



2009 EDITION: EUROPE

Creating People Advantage

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

Executive Summary

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The Boston Consulting Group, Inc.
Exchange Place
Boston, MA 02109
USA

Executive Summary

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

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

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

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

Creating People Advantage

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

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

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

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

Uniting Strategy, Metrics, and HR

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

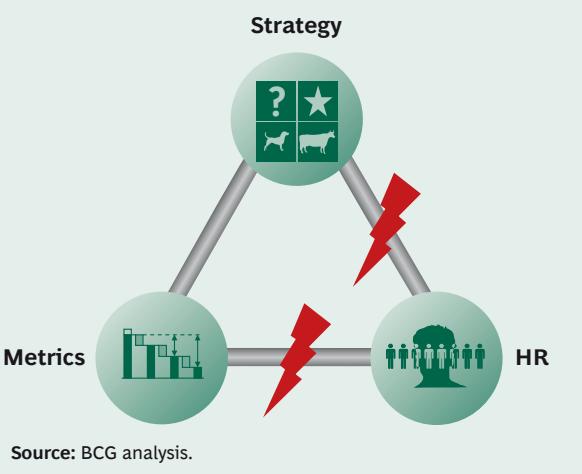
As we noted last year, if we view strategy, metrics, and HR as three points on a triangle, we find that at most companies, the links between HR and strategy and those between HR and metrics are broken or nonexistent. (See Exhibit 1.) Senior executives need to make sure that people are the cornerstone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

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

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

- ◆ *Managing Talent.* The number-one topic in both 2007 and 2009, *managing talent* is viewed as critical in almost all industries and countries. (See Exhibit 3.)

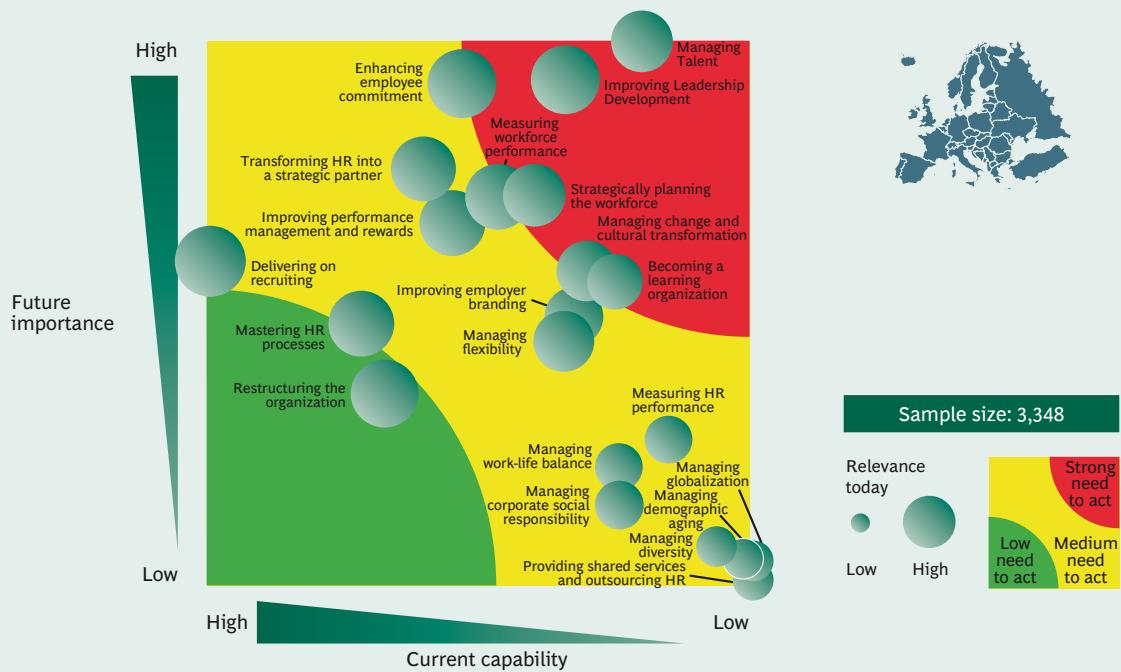
Exhibit 1. HR Needs to Be Connected to Strategy and Metrics



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

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

Exhibit 2. Managing Talent, Improving Leadership Development, and Enhancing Employee Commitment Are Considered Top Long-Term Priorities



Sources: Proprietary online survey; BCG/EAPM analysis.

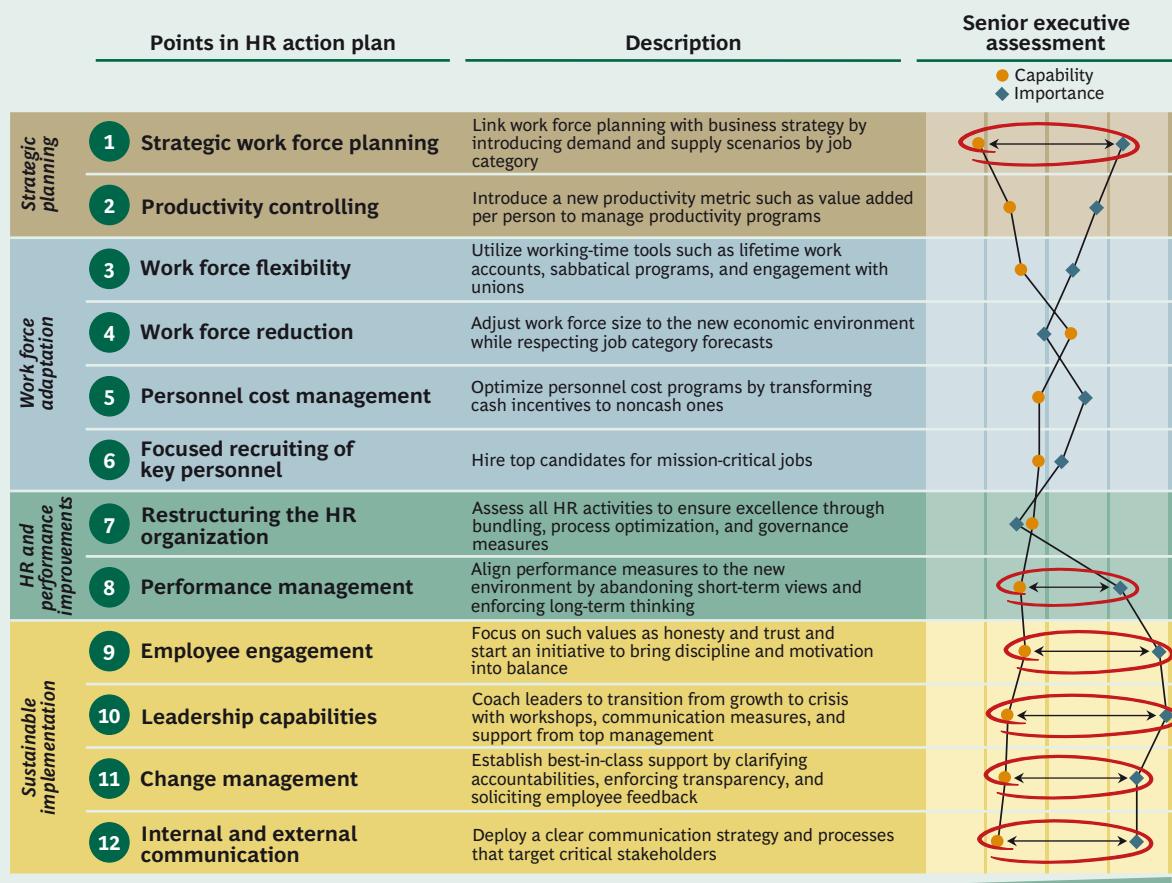
Exhibit 3. Managing Talent Ranked as the Most Important Topic in Nearly All Focus Countries

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

Ranking: 1 2 3 4 5

Sources: Proprietary online survey; BCG/EAPM analysis.

Exhibit 4. Interviewees Identified Strategic Planning and Sustainable Implementation as the Most Critical Areas to Address During the Recession



Sources: Interviews with more than 100 senior HR executives, executives outside of HR, and board members of large corporations predominantly in 11 focus countries; BCG/FAPM analysis.

employees have the knowledge and skills to perform their jobs.

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

These sections highlight several key findings.

- ◆ Many companies still neglect strategic work force planning, the strongest tool for making difficult HR decisions. Companies should know how their work force will develop and which job categories will demand substantial numbers of new employees. Strategic work force planning can also yield valuable information for knowing where—and where not—to cut in times of crisis.
 - ◆ About one-third of all the companies plan to lay off full-time employees in this recession. HR executives should consider both the short- *and* long-term effect of layoffs, especially the likely drop in employee commitment. Other options, such as awarding employees time

off to compensate for earlier overtime, are effective and actually improve employee commitment. A 12-point action plan can help companies survive the recession and prepare for growth when the economy starts to recover. (See Exhibit 4, which appears in *Creating People Advantage in Times of Crisis: How to Address HR Challenges in the Recession*, a White Paper that is enclosed with the full report.)

- ◆ Almost one-third of the respondents said that pursuing organic growth was one of the most important business issues facing HR executives. Some companies will have to adjust to a permanent mixture of restructuring and growth: offense is often the best defense. For most of the remaining companies, growth will eventually return when the recession fades. In all cases, companies that excel at sourcing (or recruiting), developing (or training), and affiliating (or retaining) employees will outperform their less successful peers. Other companies should pay attention to the actions of the companies that are successful in these areas.

- ◆ Companies already collect a considerable amount of data on people and people processes, but few companies use KPIs that are more sophisticated, and few take concrete action based on the feedback that they receive from KPIs. A methodology, such as BCG's Workconomics, can help the HR department assess employee productivity and steer the organization in the right direction.²
- ◆ The financial crisis had many causes, including the sometimes unsustainable, short-term, and shortsighted business practices and compensation systems of financial institutions. HR can play a critical role in encouraging people practices and processes that are sustainable over the long term.

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

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

Authors

Rainer Strack

*Senior Partner and Managing Director
European Leader, Organization Practice
Global Coleader, People Advantage
BCG Düsseldorf
+49 211 3011 30
strack.rainer@bcg.com*

Jean-Michel Caye

*Partner and Managing Director
Global Coleader, People Advantage
BCG Paris
+33 1 40 17 10 10
caye.jean-michel@bcg.com*

Philipp Zimmermann

*Project Leader
BCG Düsseldorf
+49 211 3011 30
zimmermann.philipp@bcg.com*

Carsten von der Linden

*Associate
BCG Düsseldorf
+49 211 3011 30
vonderlinden.carsten@bcg.com*

Rudolf Thurner

*President
EAPM
+43 664 133 76 62
rudolf.thurner@verbund.at*

Pieter Haen

*Vice President
EAPM
+31 343 57 81 40
pieterhaen@duurstedegeop.com*

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