still perceive their current capabilities

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**EXHIBIT 2 | The Most Critical Topics Are Managing Talent, Improving Leadership Development, and Strategic Workforce Planning**

Source: 2012 BCG/WFPM proprietary web survey and analysis.
to be insufficient to cover expected future demands. This is hardly surprising, given the growing shortage of talent worldwide.

“'If you have the right people, the business will be able to face any challenge and provide the right set of services and solutions for your clients.’

Source: Senior executive, Asian technology company

Improving leadership development, another still-critical topic, was rated the second most urgent in terms of current capabilities and future importance. Top executives increasingly need to place greater emphasis on developing future leaders, rather than leave the task to HR (and traditional formal training programs)—or simply leave it to chance. Moreover, companies need to make leadership planning an integral part of their people-planning efforts, rather than simply focus on CEO and senior-executive succession.

Strategic workforce planning maintained its ranking as a crucially important topic for the future, as companies struggle with forecasting long-term scenarios for workforce supply and demand. Predicting future supply and demand at a job-family level is challenging enough in healthy economic times; in volatile times, the challenge is even greater. Increasingly, strategic workforce planning calls for more robust models that integrate it tightly with other sourcing activities.

Throughout most of the regions represented in our survey, these three topics were consistently ranked utmost in relevance, with managing talent and improving leadership development at the very top of the respondents’ list. (See Exhibit 3.)

### Exhibit 3 | Managing Talent and Improving Leadership Development Ranked High in Many Countries

<table>
<thead>
<tr>
<th>Matrix analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas Overall</td>
</tr>
<tr>
<td>Managing talent</td>
</tr>
<tr>
<td>Improving leadership development</td>
</tr>
<tr>
<td>Strategic workforce planning</td>
</tr>
<tr>
<td>Enhancing employee engagement</td>
</tr>
<tr>
<td>Managing change and cultural transformation</td>
</tr>
<tr>
<td>Actively using Web 2.0 for HR</td>
</tr>
<tr>
<td>Transforming HR into a strategic partner</td>
</tr>
<tr>
<td>Managing work-life balance</td>
</tr>
<tr>
<td>Improving performance management and rewards</td>
</tr>
<tr>
<td>Improving employer branding</td>
</tr>
</tbody>
</table>

Source: 2012 BCG/WFPM proprietary web survey and analysis.

Note: Data from countries with more than 75 respondents—and from Argentina and United Arab Emirates. Ranking based on combined values of future importance and current capabilities. Sorting based on number of top 5 rankings per topic across regions and countries.
Under the Radar, But in Need of Attention

Respondents worldwide rated their companies low in current capabilities in five topics—topics that they also consider of low current and future importance: actively using Web 2.0 for HR, integrating global people management and expansion, providing shared services and outsourcing HR, managing an aging workforce, and managing work-life balance. (See Exhibit 4.)

In our view, these perennial “under the radar” topics are underappreciated even though they tend to be directly related to megatrends that are of rising importance for companies and executives.

**Actively Using Web 2.0 for HR.** Overall, HR departments have made modest progress with Web 2.0 tools in their efforts to source and retain people. But they can, and should, do much more. Social media and other Web 2.0 tools are valuable places for people to discover new career opportunities (both internally and externally), learn about companies, and exchange information and intelligence about which companies are the best to work for.

So why is this topic still registering low on the radar? Although many companies have a presence on major sites such as Facebook and LinkedIn, few consider them effective; as of our 2011 survey (which covered Europe), only 19 percent did. We suspect that many companies lack a strategy for effectively using Web 2.0 efforts, so they use the tools only minimally. It takes training to learn about the interactive nature and possibilities of these tools, as well as more resources. And both require greater commitment from senior management.

**Integrating Global People Management and Expansion.** As more companies expand globally and shift their focus to the new high-growth regions, they face growing skill and talent gaps. Companies must pay more attention to sourcing talent locally and redeploying talent from low- to high-growth markets where it’s needed more acutely. To improve global people management so that it effectively supports global expansion, we see two imperatives:

- **Clarify HR roles and accountabilities.** Companies must specify which of these should be handled centrally, handled regionally, or handled locally. (See the chapter “HR Governance: Global or Local?” for a discussion about the various jurisdictional approaches to HR governance.)

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**EXHIBIT 4 | Several Topics Were Consistently Ranked Lowest**

<table>
<thead>
<tr>
<th>Topics with the lowest current capabilities</th>
<th>Topics of lowest future importance</th>
<th>Topics of lowest current importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>⚫ 22 Actively using Web 2.0 for HR</td>
<td>⚫ 22 Providing shared services and outsourcing HR</td>
<td>⚫ 22 Actively using Web 2.0 for HR</td>
</tr>
<tr>
<td>⚫ 21 Integrating global people management and expansion</td>
<td>⚫ 21 Integrating global people management and expansion</td>
<td>⚫ 21 Providing shared services and outsourcing HR</td>
</tr>
<tr>
<td>⚫ 20 Providing shared services and outsourcing HR</td>
<td>⚫ 20 Actively using Web 2.0 for HR</td>
<td>⚫ 20 Integrating global people management and expansion</td>
</tr>
<tr>
<td>⚫ 19 Managing an aging workforce</td>
<td>⚫ 19 Managing an aging workforce</td>
<td>⚫ 19 Managing an aging workforce</td>
</tr>
<tr>
<td>⚫ 18 Managing work-life balance</td>
<td>⚫ 18 Managing diversity and inclusion</td>
<td>⚫ 18 Managing diversity and inclusion</td>
</tr>
</tbody>
</table>

Source: 2012 BCG/WFPMA proprietary web survey and analysis.
• Identify and prioritize activities that, when scaled up globally, can yield high returns. Such activities include people strategy, talent management, performance management, and leadership development.

Finally, our findings also indicate the lack of a global mindset among many HR professionals. Our 2010 report found that HR professionals generally lacked extensive overseas work experience, an international education, and knowledge of international labor laws.

Providing Shared Services and Outsourcing HR. Respondents’ views of these topics have scarcely changed since our previous global survey in 2010. Many companies, it seems, are either avoiding pursuing shared services or are dissatisfied with the results they deliver. Frequently, executives associate providing shared services with cutting personnel costs and dismissing employees. But that view is one-sided. Although cost savings are typically the major goal of shared services, companies also turn to them for other benefits, such as improved quality and customer service and the ability to adopt HR best practices more widely. A major benefit of providing shared services is that it creates efficiencies and frees HR resources at the local level. In this way, HR can deal with more-strategic topics, such as strategic workforce planning, managing talent, and improving employer branding. Adequate implementation is the key to realizing the anticipated benefits.

Outsourcing is certainly a more sensitive issue. If cost pressures are high and the activities an external provider can assume are non-essential, then outsourcing is an option worth exploring. However, it is crucial to consider the sensitivities of the individual business, to keep core competencies within the company, and to be able to control and steer the outsourcing partner.

Managing an Aging Workforce. The aging workforce can be regarded as the megatrend of all the megatrends. Many executives are aware of the major demographic shifts under way; they hear a constant drumbeat about the massive exodus of baby boomers from the workforce and how this contributes to the talent shortage. But most leaders have yet to take these alarms in earnest and create action plans. Only in Germany does this topic appear among the top five most relevant topics as ranked by respondents. In fact, the demographic shift is acute beyond Western economies. In the financial services sector in Japan, for example, the number of workers aged 50 or older is projected to grow by 61 percent through 2020. And even in emerging economies such as China, the number of manufacturing workers over the age of 50 is expected to double in the next 15 years.

Changing demographics pose significant challenges—indeed, risks—for all companies, large and small. They compound the already significant challenges of managing the talent pipeline. Specifically, companies face capacity risks—the loss of critical knowledge and skills—as well as productivity risks. And the effects of these risks are further exacerbated by successive waves of layoffs associated with cost-cutting moves over the past decade and beyond. (For more on this topic, see “Managing Demographic Risk,” a Harvard Business Review article written by Rainer Strack, Jens Baier, and Anders Fahlander in February 2008, and Global Talent Risk—Seven Responses, a joint report published by the World Economic Forum and BCG in 2011.)

Managing Work-Life Balance. It’s a well-known fact that the millennial generation places great importance on balancing work and private life. Savvy companies recognize the importance of having a culture that actually promotes this balance—in actions, not merely in words. Companies that respect work-life balance do more than simply promote fair and reasonable work schedules; they also make allowances for family priorities and considerations, offering flex time and job-sharing, maternity and paternity leave, and resources for the “sandwich generation”—those coping simultaneously with the demands of aging parents and their own growing children.

The Perception Gap on Critical Capabilities

On a number of topics, we discovered important differences between how the survey’s HR respondents (88 percent of the total) and non-HR respondents (12 percent) perceived
their companies’ HR capabilities. Generally, non-HR executives were more critical in their assessments than were HR executives—a somewhat predictable result for those judging others’ work rather than their own.

This year, the topics in which the two groups showed the greatest disparity in perception were transforming HR into a strategic partner, delivering on recruiting, and mastering HR processes. (See Exhibit 5.) The disparities in perception have largely remained constant over the surveys in recent years, particularly for the topic transforming HR into a strategic partner.

There may be several reasons for opinions to deviate so widely on this topic: HR professionals believe that their HR expertise is the most important skill to bring to the strategic partnership. Business executives have a different view: they see traditional HR expertise as being less important for HR professionals today than their skills in other areas, such as business planning, analytics, and conflict resolution. Furthermore, as people are increasingly seen as a source of competitive advantage, HR professionals need consulting skills and business acumen along with capabilities in change management. They need to help shape people strategies that conform to the company’s business objectives and strategy. In addition, business executives want HR professionals to be more proactive, and more proficient, at supporting them in becoming better people managers—providing help for example with recruiting, promotion decisions, and low performers.

These new requirements, of course, require training. And unfortunately, training has remained inadequate: last year’s survey found that only 40 percent of respondents trained HR professionals on business issues.

EXHIBIT 5 | Non-HR and HR Respondents Perceived HR Capabilities Differently, Especially in Three Topics

Source: 2012 BCG/WFPMA proprietary web survey and analysis.
THE CASE FOR INTEGRATED SOURCING MANAGEMENT

The demographic data show unequivocally that companies face major challenges in filling their job pipelines with well-qualified employees. The most desirable candidates aren’t making things any easier: top talent today seeks—indeed, demands—career opportunities, the freedom to work anywhere, diversity in the workplace, an inspiring working environment, and generous compensation and benefits.

Most companies, irrespective of industry, concentrate on isolated aspects of this overarching talent challenge. They put effort and investment into new recruiting activities—using social media, for example—or build programs to retain their “A” players. What they tend not to do is approach people sourcing in a holistic way. As a result, crucial synergies are lost.

We advocate that companies take an integrated approach to managing people sourcing amid all the complexities of today’s dynamic, fast-changing environment. Put simply, this approach addresses the entirety of the activities needed to acquire and keep top talent. (For more on one company’s end-to-end talent-sourcing organization, see the sidebar “Thinking Globally, Acting Locally: Samsung Group’s Talent Incubator.”)

To understand how companies are approaching the various processes that comprise sourcing, we asked our survey participants to rate their current capabilities in strategic workforce planning, improving employer branding, delivering on recruiting, and on-boarding and retaining new hires. We then compared companies that respondents said had high capabilities in these topics against those that had reported low capabilities across a range of specific measures. In Exhibit 6, we highlight our findings by activity rather than topic—that is, on strategic workforce planning, employer branding, recruiting strategy, recruiting process, on-boarding, and retaining employees.

Strategic Workforce Planning. Our research shows that strategic workforce planning, along with improving employer branding, are the two topics on which companies need to focus the most. At companies that had lower-rated capabilities in these topics, executives have not yet adopted the tools and the mindset needed to manage the workforce for the long term. Leaders at these organizations tend to react to short-term trends and act on an ad hoc basis. But such an approach will become increasingly untenable. Unless workforce planning tools are developed and put into action now, organizations will have trouble filling critical gaps for professionals, technologists, and managers in 2020 and beyond.

Strategic workforce planning involves modeling the labor supply and demand for different job families in order to understand current and future imbalances and to develop...
strategies for addressing them. Alarmingly, however, strategic workforce planning remains an uncommon practice, used by only a minority of the companies covered by our survey.

Just as a sales strategy requires a customer segmentation, we believe, a people strategy requires a people segmentation. Therefore, the prerequisite step in strategic workforce planning is creating job families. Having classifications of job families fosters transparency throughout all the units of a company, yet, less than half of survey respondents reported that their companies used job families as a part of efforts in strategic workforce planning. (See Exhibit 7.) The next step is supply-and-demand modeling, which enables a company to simulate the labor pool a company and-demand modeling, which enables a company to simulate the labor pool a company expects to have—as well as the amount that their companies used job families as a part of efforts in strategic workforce planning. (See Exhibit 7.) The next step is supply-and-demand modeling, which enables a company to simulate the labor pool a company expects to have—as well as the amount that the business environment is expected to require. Although it's the central element of workforce planning, only 32 percent of respondents indicated that they have a midterm supply-and-demand model in place. Fewer than half that number—15 percent—use a long-term model.

To model supply, a company first assesses its existing internal capacity, then looks at natural attrition, retirement, and other trends (such as potential workforce reductions driven by the economic outlook or company projections). Supply modeling also entails surveying labor sources—for instance, determining how many new MBAs and engineers the education system is producing. Demand modeling is significantly more complicated, for many reasons. For one thing, it depends on understanding the corporate strategy several years out, and from that, extrapolating human-capital needs. Among those surveyed, 37 percent said their companies had a clear view of capacity gaps for each job family.

**EXHIBIT 6 | Strategic Workforce Planning and Employer Branding Are Sourcing Activities Requiring Focus**

<table>
<thead>
<tr>
<th>Integrated sourcing management</th>
<th>Strategic workforce planning</th>
<th>Employer branding</th>
<th>Recruiting strategy</th>
<th>Recruiting process</th>
<th>On-boarding</th>
<th>Retention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main challenges</td>
<td>Forecasting is difficult, especially over the long term</td>
<td>Systematic analysis to understand each targeted group's specific needs is often lacking</td>
<td>The importance of online channels is frequently underestimated</td>
<td>A speedy initial response to interested candidates is crucial—and often lacking</td>
<td>Personal development opportunities should be offered early on</td>
<td>Retention measures must be established to track personal development</td>
</tr>
<tr>
<td>Compared with companies with low-rated capabilities, companies with highly rated capabilities are...</td>
<td>3.3x</td>
<td>2.5x</td>
<td>1.4x</td>
<td>1.6x</td>
<td>2.3x</td>
<td>2.0x</td>
</tr>
<tr>
<td>...more likely to implement long-term forecasting</td>
<td>...more likely to conduct quantitative and qualitative research on target groups</td>
<td>...more likely to regard social media as a valuable channel</td>
<td>...faster in moving from an unofficial position opening to approval</td>
<td>...more likely to identify the development needs of new hires early on</td>
<td>...more likely to define career tracks for individuals’ development</td>
<td></td>
</tr>
<tr>
<td>...more likely to provide transparency for capacity gaps per job family</td>
<td>...more likely to have an established process for refining the employer brand</td>
<td>...more likely to consider the company’s web site an opportunity</td>
<td>...faster in moving from position approval to the initial recruiting action</td>
<td>...more likely to assign mentors to new hires</td>
<td>...more likely to implement 360-degree feedback processes</td>
<td></td>
</tr>
<tr>
<td>Best practices</td>
<td>Demand-driven people planning is based on business scenarios</td>
<td>The employer’s value proposition is defined using research on targeted groups</td>
<td>Targeted groups are mapped with job-group needs</td>
<td>Interfaces to the businesses are clearly defined</td>
<td>On-boarding begins right after the offer is accepted</td>
<td>Clear development paths are discussed at the interview stage</td>
</tr>
<tr>
<td>Capacity planning is tailored to skill clusters</td>
<td>Communication is targeted to specific groups</td>
<td>The talent pool strategy includes push and pull approaches</td>
<td>Recruiting channels are tracked</td>
<td>Cultural on-boarding (Boot-camp events, buddy programs, mentoring)</td>
<td>Trainee programs span the organization</td>
<td></td>
</tr>
</tbody>
</table>

Source: 2012 BCG/WFPMA proprietary web survey and analysis.

1Companies with highly rated capabilities in a topic were those averaging a rating of 4 or 5 on a scale from 1 to 5; companies with low-rated capabilities averaged 1 or 2 on a scale from 1 to 5.
In the late 1990s, as part of its global growth strategy, Samsung Group undertook various HR initiatives to strengthen its global leadership. As part of these efforts, it established a new unit, the Global Strategy Group (GSG), in 1997. The expectation was that GSG members—high-potential employees recruited from the world’s top MBA programs—would provide a fresh global perspective and innovative ideas to help enhance the company’s performance. In return, Samsung would offer these employees a stimulating career in a dynamic and fast-growing Asian conglomerate.

At its core, GSG seeks to satisfy two overarching goals. First, it assembles a group of foreign talent that can serve as strategic advisors to executives in Samsung’s affiliates and subsidiaries. Second, it develops and positions members to assume significant leadership positions upon their transition from GSG, and to, eventually, become leaders in Samsung’s headquarters and overseas subsidiaries.

As GSG has grown in size and complexity, considerable attention and effort has focused on core aspects of the management of human capital at the company, including people planning, recruiting, on-boarding, and retaining employees. Over time, GSG has emerged as an example of an integrated, end-to-end recruiter and developer of global talent.

In order to create a focused and integrated human-capital action plan, GSG receives the affiliate companies’ global talent requirements annually, including the skills needed to support the specific corporate strategies at each of the companies, and it incorporates them into GSG’s people planning.

As an initial step in the recruitment process, GSG screens candidates for both their global orientation as well as their local “fit.” Next, a two-step interview process begins with a panel consisting of an interviewer from Korea and an interviewer from abroad; the pair assess the appropriateness of the candidate’s background and personality. In the second step, a case interview is conducted to evaluate the candidate’s general problem-solving capabilities, and a presentation session tests for leadership potential, presence, communication skills, and intellectual abilities.

New GSG hires receive considerable on-boarding support, beginning with an intensive two-week orientation program designed to provide an introduction to Samsung, its key industries, and South Korean culture. Additional sessions over the subsequent six months include a detailed introduction to the operations of Samsung’s affiliates, training in problem-solving and project management, and an overview of core consulting skills. GSG prefers that its members stay with GSG for at least one year, during which time they participate in in-house consulting projects and are mentored by senior GSG members and GSG alumni. The GSG employees also work with Samsung’s affiliate companies to learn more about the various businesses.

GSG employees are asked to choose between one of two career tracks: consulting or industry. Those on the consulting track act as generalists and provide advisory services—such as corporate strategy and business development work— to Samsung affiliates. After two years with the company, members can choose either to stay in GSG or to transition to affiliate management. By contrast, those opting for the industry track work on industry-specific projects—such as developing marketing strategies for new products—for the affiliates that they would ultimately like to transition to when their year at GSG is complete.

In addition to finding strong candidates, Samsung concentrates on retaining its best performers. For example, GSG employees...
Once supply and demand scenarios based on those classifications of job families are in place, companies can begin identifying the gaps that exist and uncovering potential capacity risks by business unit and possibly by department, as well. A driver-based model enables companies to calculate different scenarios and thus adequately respond to the uncertainty accompanying future predictions. Only then can a company begin to plan concrete measures to fill gaps and mitigate specific risks. Among our respondents, 32 percent institute such actions (such as transfers, vocational retraining, specific retention strategies).

Employer Branding. Companies that are successful in people management recognize that they cannot afford to be passive about managing their employer brands. Among our respondents, the gap between the generally proficient companies and the generally less-capable ones was considerable: companies deemed by respondents to have high capabilities in improving employer branding were 2.5 times more likely to carry out quantitative and qualitative research on target groups than low-capability companies. Proficient companies were also 2.8 times more likely than lower-capability counterparts to have an established process for refining their employer brands.

A sound employer-branding process consists of five steps. (See Exhibit 8.) The first is conducting an employer brand audit. As Janine Stewart, group director of people and culture at News Limited, the Australian media conglomerate, explained, “You want to know: ‘What is our current brand positioning—and the current talent market’s perceptions? Are the two aligned? What do candidates experience when they engage with us?’” An essential audit practice—holding focus groups to analyze a company’s brand image as an employer—was applied by only 27 percent of the companies covered by our survey.

Next, companies need a clear picture of the needs and beliefs of their targeted talent groups: what they seek in an employer and in their jobs and careers. This calls for the second step, market research on internal as well as external employee groups. Of all the
key steps, companies ignored this one the most: only 23 percent of respondents performed such research.

Our survey revealed that most companies overlook these first two steps in the branding process—the key analytical steps. (For more on the critical role that analysis plays, see the sidebar “Analyze First: The right Way to Achieve your recruiting Targets.”) Like the people-sourcing process, the branding process also involves an integrated approach, so any one step can be truly effective only when all the steps are carried out. Thus, companies that pour resources into the third step—employer brand positioning—without having first conducted a baseline audit and market research are undermining their existing efforts.

Recruiting Strategy. Within any integrated sourcing-management process, the challenge for any company is receiving an adequate amount of applications from a sufficient number of high-caliber candidates. A recruiting strategy should specify the initiatives that target specific labor pools (groups of people with similar educational backgrounds or profiles ranging from untrained to senior professionals) for certain entry-level positions via different channels (from employee referral programs to career fairs).

Increasingly, companies are recognizing the power of technology to amplify their recruiting efforts. Our respondents assigned high future importance to online-recruiting channels. All four online channels that we asked them to assess—company websites, job portals, online advertising, and social media pages—were ranked among the seven most important recruiting channels. (See Exhibit 9.)

Recruiting Process. In today’s hypercompetitive age, the recruiting process itself has to be fast and effective. Companies deemed by respondents to have high capabilities in delivering on recruiting significantly outperformed their counterparts with lower-rated capabilities at every stage of recruitment. They moved 1.6 times faster from the unofficial opening of a position to approving that position, and they were 1.7 times quicker at moving from approval to the first recruiting action.
**EXHIBIT 8 | Companies Overlook Most Steps in Employer Branding**

Five steps for developing an employer branding strategy

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Employer brand audit</td>
</tr>
<tr>
<td>2</td>
<td>Market research</td>
</tr>
<tr>
<td>3</td>
<td>Employer brand positioning</td>
</tr>
<tr>
<td>4</td>
<td>Employer brand levers</td>
</tr>
<tr>
<td>5</td>
<td>Employer brand organization</td>
</tr>
</tbody>
</table>

- Understand current positioning and perception of the brand
- Establish a baseline of current marketing activities
- Identify and prioritize recruiting demands
- Develop and conduct a market research program for internal and external groups
- Understand the needs and beliefs of targeted groups
- Develop credible positioning for the employer brand
- Derive specific messages for targeted groups
- Assess the performance of levers and prioritize actions
- Define initiatives for prioritized levers, timelines, and goals
- Describe processes and interfaces with other departments
- Estimate FTE and marketing budget
- Set up a monitoring system

**Usage rate of selected practices**

- **Analysis of employer brand through focus group**
  - 73% of companies not following practice
  - 27% of companies following practice

- **Market research on the needs of targeted groups**
  - 77% of companies not following practice
  - 23% of companies following practice

- **Definition of targeted groups**
  - 53% of companies not following practice
  - 47% of companies following practice

- **Adoption of channels to target talent groups**
  - 67% of companies not following practice
  - 33% of companies following practice

- **Process for refining the employer brand**
  - 69% of companies not following practice
  - 31% of companies following practice

Source: 2012 BCG/WFPM proprietary web survey and analysis.

Note: The pie charts reflect responses to the question, "Does your company’s employer brand encompass the following aspects?"

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**On-Boarding.** From its boot-camp events and buddy programs to early assignment of defined tasks, the on-boarding stage is crucial for employee retention. Among organizations we surveyed, efforts in on-boarding clearly had a positive effect on retention. Interestingly, companies seem to underestimate the value of cultural and development-related on-boarding activities: companies with highly rated capabilities in on-boarding were 2.3 times more likely than those with lower-rated capabilities to identify the development

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**EXHIBIT 9 | In the Future, Four of the Seven Most Important Recruiting Channels Will Be Online**

Future importance of recruiting channels

<table>
<thead>
<tr>
<th>Channel</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee referral/advocacy marketing</td>
<td>High</td>
</tr>
<tr>
<td>Company website</td>
<td>High</td>
</tr>
<tr>
<td>Job portals</td>
<td>High</td>
</tr>
<tr>
<td>Partnerships (e.g., schools, universities)</td>
<td>High</td>
</tr>
<tr>
<td>Online advertising</td>
<td>High</td>
</tr>
<tr>
<td>Support programs for targeted groups</td>
<td>High</td>
</tr>
<tr>
<td>Social media pages</td>
<td>High</td>
</tr>
<tr>
<td>On-campus advertising</td>
<td>High</td>
</tr>
<tr>
<td>Friends and family</td>
<td>High</td>
</tr>
<tr>
<td>Headhunters</td>
<td>High</td>
</tr>
<tr>
<td>Job fairs</td>
<td>High</td>
</tr>
<tr>
<td>Company-sponsored events</td>
<td>High</td>
</tr>
<tr>
<td>Temporary workers</td>
<td>High</td>
</tr>
<tr>
<td>Work agencies</td>
<td>High</td>
</tr>
<tr>
<td>Newspaper advertising</td>
<td>High</td>
</tr>
<tr>
<td>Online channels</td>
<td>Low</td>
</tr>
<tr>
<td>Other channels</td>
<td>Low</td>
</tr>
</tbody>
</table>

Source: 2012 BCG/WFPM proprietary web survey and analysis.

Note: The bar chart reflects responses to the question, "Please rate the future importance of the following recruiting channels."
Brand awareness is important for recruiting new employees—but only if it can be translated into corresponding recruiting performance. High recruiting demands posed a challenge for Deutsche Bahn recently. The leading German transportation and logistics company (and operator of one of the world’s largest rail networks) calculated that it needed approximately 7,000 new full-time employees annually across all major employee segments in Germany alone over the next years. The tightening of the labor market was perceived as an increasing threat to the company’s prospects of attracting the quality and numbers of talent it needed to fulfill its strategy.

Before attempting to find solutions, leaders recognized the importance of understanding the needs of potential applicants: “You have to deeply understand why your target groups in the labor market see you as a potential employer for them—or why not.” Ulrich Weber, member of the management board for Human Resources at Deutsche Bahn, told us. “This knowledge is the essential foundation for creating a winning approach.”

To attain a better understanding of these needs, Deutsche Bahn conducted an external web survey of approximately 5,000 people from across all its targeted groups; it also conducted 80 in-depth focus group interviews. Knowledge of internal—that is, current employees’—perceptions was just as important as external perceptions. The internal perspective was captured by a web survey of approximately 1,000 recently hired people and another 80 in-depth focus group interviews. This extensive analysis phase was designed to help Deutsche Bahn capture diverse perspectives and then to use the insights to define its brand positioning and recruiting strategy, assess the gap between the employees’ perception of Deutsche Bahn (broadly and by targeted employee group) and the public’s view, and forge a strategy that would reach and resonate with its targeted groups.

With these valuable insights in hand, Deutsche Bahn was ready to undertake the remaining steps in the new process for employer branding and recruiting. To develop a credible brand strategy, the project team defined targeted group segments, identified core brand attributes and positioning options, and developed a brand vision for each targeted group. Next, the team analyzed the performance of the existing recruiting channels to define a new recruiting strategy including a systematic planning of source and intake means.

Because online channels were identified as the most potent ones for recruiting, the team focused on building an integrated recruiting system online. Finally, the team built a bona fide employer brand and recruiting organization with clearly defined responsibilities. Strategic aspects of recruiting and employer branding were bundled in the corporate center, interviews and assessment centers were covered by regional units, and standardized tasks such as the screening of applications were taken over by a shared service center.

The new strategy for employer branding and recruiting has already had a positive impact: in Universum’s 2012 employer brand survey, Deutsche Bahn rose 20 spots in the rankings from the previous year’s survey. As Deutsche Bahn’s story shows, rigorous analysis is an essential first step in employer branding and recruiting. It not only provided valuable insights for strategy-setting but also generated the awareness needed at top management levels to advance the entire effort.
needs of new hires early on, and they were 1.8 times more likely to assign mentors to new hires.

Retention. Our results show that in most regions of the world, the lack of retention measures related to personnel development is typically the primary reason employees give for leaving. According to our survey, companies with highly rated capabilities in retention were twice as likely as those with lower-rated capabilities to define career tracks for development. Only about a quarter of the companies surveyed worldwide employed 360-degree feedback processes when planning their workforce needs, yet companies whose retention capabilities were rated highly were 1.8 times more likely than their counterparts with lower-rated capabilities to use 360-degree feedback processes.

Retention efforts powerfully underscore the integrated nature of people sourcing: without them, all the preceding planning and recruiting steps will be for naught. At Sky Italia, executives clearly understand this: key talent retention is their primary indicator for measuring the effectiveness of their talent management. “We are a young company, and we realize that outside our walls there are many other opportunities available to talent,” said Ilaria Dalla Riva, former executive vice president of HR, organization, and facility management at Sky Italia. “High retention rates are our way of measuring whether we are winning our battle for talent.”
BUSINESS LEADERS TODAY ARE well aware that a company’s most important asset is its talent. And respondents to the BCG/WFPMA survey affirmed this: among all 22 HR topics, managing talent was ranked highest in future importance by the executives we surveyed. Yet the survey also showed that respondents did not consider current corporate capabilities in managing talent as coming close to matching the perceived future relevance of the topic. It’s much the same story for the topic improving leadership development, which received a high overall rating in future importance and a correspondingly low one in current capability.

Without strong leadership, companies cannot manage talent effectively. Over the next decade, therefore, the competition for both talent and leaders will only intensify. How can companies sharpen their focus to shore up their most important asset—and create competitive advantage?

Building Talent: Six Essential Steps

To achieve and sustain a talent advantage over rivals, companies need to take action in six key areas. First, every company must develop a talent strategy that corresponds to market conditions and business needs while also generating suitable economic returns. These returns should, of course, be tracked by metrics. Second, a leadership model must be in place, one that conforms to the requirements of the twenty-first century: notably, it should promote adaptiveness and should enable the company to deal with constant change and rapidly shifting challenges.

Third, talent sourcing has to be fine-tuned to ensure workforce diversity—not only cultural and gender diversity but also diversity in thinking and working styles. The company’s value proposition and brand as an employer should address the organization’s specific talent needs, and the recruiting and onboarding processes be adapted and tailored to the various groups of talent that the company is targeting.

Fourth, the company needs to focus on talent development acceleration through programs that build capabilities internally. Fifth, to establish a culture of talent engagement and affiliation, compensation and benefits must be competitive. Leaders also need to tackle retention problems strategically, and promote superior performance and collaboration through their own actions as well as through behavioral incentives and rewards. Sixth and finally, with these elements in place, a talent magnet culture emerges. As a company’s governance of its talent, employer brand, and other components of corporate culture steadily improves, the company will increasingly attract the very talent it desires, gaining powerful advantage as an employer and a business.
How Do Companies Stack Up?

We asked our survey participants how their companies fared in these six steps. We also compared the individual actions of high-performing companies against those of the low-performing ones. (We defined high-performing companies as the top 10 percent of the surveyed companies by profit margin and revenue growth; we defined low-performing companies as the bottom 10 percent.) For more about the positive correlation we discovered between companies’ capabilities in specific HR topics and financial performance, see Appendix I for From Capability to Profitability: Realizing the Value of People Management. Next, we pinpointed the activities in which the two groups differed the most. (See Exhibit 10.)

In every step of talent and leadership development, companies indicated that many essential activities were simply not carried out. Across both high- and low-performing companies, more than 50 percent of the actions generally deemed necessary were lacking. Naturally, high-performing companies carried out more activities through all six steps—engaging in related activities per step on average from 1.3 times to 2.0 times more often.

Talent Strategy and Tracking of Returns. In this step, quantitative management of the talent pipeline—monitoring and managing the talent numbers—was frequently underutilized. In addition, many companies didn’t track talent gaps with any degree of precision, and those that did looked primarily at current or near-term gaps rather than future ones.

The lack of consistent planning was most pronounced in succession planning efforts. Among low-performing companies, only 15 percent of respondents carried out succession planning for middle managers and senior executives. High-performing companies performed this activity 1.6 times more often than low-performing ones. As a result, leadership pipelines at these organizations are more developed. Still, the actual rates of adoption for these activities are remarkably low even among the high-performing compa-

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**EXHIBIT 10 | In Every Stage of Developing Leadership Talent, High-Performing Companies Engage in More Activities**

<table>
<thead>
<tr>
<th>Steps of talent and leadership development</th>
<th>Average rate of adoption by high- vs. low-performing companies¹</th>
<th>Activities with the highest rates of adoption per step by high- vs. low-performing companies¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent magnet culture</td>
<td>1.4x</td>
<td>Middle managers recommend the company as an employer</td>
</tr>
<tr>
<td>Talent engagement and affiliation</td>
<td>2.0x</td>
<td>Leaders’ compensation and careers depend on their efforts in people development</td>
</tr>
<tr>
<td>Talent sourcing and diversity</td>
<td>1.5x</td>
<td>Development programs are more likely to be designed for acceleration</td>
</tr>
<tr>
<td>Talent development acceleration</td>
<td>1.4x</td>
<td>Employer branding is adapted to different targeted groups</td>
</tr>
<tr>
<td>Leadership model</td>
<td>1.3x</td>
<td>Leadership models describe expected contributions and behaviors and drive promotion and talent-selection decisions</td>
</tr>
<tr>
<td>Talent strategy and returns tracking</td>
<td>1.4x</td>
<td>Returns are tracked, so pipelines are filled</td>
</tr>
</tbody>
</table>

Source: 2012 BCG/WFPMA proprietary web survey and analysis.

Note: We defined high-performing companies as the top 10 percent of the surveyed companies by profit margin and revenue growth; we defined low-performing companies as the bottom 10 percent.

¹We calculated these rates by dividing the average share of high-performing companies undertaking each action by the average share of low-performing companies doing the same.
nies, which overall engaged in activities supporting talent strategy and the tracking of returns 1.4 times more often than low performers.

**Leadership Model.** Most companies covered by our survey had a leadership model, but most of these models were steeped in twentieth-century principles and were outdated. Moreover, most companies failed to use their model consistently. Looking at the adoption rates by group, we found that only 33 percent of the low-performing companies had a leadership model that described leaders’ expected contributions and behaviors and drove decisions about talent selection and promotion. Among high-performing companies, the adoption rate was considerably better: 59 percent, making them and 1.8 times more likely than low-performing companies to have such a model.

To update its leadership model—and ensure that it was tangible to leaders—BMW several years ago introduced its Management House. “As a premium brand in the automotive industry with worldwide operations, we realized that our leaders must do more than just manage the business,” explained Harald Krüger, a BMW board member and former chief human resources officer.

The Management House, a companywide model, represents the key areas of leadership skills in which BMW’s leaders must excel. More recently, BMW opened its Treffpunkt Führung, or Leadership Center (also known as its “Leadership Platform”). At the center, 400 square meters of office space are divided into 10 different rooms, each devoted to a different concept linked to the leadership model. Teams advance from room to room, discussing each concept and its origins at BMW, along with the company’s strategy and basic principles. In a hands-on exercise, team members assemble the concepts into a physical model—a house, built out of wooden blocks. In a facilitated workshop, team members translate their goals for achieving leadership excellence into concrete, day-to-day actions.

**Talent Sourcing and Diversity.** When it comes to practices within talent sourcing, we found that few companies adequately assess their employer brand. Rarely do they adapt their brand messaging—in particular, the employer value proposition aimed at different targeted groups of employees. Right now, companies are missing out on the large pool of potential employees from various targeted groups, such as international, female, and experienced hires. Among the low-performing companies, for instance, only 12 percent tailored their branding to attract specific groups. A greater percentage of high-performers (27 percent) engaged in this activity, but the practice is still uncommon.

“We are investing in our people resources through a program designed to continuously develop the competencies of our people in Italy. We offer a free online university program to qualified employees. It is a big success: so far, more than 2,000 employees have applied, about 8 percent of our total workforce.”

Antonio Migliardi, head of HR and organization of Telecom Italia

**Talent Development Acceleration.** Companies need to devote attention to the acceleration of talent management. “Top management at Santander is deeply involved in talent development. The CEO is personally involved in the professional development of every one of the top 300 executives in the company. He also leads the Council for our Corporate University, which is extremely active,” explained José Luis Gómez Alciturri, managing director of HR at Grupo Santander. However, 46 percent of the low-performing companies had no program for developing talent among middle managers—neither training nor on-the-job initiatives. Given the importance respondents placed on talent development, these low numbers are somewhat alarming.

**Talent Engagement and Affiliation.** In people management as a whole, the most criti-
cal success factor for a company may well be the level of engagement and affiliation of employees. When employees are motivated, they perform better, identify more closely with their work, treat their colleagues better, help create a positive environment and culture of performance, and are less likely to leave the company. “Today, most companies’ incentives are primarily financial, which does not guarantee that workers are motivated,” said Francisco Veloso, vice president of human resources and corporate affairs at Antofagasta Minerals, the Chilean mining company. “The challenge is to make people do what is best for the company, while at the same time, they do what they truly want.”

For these reasons, the widespread inattention to talent engagement and affiliation is a serious concern. Again, companies often identify essential activities but fail to follow through on them regularly or even at all. For example, 54 percent of the low-performing companies established clear norms and expectations for superior performance, but then did not apply these standards consistently. The same held true when it came to evaluating the people-development efforts made by leaders; low-performing companies often engaged in this activity (48 percent of low-performing companies, in fact) but without consequence—that is, the efforts have no impact on the leaders’ career advancement or compensation.

Although companies overall are erratic in their efforts to advance talent engagement and affiliation, the high-performing companies nonetheless outpaced the low performers dramatically in such efforts, with an average difference of twice as much activity by the high performers across the set of specific practices we examined. “We believe that our talent culture is reinforced through our leadership, which is why we evaluate our leadership along these dimensions,” said Ronald Schellekens, group HR director at Vodafone.

**Talent Magnet Culture.** Finally, when it comes to fostering talent magnet culture, the vast majority of companies came up short. Only 33 percent of respondents from high-performing companies and 24 percent of respondents from low-performing companies reported that their organizations tended to this step. The evidence is best reflected in the amount of time executives said they devote to managing talent each year: on average, fewer than seven days at the low-performing companies, versus 25 days or more at the high-performing companies. (For more about talent management, see the April 2012 BCG Perspective “When Growth Outstrips Talent” by Jean-Michel Caye, Vikram Bhalla, Marcos Aguiar, and Christoph Nettesheim.) Moreover, few companies integrated their talent processes, an approach that’s critical to success.

The recommended practices that we surveyed are hardly new or radical. So what explains our findings? The limited adoption of these approaches could be, quite simply, the result of scarce resources—budget cuts prompted by the financial crisis. Overhead functions, such as HR, are frequently the hardest hit. Another possibility is that the high unemployment rates stemming from the recent global recession may have executives questioning the very notion of a talent shortage. But this attitude is dangerously short-sighted. The global recession may have caused only a slight dip in demand, but by all accounts, the talent supply in the next few decades is expected to shrink dramatically. Companies must do everything in their power to overcome their short-term orientation and recognize the long-term strategic challenges—and threats—they face in securing the talent they’ll need over the coming years.
MANAGING PEOPLE IN THE WORLD’S FASTEST-GROWING ECONOMIES

Rapid growth in fast-growing economies has captured the imaginations of multinationals and local businesses seeking to capitalize on new opportunities. Yet these same companies face a complex, interrelated set of challenges that make it difficult for them to secure the talent they need to succeed in these markets. To surmount these challenges, companies will need to improve their capabilities to meet critical HR imperatives, such as recruiting, on-boarding and retention, leadership development, and talent management.

Among the biggest challenges companies in the fast-growing economies face is the one common to all companies today: the growing talent shortage. Already, companies have been finding it increasingly difficult to locate and hold onto talent in emerging markets. And the problem will only worsen over the coming decades, as the growth of these economies outpaces that of the talent supply. The shortage is exacerbated further by an inadequate educational pipeline: institutions are turning out graduates who lack the kinds of skills businesses value most, such as problem solving and critical thinking.

Falling Short in Key HR Capabilities
Companies doing business in emerging nations might have a fighting chance of surmounting the above-described issues if they weren’t also struggling with capabilities in several of the HR topics in our study. To better understand those challenges, we organized the 22 HR topics in order of their future importance as ranked by our respondents based in the BRICS countries (Brazil, Russia, India, China, and South Africa)—and we then compared these respondents’ ratings with those of the rest of our respondents. (See Exhibit 11.)

Interestingly, the BRICS-based respondents prioritized the topics differently than did respondents overall. Improving performance management and rewards, on-boarding and retaining new hires, and managing talent—topics with a clear relationship to talent development and retention—were their topmost priorities. Furthermore, throughout all the topics, companies in the BRICS countries lagged behind the non-BRICS companies in their current capabilities.

Specifically, in the ten most important topics for the BRICS-based companies overall, we discovered big gaps in BRICS capabilities in managing talent, mastering HR processes, and delivering on recruiting. Clearly, if they are to excel in people management in their fast-growing markets, the BRICS-based companies need to devote as much attention to core HR topics as they do to development and retention.
Wanted: Strong Managerial, Leadership, and Technical Skills

The capabilities shortfall becomes even more urgent when considered in the context of the critical shortages in skills and workforce groups that BRICS-based companies face. When we evaluated responses from the BRICS countries separately, some interesting patterns emerged. (See Exhibit 12.)

To be sure, across BRICS countries, respondents identified managerial, leadership, and technical skills as the skills most lacking in their country or region. Similarly, they ranked shortages in their management and R&D workforce groups as most critical. When we examined the data at the country level, we identified interesting differences that we believe reflect the unique characteristics of each nation’s economy. For example, in Russia, technical skills were not considered in short supply, and R&D skills were not perceived as lacking. However, the economy seems to lack experienced managers who can run manufacturing operations or capital projects. This is held especially for management skills at mid-level corporations in Russia’s capital-intensive industries.

Employee Development and Retention Strategies

How can companies overcome the HR challenges facing them in their operations within BRICS and other emerging economies? Given the inadequacies in higher education, it’s clear that they’ll need to take matters into their own hands and focus their efforts on two areas: developing and retaining employees with the most promising leadership, managerial, and technical skills. This is particularly important, because attrition rates are generally higher. “In emerging markets, the greater challenge is keeping good managers, as people are generally less loyal to employers,” observed Hans Mijnans, vice president of HR markets at Philips International. For numerous HR topics, the gap between their perceived importance and the companies’ current capabilities is significant. (See Exhibit 13.)
Career Development Practices. We offer several ways to fill the gaps in three key areas of career development that require great attention.

- **Hold career development discussions.** During these discussions, employees can share their career goals, and managers can define the skills needed to achieve those goals. Managers can also identify new challenges and job experiences that would help employees acquire or build the requisite skills. Offering accelerated job rotation, project-leadership opportunities, and a variety of assignments can help employees strengthen their leadership, managerial, or technical skills.

- **Assess employee performance along defined criteria—and communicate those criteria to employees.** For example, as employees move from individual-contributor roles to managerial roles, their effectiveness will be judged on such criteria as their ability to develop other leaders, to delegate, and to manage team dynamics.

Talent Retention Practices. Developing talent takes time and money; in some positions, the bill for talent development can easily range from half a year’s to a full year’s salary. That’s why it is essential to follow up investments in career development with strong retention practices.

- **Offer clearly defined career paths.** Reinforce career development discussions by describing how career paths operate within the organization. For instance, how do talented engineers advance into the managerial ranks? How do line managers move into executive positions? What successive roles must people occupy to progress through their desired career paths, and what forms of support will they receive from their supervisors as well as through formal companywide development programs?

- **Ensure that espoused values are also practiced.** Thanks to social media, employees can quickly learn about and comment on the day-to-day realities of career prospects inside their companies. An organization that espouses such values as “We invest in our people” yet doesn’t put these values into practice will quickly be identified as a fraud. One way to ensure that practiced values match espoused values is to make all managers and executives—not just...
HR—responsible for delivering on the company’s career-opportunity promises to employees. “The key to reducing attrition in emerging markets is to make employees feel that they are part of something larger, to give them a sense of family and pride,” said Vegar Arndal, senior vice president of HR and quality management at Kongsberg Maritime, a Norwegian maritime-technology company. This calls for careful attention to performance management. For instance, senior managers can be held accountable for key performance indicators (KPIs) such as attrition rates among high-potential employees.

- **Foster a culture of meritocracy.** In an organizational culture defined largely by meritocracy, people know that they will be recognized and rewarded on the basis of their performance. To develop a culture of meritocracy, start by clarifying decision rights. Augment clear decision rights with a strong performance-management system based on explicit objectives; clear, timely, and specific feedback; and metrics that link compensation to performance.

Tackling the talent challenges confronting businesses in fast-growing economies won’t be easy. But companies must start now if they hope to gain—and sustain—a competitive edge in these regions. By establishing practices aimed at developing and retaining their most promising leaders, managers, and technical stars, organizations can keep and cultivate the skills they need, rather than having to search farther afield for increasingly scarce resources.
Widespread uncertainty, conflicting economic signals, and the divergent economic conditions between Western economies and those in Asia and the Southern Hemisphere have made business leaders reluctant to act. To rouse leaders from their inertia—so that they can take advantage of new opportunities for growth—companies need to adapt to the new workforce dichotomy. They need to develop the capability to manage growth in some regions simultaneously with contraction in others—and to manage it in ways that best capture people advantage. (See Exhibit 14.)

For companies that operate in one country, managing workforce supply and demand is

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**EXHIBIT 14 | The Majority of Companies Face Transformation**

<table>
<thead>
<tr>
<th>Workforce shortage</th>
<th>Workforce surplus</th>
<th>Supporting HR measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>No</td>
<td>Implement strategic workforce planning</td>
</tr>
<tr>
<td>No</td>
<td>Yes</td>
<td>Transparency about actual and future capacity gaps and surpluses for specific skill clusters, business units, and regions</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
<td>Cope with temporarily high and low workloads</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Evaluate potential options: Working time accounts, overtime work, temporary workers, part-time work options, sabbaticals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Make the internal labor market globally accessible</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increase internal fill rate, e.g., between business units or countries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Make effective use of upsizing and downsizing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Improve people sourcing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Use passive measures first: natural attrition and reduced recruiting</td>
</tr>
</tbody>
</table>

Source: 2012 BCG/WFMA proprietary web survey and analysis.

Note: The chart reflects responses to the question, “Do you face a workforce shortage or surplus in different parts of your company?” It includes respondents from companies with more than 2,000 employees.
no easy task. In addition to the various needs of different business units and subunits, there is a different, and often overlapping, mix of job profiles across units. In one unit, an employee may be redundant, while another unit may be desperately searching for someone with his or her precise qualifications. To make matters worse, a company in this position would likely be terminating the employee with severance pay in the first unit, only to face a headhunter’s fee for filling the opening in the other unit. Consider how those redundant expenses might add up, simply because existing employees could not be redeployed to areas of need.

Understanding Surpluses and Shortages

With global companies, the scenario described above occurs many times over. The complexity gets compounded, with surpluses and shortages occurring simultaneously throughout a matrix of different regions, business units, and job groups. These companies exist in a state of constant transformation.

We asked our respondents whether they faced shortages, surpluses, or both—or if their workforce situation was business as usual. Among companies with more than 2,000 employees, 29 percent of respondents said that they are recruiting new employees throughout all of their businesses, while 13 percent said they are downsizing across the board. Yet the majority (52 percent) are undergoing transformation—building up their workforce in certain regions, business units, and job groups, while laying off employees in others. These companies are adjusting not only to global economic shifts (and shifts in demand) but also to the different business realities in their various markets: the shortage of managerial talent in emerging markets, for example, alongside decelerating demand in the more-established markets in which recession lingers. As Exhibit 15 shows,
“We must raise productivity even more and thus reduce the cost of labor per unit. This requires not only investing in technology, but also working to boost employees’ adaptability, involvement in the company, and engagement with management on setting and achieving corporate objectives.”

Maurizio Sacconi, former Italian Minister of Labor, Health and Social Policies

Even across industries, this state of transformation was the most common mode. From a regional perspective, transformation affects more companies in Western economies than anywhere else. (See Exhibit 16.) Sixty percent of the companies located in Europe (excluding Southern Europe) and 53 percent of North American companies were undergoing transformation. The widespread transformation in these regions reflects the extensive dislocations that established multinational companies are experiencing throughout their global operations. A hefty percentage of companies were recruiting across all locations (30 percent in North America, 23 percent in Europe); some were also restructuring across all locations (7 percent in North America, 11 percent in Europe).

By contrast, a small proportion of companies reported facing no workforce issues (10 percent in North America, 6 percent in Europe). A similar pattern emerged for companies based in the Pacific region. Because the majority of responses in this region came from Australia, the similarities to the other developed economies are not surprising. More companies (65 percent) faced transformation

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### Exhibit 16 | Transformation Prevails in North America, Europe, and the Pacific Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Workforce Surplus</th>
<th>Workforce Shortage</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>7%</td>
<td>53%</td>
</tr>
<tr>
<td>Southern Europe</td>
<td>10%</td>
<td>37%</td>
</tr>
<tr>
<td>Latin America</td>
<td>17%</td>
<td>38%</td>
</tr>
<tr>
<td>Middle East &amp; Africa</td>
<td>5%</td>
<td>40%</td>
</tr>
<tr>
<td>Europe (excl. Southern Europe)</td>
<td>11%</td>
<td>60%</td>
</tr>
<tr>
<td>Asia</td>
<td>5%</td>
<td>40%</td>
</tr>
<tr>
<td>Pacific Region</td>
<td>5%</td>
<td>65%</td>
</tr>
</tbody>
</table>

Source: 2012 BCG/WFPMA proprietary web survey and analysis.

Note: The chart reflects responses to the question, “Do you face a workforce shortage or surplus in different parts of your company?” The data include respondents from companies with more than 2,000 employees.

1Excludes Southern Europe.
in the Pacific region than in any other region, possibly because of the disparity in workforce realities between rural areas (with their scarcity of workers) and the big cities (where surpluses are common).

Which region leads in expansion? Considering the high growth rates in Asia, it is no surprise that recruiting exceeded every other state of growth for Asian companies (52 percent of companies). Another sizeable share of Asian companies faced transformation (40 percent), whereas restructuring and “business as usual” were rare conditions for Asian companies.

The situation was similar in Africa and the Middle East and in Latin America, where recruiting was also the prevailing state of affairs. In these regions, however, the percentage of companies in transformation was slightly lower than in Asia, and the share of companies in a restructuring state was slightly higher.

Unlike companies in other regions, companies in Southern Europe indicated that they are primarily experiencing restructuring—a reality that is hardly surprising, given the extent of the economic crisis in Greece, Spain, and Portugal, and the looming threat of crisis in Italy. Still nearly as many companies in that region—35 percent—were undergoing transformation. We see this as a reflection of the global nature of business—not to mention a boon to many companies that can now rely on their far-flung operations as a source of growth.

Coping with Contradiction: Managing the People Side of Transformation

As most companies around the world are facing transformation, it’s important to understand the factors that foster success in this realm. We’ve identified four “pillars” (prerequisites) of success: implementing strategic workforce planning, coping with temporarily high and low workloads, making a company’s internal labor market globally accessible, and instituting effective measures for downsizing and upsizing.

Implementing Strategic Workforce Planning. The first priority when adequately dealing with transformation issues is gaining transparency into the actual and potential future capacity gaps and surpluses in the workforce, based on a supply and demand model. (See the sidebar “Reducing Workforce Risk: Strategic Workforce Planning at Daimler Trucks” to learn how Daimler Trucks adopted strategic workforce planning to manage talent supply and demand throughout its manufacturing plants.)

“The HR function has a central role in trying to solve these misalignments, working together with production and plant management. HR must support proper workload planning, ensuring that resources are sized correctly and that flexibility and restructuring measures are applied ethically. This is an important responsibility—as well as an important challenge—for HR.”

Carlo Cremona, senior vice president of HR and change management, AnsaldoBreda

Coping with Temporarily High and Low Workloads. If transformation is primarily a function of temporary increases or decreases in workload in different parts of the company, the company can adopt targeted—and temporary—coping strategies. Our survey respondents generally considered working time accounts (which enable employees to bank overtime, for example, and then draw upon it at a later, often slower work period) as an effective means of coping with both high and low workload situations. Overtime work and the use of third-party contractors are effective in meeting high workloads. Providing part-time work options for certain segments of the workforce is useful for dealing with temporarily low workloads.
As Daimler’s second-largest division, Daimler Trucks employs around 77,000 people worldwide. In 2007, a year before the financial crisis hit, Daimler Trucks achieved record profits. Looking forward, company leaders wondered how they would be able to forecast expanding workforce needs to meet future demand.

Would they encounter difficulty finding (and retaining) the right number of qualified new employees when and where they needed them? And which areas of operation were more likely to experience overcapacity?

To enable leaders to see the kind of results that could be achieved through a reorientation of their HR planning, Daimler Trucks decided to run a pilot program in strategic workforce planning at one of its plants.

The pilot program followed the five basic steps of strategic workforce planning. First, based on the existing employee classification, Daimler Trucks introduced a job family structure. This new structure helped executives see the distribution of qualifications and skills across job categories—identifying similarities, and thus, where transferable skills resided.

Second, by analyzing the workforce supply, the company extrapolated natural fluctuation rates and retirement trends by job function and age group. This analysis highlighted the areas where supply was at risk.

Third, Daimler Trucks conducted demand analysis—the heart of strategic HR planning. In this step, production-related drivers were defined for each individual job function, and future projections were made based on the company’s strategically desired product mix, productivity improvements, and different sales scenarios. This enabled the company to forecast employment needs down to the job-function level and predict the plant’s required production in a comprehensive model.

Fourth, by conducting gap analysis of the projected job supply and demand, Daimler Trucks discovered that it would need personnel in nearly every job function throughout the coming years.

Fifth and finally, the company identified concrete steps for meeting these qualitative and quantitative HR requirements.

Pleased with the richer information that strategic workforce planning provided about HR supply and demand, the management at Daimler Trucks decided to roll out the program throughout its German plants.

Thanks to its clear structure, ability to be customized to the needs of individual plants, and—most important—its ability to enable decision making that is aligned with strategy, strategic workforce planning has had a tremendous impact on Daimler Trucks. This has held particularly true for management’s medium- and long-term decisions related to such activities as employee training and continuing education.

Strategic workforce planning has provided farsighted planning and a perspective that spans company boundaries, allowing Daimler Trucks to maintain a steady intake of trainees even during the financial crisis and its ensuing sales slump. After the crisis, the company has been able to deploy its new specialists in areas experiencing critical shortages.

“I am truly convinced that the concept is successful and valuable,” said Frithjof Punke, director of human resources at Daimler Trucks.

“The insights gleaned from our strategic workforce analysis have helped provide transparency on the actions we must take across skill clusters. This visibility enables us to adequately and efficiently implement long-term strategic HR measures.”
Making a Company’s Internal Labor Market Globally Accessible. All other things being equal, filling jobs internally is always preferable. Linking the internal labor market to a workforce planning system increases the efficiency of a company’s workforce. So does creating transparency for employees by sharing information about the jobs available throughout the company. Surveyed companies that combined both measures filled positions internally 1.5 times more frequently that did those companies that lacked the measures.

Instituting Effective Measures for Downsizing and Upsizing. (See the chapter “The Case for Integrated Sourcing Management” for a discussion of upsizing.) Downsizing is often a critical issue, because it can affect not only the atmosphere within a company but also the public perception of that company. To prevent negative repercussions, it is critically important to choose carefully the most appropriate means for achieving workforce reductions. Worldwide, the two approaches used most frequently are passive and are thus devoid of negative impact: allowing natural attrition and reducing recruitment activities. Both approaches were used by about 55 percent of respondents.

Half the companies covered by our survey terminated employees or did not extend fixed-term contracts. Natural attrition was the most common downsizing method in the Pacific region—where 80 percent of respondents said their companies relied on this approach. Companies in North America relied on termination more than any other region—most likely because these companies urgently needed to shed employees during the protracted economic downturn and because there are few restrictions to downsizing in a largely nonunionized workforce.
As we’ve shown, sound people management has become increasingly challenging. The overarching issue of contradictory workforce conditions—oversupply in some regions or areas of the business and shortages elsewhere—along with today’s highly globalized environment, puts greater demands on HR than ever before. What exactly are the implications of these massive shifts on HR governance? Which people-management activities are best managed at the global level, so that companies can reduce complexity, ensure consistency, realize continuous improvement—and achieve economies of scale? And which ones are more effectively managed at the regional level, so that local laws, practices, and culture are adhered to?

In this concluding chapter, we explore current practices as well as solutions for these pressing questions. In our survey, we asked respondents from larger companies to characterize the extent to which 16 HR activities are standardized at their organizations. For each activity, we asked respondents if the company managed the activity globally, issued global guidelines that units were allowed to modify according to local norms, or managed the activity on a purely local basis. (These questions focused only on the standardization of the management of the respective activity and did not explore whether the activity itself was centralized.) Then we asked respondents to rate the effectiveness of the current approach to standardization in each activity.

Of the three degrees of standardization, the most commonly indicated approach was combining global guidelines with local adjustments. (See Exhibit 17.) Although this approach appears to combine the advantages of global management with those of a local approach, this form of standardization was not necessarily rated the most effective by respondents.

By contrast, for most activities—strategic, functional, as well as administrative—respondents rated global standardization as slightly more effective than the combination of global guidelines with local adjustments. We see several reasons for this.

When an activity is globally standardized, HR and senior executives gain visibility into the actual work performed across all units and are able to track performance, fill gaps, and monitor effectiveness. At the same time, globally standardizing a strategic HR activity allows for greater impact—particularly in other activities directly related to global competitiveness, such as employer branding, compensation, and development and training. Said Kathrin Menges, executive vice president of human resources at Henkel, a global company with brands and technologies for consum-
er and industrial businesses: “Our experience with global HR reporting lines has been very good. The company gives HR issues high priority and supports globally standardized talent management.”

Of course, the most effective degree of standardization will be determined by the specifics of each company, so one cannot simply conclude from our findings that global standardization is the one correct approach for all companies to take in their HR activities.

**Where Global Governance Counts Most**

Among the activities we looked at, HR IT and performance management had the highest rates of global standardization (cited by 44 percent of respondents). This may be explained by the economies of scale in HR IT by an increase of transparency and fairness in performance management. Moreover, respondents perceived globally standardized approaches to HR IT and performance management to be among the most effective of those we asked them about.

Several activities—including talent management, employer branding, and employee data management—were globally standardized nearly as often as they were governed by global guidelines with local adjustments. Yet for these activities, many companies are increasingly seeing the value of a global approach.

Employer branding, for example, powerfully illustrates why global standards are often more favorable. As Jordi Gaju, chief development officer of Falabella, said, “We believe that the whole company is more attractive than its parts, because it offers flexibility and mobility. That’s a big potential advantage in recruiting.” Because branding involves many component activities—such as planning, research, identifying and adapting market channels to reach targeted employee seg-
ments—it is best done systematically and holistically. The evidence supports this reasoning: globally standardized employer branding was perceived by respondents as being the most effective of the three approaches (it earned an average rating of 3.2).

Globally standardized governance was also considered more effective for talent management and employee data management. Yet companies are far from achieving this level of governance, as reflected in the comments of a senior executive at a major European telco. “We operate too much on the ‘I know the person’ principle,” the manager said, “which leads to very poor succession planning.”

The gap between current standardization levels and perceived optimal levels is even wider for four other activities; people strategy, change management, development and training, and employee support. These activities are rarely standardized globally, although global standardization is considered the most effective approach. This is particularly critical because leadership development was the top-ranked second-highest in future importance among all 22 HR topics. (See the chapter “The Big Picture: Global Trends in 2012.”)

Needless to say, people management should be the most strategic of all HR activities and will most likely benefit from a standardized approach.

When Maintaining Local Flexibility Matters

Finally, we discovered that global standardization was not considered the ideal level of governance for several HR activities. Onboarding is the one activity for which global guidelines with local adjustments was considered more effective than global standardization. It may be that a uniform approach makes sense for such activities as providing introductory training, assigning well-defined tasks to new hires, and familiarizing new employees with department strategy and goals and company culture. But the ability to adapt certain processes and activities gives units the latitude they need to follow local practices and market norms—which has competitive implications.

For three topics—payroll, labor relations, and recruiting—a fully localized approach was considered most effective. As labor relations are very specific to each country, the high effectiveness ratings for fully localizing this activity are quite understandable. Yet payroll can be bundled to a certain extent, so it is surprising that the fully localized approach was considered the most effective. Interestingly, for recruiting, the majority of companies used the guidelines-with-local-adjustments approach. So why would respondents perceive a fully localized approach to be more effective? They might believe that headquarters is not attuned to local market realities and is tying their hands to an extent, either by skimping on necessary resources or discouraging or preventing certain activities. When it comes to the strategies and activities involved in competing for local talent, companies must take into account local practices.

Overall, we see that the governance model has to be selected very carefully, depending on the respective activity but also on the specific external and internal realities of each company. To meet—and master—the many challenges of a rapidly changing, increasingly globalized landscape, companies as a whole, and HR departments in particular, need to reconsider their existing governance models. It’s easy to lose sight of a big-picture issue like governance. But given the irrevocably global nature of business, and the need for an integrated systemic approach to HR, companies that treat HR governance with the same sense of urgency as they do any of the individual HR activities it entails can only gain competitive advantage.
From Capability to Profitability

Realizing the Value of People Management

Rainer Strack, Jean-Michel Caye, Carsten von der Linden, Horacio Quiros, and Pieter Haen

July 2012
In the wake of the financial crisis, departmental budgets have increasingly been allocated on the basis of return on investment. For HR departments, quantifying the economic value of people management is a tricky proposition. Yet now is not the time for companies to skimp on their people expenditures. With the pressures of globalization, the growing scarcity of talent, and an employer-employee relationship frayed by persistent economic pressures, companies today—more than ever—must regard their human capital as an asset worthy of continual investment.

There’s yet another compelling reason to remain committed to investing in people: companies that do so enjoy better economic performance. Those that excel in leadership development, talent management, and performance management, for example, experience substantially higher revenue growth and profit margins. For the companies that keep dedicating capital to their human capital, what is the nature of this connection? What are they doing right?

The Boston Consulting Group and the World Federation of People Management Associations (WFPMA) recently conducted major research to probe the relationship between people management capabilities and financial performance. We surveyed 4,288 HR and non-HR managers on their current HR capabilities and challenges, the strategies and approaches they use to address these challenges, and the difficulties they foresee in attracting, managing, and developing people.

People Practices and the Bottom Line

Our analysis confirmed what “people” companies have long sensed: good people practices confer a performance advantage. But just how strong is the correlation to economic performance? As a preliminary test, we looked at Fortune magazine’s “100 Best Companies to Work For.” Consider the average growth in share price for these companies between 2001 and 2011. (See Exhibit 1.) The perennial “100 Best” (that is, the companies that have made the list for three or more years) outperformed the S&P 500 in eight out of ten years—and over the course of the decade, they cumulatively beat the S&P 500 by 99 percentage points.

Does this mean that good HR practices drive good performance? Or that good performance enables good HR practices? To claim a direct cause-and-effect link here would be overreaching. But probing the relationship between HR practices and business performance is a worthwhile exercise if it sheds light on those activities that seem to be particularly beneficial.
We then asked our BCG/WFPMA survey participants to rate their current capability in the 22 HR topics that comprise the framework of our annual Creating People Advantage study. Moreover, we asked them to report their company’s revenue growth from 2010 through 2011 and average profit margin in 2011. In 21 out of 22 topics, we identified a positive correlation between capability and performance: companies that rated their current capabilities “very high” experienced significantly greater revenue growth and higher average profit margins than those characterizing their capabilities as “low.” (See Exhibit 2.) Even mastering classic HR processes showed a markedly positive impact on financial performance. These results underscore the fact that people management is a holistic process. Because the impacts of the 22 topics are interrelated, it’s important to excel in all of them.

High-performing companies consistently did more in all major activities within these topics than their low-performing peers, but in certain activities their efforts truly stood out. For six topics in particular, the correlation between capability and economic performance was striking: recruiting, on-boarding new hires and employee retention, talent management, employer branding, performance management and rewards, and leadership development. For example, companies adept at recruiting enjoyed 3.5 times the revenue growth and 2.0 times the profit margin of their less capable peers. In talent management, the highly capable enjoyed more than twice the revenue growth and profit margin of those less capable. And companies that are serious about leadership development experienced 2.1 times the revenue growth and 1.8 times the profit margin.

This prompted the question: what concrete actions correlate with business performance? In other words, what do the high-performing companies—the top 10 percent by revenue growth and profit margin—do differently from the bottom 10 percent?
The People Advantage Triad

Taking into account the findings of our interviews with leading business and HR executives across the globe, we focused on three of the outstanding six topics identified above: leadership development, talent management, and performance management and rewards. These three topics encompass more (and more varied) people-management activities, thus offering companies more levers for boosting their performance advantage. Our quantitative survey results confirmed the importance of these topics, revealing significant differences in the concrete actions taken by high- versus low-performing companies. (See Exhibit 3.)

Let’s examine major differences across these three pivotal areas.

**Leadership: Making People Development Part of the Job Description**

High-performing companies recognize that leadership is about more than just steering the business. It’s about nurturing, energizing, and challenging the people who help make it run—and who keep it competitive. To sustain success, a company

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*“The whole idea of leader as coach and facilitator will take hold.”*

*Cynthia Trudell, chief human resources officer, PepsiCo*
needs leaders who care about and develop their people—leaders who understand that building a talent pipeline should extend beyond successors to top management to include everyone whose contributions are essential to the company’s future.

Specifically, what do high-performing companies do differently?

- They are 1.5 times more likely to have in place a leadership model that describes expected contributions and behavior and that is grounded in company values. Such models go beyond clichés, offering actionable guidelines that inspire leaders—and that leaders aspire to—daily.

- Their leadership model guides talent selection and promotion decisions—1.7 times as often as low-performing companies. In high-performing companies, the performance management system is tied to the company’s business strategy and includes leadership objectives and talent development activities. Managers are thus promoted on the basis of their individual performance as well as their people-development activities—both of which are linked to company strategy and objectives.

- They make leadership planning an integral part of their people-planning efforts 2.2 times as often as low-performing companies. Ensuring a leadership pipeline is seen as...
an ongoing practice and not an ad hoc effort. High-performing companies embed their leadership planning in their comprehensive strategic workforce planning. They divide their entire workforce, from leaders to entry-level personnel, into job families and conduct long-term supply-and-demand analysis, which they use to plan concrete actions for their recruitment and training and development efforts.

- They make leaders’ compensation and career advancement dependent in part on leaders’ people-development efforts 3.4 times as often as low-performing companies do. High-performing companies do not relegate people development to the HR function. Instead, they view their leaders as the frontline developers of talent. Leaders are best positioned to see people in action and to recognize, shape, and inspire potential talent. They are also best positioned to cultivate in their direct reports the kind of leadership traits valued by the company (and those necessary for success in the twenty-first century, such as the adaptive leadership qualities we’ve observed in today’s best-run companies). As Jordi Gaju, chief development officer at the Chilean retailer Falabella, said, “Every boss must become a human resources manager.” To make sure their leaders embrace this responsibility, high-performing companies link career advancement, performance bonuses, and other rewards to leaders’ people-development activities.

**Talent Management: Proactive, with a Broad Development Repertoire**

Excellence in one critical HR area won’t compensate for shortcomings in another. Having an attractive employer brand might help you nab the talent, but it’s not enough to help you hold on to it. High-performing companies understand this well; they distinguish themselves from the rest in the sheer extent of their talent-development efforts. (For an example of the multifaceted approach to talent management, see the sidebar “How L’Oréal Is Building a Talent Advantage.”)

They know, for example, that global talent risk is soaring, and they therefore realize the importance of building—rather than just “buying”—talent. As we discussed in the December 2011 BCG article “Make Talent, Not War,” relying too heavily on external talent often leads to bidding contests that can diminish the quality of new hires, yield bad matches, increase turnover, and raise expenses. Mindful of the urgency of the talent shortage, high-performing companies also accelerate critical activities wherever possible.

According to our survey, high-performing companies capitalize on a broad array of strategies, initiatives, methodologies, and programs to ensure they have the talent they need, now and in the future. These efforts include the following:

- They are 1.8 times as likely as low-performing companies to try to attract international employees. High-performing companies recognize the strategic and practical importance of diversifying the talent base. As companies’ operations and customer bases each become more globalized, local talent that understands local markets will give companies greater long-term competitive advantage. Furthermore, high-performing companies’ interest in international talent applies across the experience spectrum. These companies are 40 percent more active in managing an international talent pool for senior leaders.

“Our employer brand is attractive, so I’m sure we have a lot of talent. The problem is, we lose many good people because they are not identified as talent, and we don’t create sufficient career-development opportunities for them.”

Deputy group senior vice president, human resources, leading European telco
With 27 global brands and €20.3 billion in 2011 sales, L’Oréal Group dominates the global beauty-products market. And it has every intention of remaining number one, with a growth target for the next decade of more than 1 billion new customers.

The linchpin of its growth strategy is building what the company calls its “talent advantage.” L’Oréal has adopted a strategic approach to developing its talent portfolio and allocating resources. Its purpose: to support growth by ensuring a steady supply of leaders and key competencies in critical geographies.

Using quantitative models, HR and business leaders analyze anticipated business needs—such as sources of growth or expanded production—to identify the company’s future talent needs. They also examine HR’s needs; for example, how much on-boarding will be required as a result of recruitment efforts?

Projecting out five years, leaders then calculate the number of people needed by geography, function, and managerial level. The modeling pinpoints oversupplies and gaps, enabling L’Oréal to take preventive action. For example, it allows the company to modulate the career pace of certain employee groups early enough to avoid frustrating talent in the event of a slowdown—or to accelerate it to fill any talent or experience gaps that might arise.

HR also projects the costs and potential return on investment of various scenarios. “Talent planning helps us to strategize growth and to support our ongoing transformation,” said Jean-Claude Le Grand, global senior vice president of executive talent.

This supply-and-demand methodology helps L’Oréal to efficiently leverage its multifaceted talent system, which is designed to boost executive talent development. The system involves the following:

- **High-performing companies are 1.4 to 2.7 times more likely to provide development programs for “emerging” as well as “high” potentials.** They actively work to leverage and retain existing talent at both ends of the talent development chain. They systematically define development requirements for high-potential employees; for example, they maintain a list of critical assignments appropriate for the development of high potentials much more often than low-performing companies do. High-performing companies also define talent more broadly—not just in identifying emerging potentials but also in seeking and nurturing diverse, complementary thinkers and those with deep functional expertise, rather than just management track candidates.

- **High-performing companies are 1.7 to 2.1 times more likely to offer career advancement opportunities with clearly defined career tracks.** High-performing companies provide a broad menu of horizontal as well as vertical opportunities. Doing so keeps employees satisfied and professionally fulfilled while also helping companies retain the full range of talent necessary for enterprise success.
High-performing companies are 2.9 times as often better than their competition in offering a change of work location. Moreover, the number-one reason for workforce relocation for high-performing companies is personal development—unlike low-performing companies, which use relocation primarily to fill local knowledge gaps. High-performing companies actively foster employees’ individual development, and relocation and job rotation are among the development opportunities they provide. They recognize that beyond job stability and a good salary, today’s employee seeks a fulfilling work experience as well as the opportunity for personal growth. In particular, those employees from the so-called Millennial generation have greater expectations and are more willing to leave employers that can’t meet them. As the vice president of HR at a major media company said, “We believe that creating a fast-paced, stimulating environment that fosters individuals’ growth is a much more engaging environment to work in than one that is purely profit-oriented.”

Together, these quantified findings highlight what employee surveys tell us: a variety of enriching talent-management programs and practices are the main reason people stay with their employers—compensation alone won’t do.
Many high-performing companies link managers’ bonuses or other incentives with business KPIs to ensure managers are aligned with company strategy and goals. But these companies also know that performance management goes beyond ensuring employee alignment. High-performing companies understand the importance of a well-constructed, balanced performance-management system in motivating and developing employees.

To foster—and sustain—excellent employee performance, companies need to create the right incentives. Developing a culture of meritocracy is key. High-performing companies recognize the value of fair, transparent measurement and rewards systems in promoting such a culture.

• They have clear norms that drive performance—2.6 times as often as low-performing companies. Employees understand clearly what constitutes superior performance and, just as clearly, what is unacceptable. A performance management system that is overly complicated or obscure, however, can hamper employee engagement. Organizations that don’t clarify unacceptable performance—and then surprise employees with repercussions—may engender ill will and risk tarnishing the company’s reputation. And those that don’t clearly explain their rewards system undermine workforce cohesiveness and even risk losing valuable talent.

• High-performing companies have global performance-management standards in place 2.2 times as often as low-performing ones. Although many corporate HR departments provide guidance on performance standards throughout their organizations, units continue to follow localized standards at most companies. High-performing companies use state-of-the-art performance-management methods and systems and ensure that these are adopted on a global basis.

In all the activities we studied, high-performing companies reward behavior, not just results, to a greater degree than low-performing companies. And while they put greater stock in performance management systems, they do not get mired in process. They avoid bureaucratic or protracted review processes that can actually allow problems to worsen. High-performing companies emphasize feedback and open discussion, as well as more frequent, often informal, reviews. These have the added benefit of motivating employees.

Critical Mass Counts

It’s no news that being well-rounded in people management represents an investment in the company’s long-term success. But at many companies today, that investment is at risk—even as talent risk has escalated. Before leaders yield to the temptation to cut back on people spending, they must keep in mind that people management has become an imperative.

The good news is that it’s not just an imperative; it’s an investment with a tangible, near-term return. As we’ve shown, the correlation between people capabilities
and economic success is undeniable. People management mastery translates into economic success—and competitive advantage.

But excelling in leadership development, talent management, and performance management is not enough. Being a people company means doing more across the entire spectrum of people management activities, from employer branding to employee retention.

And critical mass matters: companies must be good at many activities, and they must integrate those activities. Moreover, it’s not enough to carry out important people-management activities in a step-by-step, linear fashion. Each critical topic, and the critical activities it entails, needs to be carried out in parallel. There is an integrated logic in how a company builds, for example, its talent management, leadership development, and performance management efforts. So apply as many levers as possible simultaneously. That’s the key to keeping the supply of talent and leadership—along with economic performance—steady and sustainable.

NOTES
We started our original research in 2006 by compiling a list of 40 topics in human resources and subsequently whittling the list down to the 17 most relevant topics. We narrowed the field by conducting an exhaustive literature search in general business publications as well as in HR journals. In our literature search, we considered how the number of mentions for each topic had changed over time, and we ranked each topic according to whether interest in it had been increasing or declining. Next, in order to discover emerging topics whose importance might not have been captured in the literature search, we gathered input on the topics from HR experts within BCG and WFPMA.

New topics have since been added and others removed, based on changing trends and shifting priorities. The original list of topics was expanded to 21 in 2008 for a survey that focused exclusively on Europe. This year’s global report covers 22 topics.

The 2012 survey consisted of two parts: a mandatory portion and a second portion seeking responses in any of four optional sections. In the mandatory section, respondents were asked questions about themselves and their organizations. Moreover, we asked the companies covered by the survey to report their revenue growth and average profit-margin change from 2010 through 2011.1 (Respondents were also asked to rate 22 topics, assessing the current and future importance of each topic and rating their organization’s current capabilities in the topics on a scale of 1 (low) to 5 (high).

To adjust for high- or low-scoring tendencies among online survey participants in particular countries and markets, we normalized the assessment of current capabilities, current importance, and future importance for each country and industry.

In the four optional sections, respondents could answer questions on people sourcing approaches, the requirements of people management in BRICS countries, approaches to transformation issues, and talent and leadership development.

We conducted the online survey from February 2012 through June 2012, receiving 4,288 responses from executives in 102 countries. In conjunction with the survey, we interviewed 63 executives. In these one-on-one interviews, we explored in greater depth the HR topics and practices covered in the survey.

1. Due to a technical adjustment, there were two different response-category ranges used for these questions (e.g., “10 percent to 20 percent” versus “10.1 percent to 20 percent”), which showed no impact on the results.
In interviews, the following executives shared their insights and discussed our findings. We thank them for their valuable contributions. The list here consists of those interviewees who have agreed to have their names published.

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Human Resource Association of Tanzania, Tanzania
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This report, the third installment in our joint research on current and future HR challenges, presents new and detailed results on the global situation. It is based on a close collaboration between The Boston Consulting Group and the World Federation of People Management Associations (WFPMa).

BCG has worked closely with leading companies around the world on a wide range of HR issues, helping with HR strategy, management, KPIs, and strategic workforce planning. BCG has assisted its clients in managing talent, organizing HR functions, managing performance, redeploying the workforce, and managing demographic risk. It has also helped companies establish shared service centers and outsourcing arrangements.

WFPMa and its member associations have worked to enhance the quality of HR management and to develop and elevate professional standards. Through its programs, HR executives have opportunities to garner insights and exchange ideas that enhance corporate and personal capabilities in HR. We believe that our findings will appeal to HR professionals and senior business executives alike. On the basis of the positive feedback from our previous reports, we plan to continue our regular research in HR issues.

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