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# The Future of HR in Europe

Key Challenges Through 2015

# Executive Summary

**C**ompanies in Europe will face five particularly critical HR challenges in the near future: *managing talent, managing demographics, becoming a learning organization, managing work-life balance, and managing change and cultural transformation.* (See Exhibit 1). Corporations that can meet these challenges head on will build and sustain competitive advantage. In feedback gleaned from the survey and the follow-up interviews, we identified several possible actions for enhancing each of these capabilities.

- HR and other executives identified the top five future challenges in a recent Web survey that BCG and EAPM conducted jointly. In the survey, 1,355 executives from 27 countries in Europe shared their views on 17 topics in human resources management. To deepen our understanding of the current and future HR landscape, we also conducted follow-up interviews with over 100 senior executives.
- The top five future challenges in HR aren't just the capabilities that executives expect to be the most important in managing human capital during the period 2010–2015. They are also the capabilities that executives told us that their companies were currently weakest in—and thus needed to focus their efforts on improving. In short, European companies stand to gain the most if they can master these five HR challenges; they also have the most ground to cover in these capabilities.
- Only 30 percent of the respondents said that they have begun to tackle all five of the top challenges for the future.

- Given current globalization trends and the demonstrated willingness of Europeans to migrate within and beyond the continent for employment, companies must pay attention to the top five HR challenges facing Europe as a whole. Still, the importance of each of the 17 HR topics varies by country, with the business, economic, and cultural trends unique to each European nation influencing the top priorities of local executives.

***Managing Talent.* Talent shortages loom, both in Europe and in new markets abroad, and companies must take steps now if they hope to address these shortages—and avert disaster.**

- Many companies already have critical actions planned: Our research indicates that the number of European companies that move to new locales such as India in order to gain access to burgeoning groups of talented workers will roughly triple during the next five to eight years.
- Companies will want to assess their quantitative and qualitative needs for talent in light of their strategic and business requirements. For example, a company that desires accelerated geographic expansion and business growth will require greater numbers of highly skilled new employees.
- To home in on and capture the unique expertise that they will require, companies should identify the specific types of employees they seek and the best avenues for reaching them. For example, companies seeking employees with expertise in computer science would recruit at different universities and tap different professional networks than those seeking expertise in mechanical en-

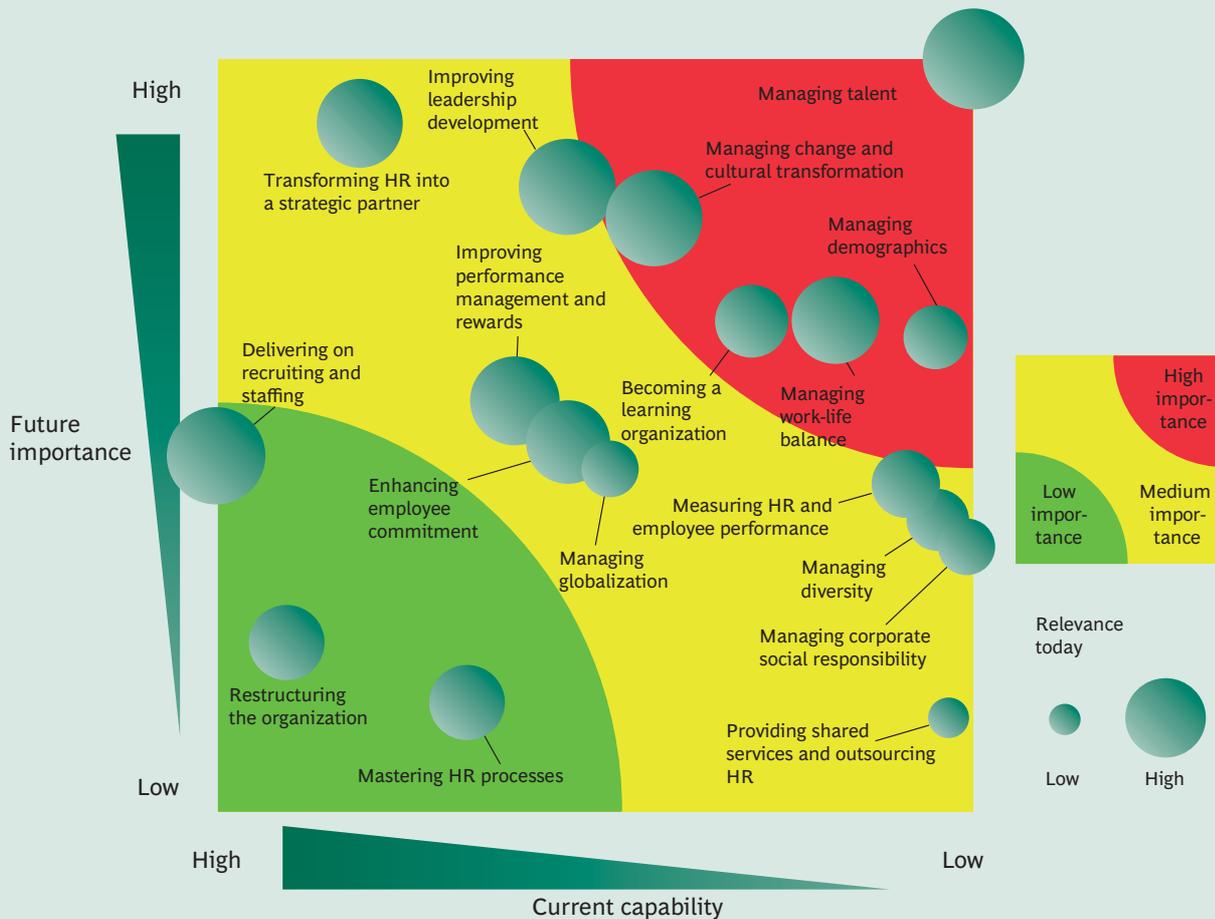
gineering. To retain specialists, companies will need to tailor career tracks so that they reward and fully utilize different types of employees with different interests and skill levels.

- To fully exploit global labor pools of highly skilled professionals, companies should source their talent from throughout the world.
- Attracting and retaining talent demands that companies offer potential and current employees a value proposition that aligns closely with the desires of these groups as well as with the employer's brand.
- Companies should also ensure that they target their offerings to meet the needs and goals unique to different ethnic groups and nationalities, women, and older workers. Companies need to broaden their talent pool by attracting and retaining diverse groups of employees.

**Managing Demographics.** With the workforce in western Europe graying, European companies must mitigate two different risks: the loss of capacity and knowledge as workers retire and the aging of the workforce.

- **Managing the Loss of Capacity and Knowledge.** One of the most effective ways to minimize a company's exposure to demographic risk is implementing a comprehensive system of job families across the company. Such a system clusters employees whose skills and specific experience create opportunities for job exchanges across many levels. Companies should forecast, on a job family basis, how their current workforce will develop over the next 5, 10, and 15 years—taking into account expected recruitment, retirement, and attrition. Next, companies should simulate different strategic scenarios to determine the number and type of human resources that their business will demand on a job family level over the same period. Once

### Exhibit 1: To Compete in the Future, European Companies Should Enhance Five Critical Capabilities



Sources: Proprietary Web survey with 1,355 responses in 27 countries; BCG/EAPM analysis.

companies calculate the difference between their expected demand for and supply of labor, they should take dedicated steps to address anticipated shortfalls and surpluses. These steps include redeploying surplus resources to critical functions that are being drained of human resources, boosting internal training so that the current workforce can adapt and shift as needed, or even attracting and retaining retired or semi-retired workers in areas with identified future shortfalls.

- **Managing the Aging of the Workforce.** An aging workforce will have implications on—among other issues—productivity, the ability of the workforce to work in shift environments, the need to motivate employees in a different way, innovation potential, illness-related absenteeism, and labor costs. Companies need to analyze and understand the effects of an aging workforce and then take dedicated and focused actions—for example, adding or enhancing health care programs so that the aging workforce can maintain the highest levels of productivity, new career systems, or adapted shift models.

***Becoming a Learning Organization.*** Corporations must prepare their employees to cope with the complexities and accelerated speed of an increasingly global economy. This action is particularly important since some national education systems are failing to arm new workers with the skills that they will require to keep pace. In such an environment, companies will succeed or fail based on how well they link employee training to their business strategy.

- Building a learning organization begins with choosing the learning strategy best tailored to the company's needs and culture. Depending on the specific need and the audience, companies will opt for in-class training, coaching, or on-the-job, "action" learning.
- Overall, companies will need to boost significantly the number of on-the-job development programs such as job rotations. For maximum success, they will also need to couple these programs with counseling and coaching support.

- Simply spending more on training programs won't automatically translate into enhanced productivity. Rather, executives must clearly define and measure the return on investment that they expect from learning initiatives. By making program goals and program outcomes tangible, companies can ensure tangible improvements.

***Managing Work-Life Balance.*** As the boundaries between private and work life blur, employees are increasingly selecting—or rejecting—jobs based on how well they can help the individuals achieve work-life balance or advance personal goals and values. In order to attract and retain highly talented individuals, companies will therefore need to offer flexible work arrangements. They will also need to appeal to employees' growing desire to derive a sense of greater purpose from their work.

- Companies should conduct Web surveys and other assessments so that they fully understand the types of accommodations that recruits and employees seek to achieve work-life balance.
- Companies should implement or bolster programs that afford employees flexible working hours, opportunities to work from home, and job sharing.
- Companies should enthusiastically and visibly embrace programs that advance corporate social responsibility. These actions can help a company access higher-quality candidates, broaden its market appeal, and enhance its perception and position in that market.

***Managing Change and Cultural Transformation.*** As companies hire workers from around the globe and enter new markets with increasing speed, managing corporate and cultural change will become a critical capability. Already, our research showed, executives expect their company's HR functions to develop tools and methodologies that aid line managers in communicating to employees the need for change—and empower them to bring about such change.

- To meet these demands successfully, European companies are already engaged in numerous front-line actions. These include ensuring that top leaders support change efforts in highly visible ways; rigorously executing change-management programs so that initiatives are completed and succeed; continually assessing employee behaviors and attitudes and taking steps to shape these and change them for maximum effectiveness; and naming an executive to head all corporate change-management efforts.
- Our research showed that the last of these four actions will grow dramatically, with the number of change-management officers expected to rise by nearly 200 percent among responding companies.

**Meeting the five critical challenges looming on the horizon will be a herculean task for HR executives—but it is not the only one they face. If they hope to gain the trust of senior executives, HR executives must also get the fundamentals of the HR function right. Top corporate leaders rated the performance of their company's HR function most highly when they perceived that it was mastering HR processes, delivering on recruiting and staffing, and transforming HR into a strategic partner.**

- **Mastering HR Processes.** To be perceived favorably by senior management, HR functions must systematically assess and improve all basic HR processes. To increase efficiency and effectiveness, they should carefully consider shifting service or administrative functions to outsourcing companies or shared service centers.
- **Delivering on Recruiting and Staffing.** As skilled labor becomes harder to obtain, company loyalty decreases, and traditional means—such as newspaper advertisements and Web pages—lose effectiveness, HR must renovate its current recruiting and staffing processes in cooperation with the line managers. In particular, HR executives should focus on internal staffing, since, surprisingly, corporate executives consider it a common area of weakness in HR.

- **Transforming HR into a Strategic Partner.** Top executives expect their HR managers to demonstrate business acumen, pragmatism, and efficiency while supporting cultural change and increasing overall skill levels at the company. It is therefore important for the HR department to deploy both HR specialists as well as managers who possess a business background. The HR department also must measure its performance against qualitative, quantitative, and financial metrics.

**In addition to boosting their capabilities in the eight areas described above—the top five areas for Europe and the three fundamental capabilities in HR—companies will want to determine which of the remaining nine HR topics (*improving leadership development, measuring HR and employee performance, improving performance management and rewards, enhancing employee commitment, managing diversity, managing corporate social responsibility, managing globalization, providing shared services and outsourcing HR, restructuring the organization*) also warrant their investment.**

- Conditions within a company's organization, industry, or country will dictate which other areas are worthy of additional focus. A company can identify these areas by analyzing the external and internal environments that they will operate in over the coming years.
- In assessing the external environment, companies will need to evaluate the impact of aging Baby Boomers, a changing social contract that has spelled the end of employment-for-life arrangements in some countries, declining loyalty to employers, and a heightened focus on work-life balance. At the same time, business challenges, technological developments, and legal frameworks also have to be considered, as well as the universal shift in corporate focus from cost reduction and reorganization to growth and globalization.
- Companies will also need to assess the current state of their own HR department in order to identify key strengths and weaknesses and to formulate initiatives accordingly with the help

of an HR audit. The current HR capabilities should be assessed by both HR executives and their business partners within the company.

**To help enhance their HR capabilities, companies should emulate two practices that the survey identified as common among high-performing companies: assigning responsibility for initiatives to teams dedicated to the efforts and securing highly visible support from top management for HR projects.**

- On average, executives rated the performance of their company's HR function more favorably when those functions named dedicated teams to oversee particular HR topics.<sup>1</sup> Indeed, HR functions with dedicated teams received performance scores that were 21 percent higher on average than those received by functions without such teams.
- Likewise, even though only about one-third of HR departments reported having the support of top managers behind their projects, those that garnered support appeared to benefit from it considerably. These HR functions received performance scores that were 65 percent higher on average than those received by functions lacking such support.

1. Executives rated the performance of their company's HR function on a scale from 1 (low) to 6 (high).

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