IBM GLOBAL BUSINESS SERVICES

IBM

Unlocking the DNA of the Adaptable Workforce

The Global Human Capital Study 2008

THE IBM GLOBAL HUMAN CAPITAL STUDY 2008

Cover image: In conventional terms, London City Hall has no front or back: its shape is derived from a geometrically modified sphere. The energy strategy for the building enables it to run on a quarter of the energy consumed by a typical high specification office building. A distinctive characteristic is that it leans back toward the south, providing natural shading from the most intense direct sunlight.

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PREFACE

By Tim Ringo, Global Human Capital Management Leader, IBM Global Business Services and Randy MacDonald, Senior Vice President, Human Resources, IBM Corporation

More than ever, today's global organizations are focusing their time and attention on maximizing the value of their workforces. As corporations, nonprofits and government entities are becoming more globally integrated, and as traditional geographic and competitive boundaries disappear, the need to identify, develop and connect talent has never been more critical.

For the last several months, we have been holding discussions with senior HR executives from around the world to better understand the challenges companies encounter as they work to more effectively attract, allocate and invest in their human capital. More than 400 organizations from 40 countries, across a range of sizes, industries and geographies, participated in these sessions.

The results have been enlightening, as they provide guidance not only to the HR function, but also to the entire organization. Enhancing workforce performance in today's business environment requires:

- An adaptable workforce that can rapidly respond to changes in the outside market
- Leadership to guide individuals through change and deliver results
- An integrated talent management model that addresses the entire employee lifecycle
- Data and information to deliver strategic insights and measure success.

The findings from our study and our client experience indicate that transforming the performance of the workforce truly involves a host of organizational players, including line management, executives and other functional leaders from areas such as IT, Marketing and Finance.

Just as many of the companies that participated in this study are wrestling with workforce issues associated with globalization, changing workforce demographics and increased competition, we too at IBM face many of these challenges. We have realized that the external pace of change will require us to address workforce transformation continually, rather than treat it as a bounded event.

In the global market, the IBM Human Capital Management practice applies the tools, experiences and leading practices that we have garnered from our own business, as well as the experience of over 2,000 practitioners working with clients in the external marketplace, to enable organizations to make the most of their own workforce investments.

We would like to express our appreciation to those executives who shared their time and experiences to help further our understanding and generate new ideas for transforming the workforce. Recognizing the ongoing nature of this critical challenge, we look forward to sharing the results of our study and continuing the dialogue on this topic.

Tim Randy

EXECUTIVE SUMMARY

The global economy is transforming into an integrated market, full of opportunity, competition and swirling change. Such change comes with its share of challenges. Indeed, the strain that global economic growth is placing on the supply of commodities and the environment has been well documented. Perhaps less well understood are the difficulties this expansion is causing today's organizations as they strive to make the best use of their most important assets: their workforces.

However, as any firm that has attempted to transform its workforce to meet changing conditions will attest, the journey is difficult and littered with obstacles. Understanding key workforce performance challenges and identifying the leading practices companies are using to overcome them have become central focus areas for our research and consulting.

This study is based upon primary research recently conducted by the IBM Global Business Services Human Capital Management practice and the IBM Institute for Business Value, with assistance from The Economist Intelligence Unit. More than 400 human resource executives from 40 countries participated in a structured interview designed to capture insights on the subject of workforce transformation. To provide additional insights, we also drew from a range of sources, including: secondary research, financial analysis, previous IBM studies, our extensive experience working with clients and IBM's own internal transformation story.

Our analysis identified four important themes that require the attention and focus of senior executives across the organization, including those responsible for the HR function. These are:

- Developing an adaptable workforce – A critical capability
- Revealing the leadership gap – Future growth at risk
- Cracking the code for talent
- Driving growth through workforce analytics.

Developing an adaptable workforce – A critical capability

There can be no doubt that winning in competitive and quickly shifting global markets requires responsive organizations. However, for many companies, workforce adaptability has been elusive. Among our study participants, we found that only 14 percent of respondents believe their workforces are *very capable* of adapting to change. What do these leading-edge adapters do that others don't?

Our findings suggest that three key capabilities influence the workforce's ability to adapt to change. First, organizations must be capable of predicting their future skill requirements. Second, they need to effectively identify and locate experts. And lastly, they must be able to collaborate across their organizations, connecting individuals and groups that are separated by organizational boundaries, time zones and cultures.

Many organizations are currently developing these capabilities as independent initiatives, rather than as part of a more comprehensive approach to workforce management. For example, the job of predicting future skills is often left in the hands of the learning and development function, while collaboration projects might be nestled within a newly founded Innovation team, or even the IT function. Yet, all of these capabilities require the joint attention and effort of multiple stakeholders, including the line organization, to truly contribute to bottom-line results. While emerging technologies such as automatic expertise locators and Web 2.0 social networking tools are slowly being adopted to better identify and connect experts around the globe, they need to be woven into the fabric of day-to-day work.

Revealing the leadership gap – Future growth at risk

No complex organization can transform itself without great leaders – those who can deliver today's business results while guiding the organization through ongoing turbulence and uncertainty. As organizations face new challenges associated with globalization and innovation, new leadership skills are required. We believe successful future leaders will need to work more effectively with outside partners; serve as role models and mentors to individuals who are increasingly dispersed across countries, regions and geographies; and provide guidance and structure to employees who come from a variety of generations, experience levels and cultures.

Companies in our study expressed their deep concern over the current and projected shortage of such individuals, with over 75 percent citing their inability to develop future leaders as a critical issue. Given the explosive growth in emerging markets, and the retirement of experienced personnel in more-mature economies, our data suggests companies are placing their futures at risk if they cannot identify, develop and empower the next generation of leaders.

Together with participants from our study, we see leading companies developing a systematic approach to identifying future leaders from around the globe, providing individuals with a broad range of job opportunities across their organizations and matching potential leaders with mentors who can share valuable knowledge and provide access to networks. Leadership development is a process that needs to reach far down into the organization, tap high-potential individuals early in their careers and provide them with the core skills they need to identify new opportunities, develop innovative solutions and deliver results.

Perhaps most important to the success of developing future leaders, however, is the willingness of the entire organization to take responsibility for selecting individuals and providing them with the appropriate guidance and experiences. While the Human Resources function can play a major role in developing critical and creative pathways that allow individuals to advance their careers, only the organization as a whole can commit the resources and provide the supportive culture needed to make leadership development truly successful.

Cracking the code for talent

Much has been written in the popular business press about the ongoing “war for talent.” Companies we have worked with, across a range of sectors and regions, have echoed this concern and have begun to attack this problem on a number of fronts. These include upgrading the skills of current employees, understanding and tackling issues related to employee engagement and turning their attention to attracting talent from the outside.

Respondents from our study are clearly focused on overcoming their inability to rapidly develop employee skills and align those skills to future business needs. However, what is surprising is their relative lack of focus on attracting individuals from the outside and retaining existing employees, both of which rank low on the priority scale. Even more interesting is that almost 60 percent of companies in the study believe they do a better job of attracting and retaining talent than their competitors. Given these findings, is it safe to assume that companies have cracked the code for managing talent?

Our experience suggests otherwise. Given the changes in employee demographics, the ease and speed of switching employers and the differing expectations of the Generation Y workforce, we believe that companies will have to become more, rather than less, innovative in the ways they attract, motivate and develop employees. Organizations will need to seek out new and innovative approaches to managing talent by broadening their focus to include the entire employee lifecycle. This will involve greater emphasis on segmenting and targeting talent, reaching out to alternative labor pools such as older workers and corporate alumni, and even developing a presence in virtual worlds and social networking sites to cater to a more tech-savvy population. Managing this kind of talent market requires a structured, analytic approach to attracting, developing and retaining key personnel.

Driving growth through workforce analytics

Companies in our study point to two strategic imperatives: improving operational excellence and increasing top-line growth. Each of these strategies creates a different set of workforce implications. To prioritize these issues and provide input into the broader organization’s business direction, we would expect HR and the business units to engage in an ongoing dialogue about strategic workforce investments and transformation programs. Is this happening today?

The good news is that after years of effort, HR sees itself slowly moving beyond its traditional transactional role and migrating toward a more strategic relationship with the business. The bad news is that just 39 percent of companies in our study are actually conducting these strategic two-way discussions on a regular basis.

Missing from these strategic conversations are the analytics needed to develop insights and formulate business cases for investment. Our research clearly highlights a lack of systems integration, an inability to extract data and a dearth of clearly defined metrics. Not only are organizations finding it difficult to link human capital information with data from Sales, Finance and other related departments, they are often unable to share information across applications used within HR itself. Without consolidated information, executives find themselves unable to identify their rising stars, reward solid performers for their contributions and retain desired employees.

Challenges surrounding integration and data quality are currently taking precedence over the need to improve the analytic capabilities of HR personnel. However, previous research and leading practices suggest that companies that successfully leverage human capital information do more than just focus on developing data standards and connecting systems. Not only do they provide key metrics that can improve workforce productivity and performance, they also enable their HR personnel to translate human capital data into executable strategy.

Conclusion

From our study and many experiences working with clients in the human capital arena over the last several years, we distill the following conclusions about these mission-critical issues:

Creating an adaptable workforce requires more than a series of HR programs. It starts with leadership – having the right people who have the skills and capabilities to develop and communicate a vision, provide structure and guidance and ultimately deliver business results. It requires the ability to identify experts and foster an environment where knowledge and experience travel beyond traditional organizational boundaries. It calls for a talent model that can help companies recruit, develop and retain valued segments of the employee population. It depends on an underlying backbone of data and information about the current and projected state of workforce performance, and the ability to apply that information to develop strategic insights and recommendations.

The human resources organization, by itself, cannot be expected to shoulder this entire effort. True, the HR function needs to take a lead role in providing strategic guidance on workforce issues and designing human capital programs that can enhance workforce effectiveness. However, the entire executive suite needs to play a role in improving workforce performance. This may involve providing functional expertise, taking joint responsibility for executing human capital programs or simply setting a positive example for employees within their organizations. Without this unified commitment, all bets are off.

The adaptable workforce is a precursor for future organizational success. The key to building that kind of workforce lies with the leadership of the organization, facilitated in large part by HR. If there was ever a time for the HR function to prove its strategic value and contribute to organizational performance and growth, it has arrived.

METHODOLOGY AND DEMOGRAPHICS

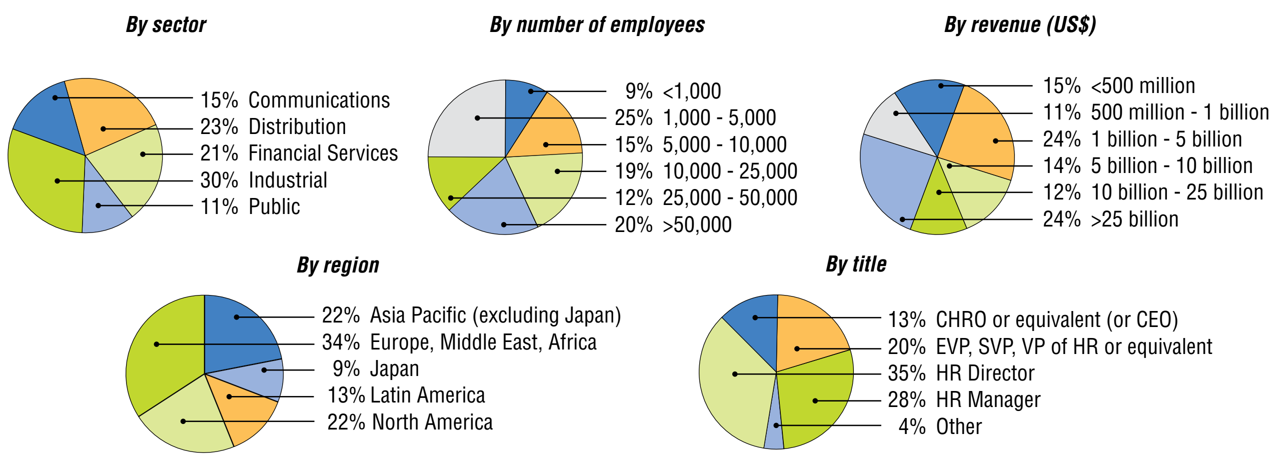
The findings of this report are based on a study conducted by the IBM Global Business Services Human Capital Management practice and the IBM Institute for Business Value. More than 400 human resource executives from 40 countries participated in a structured interview designed to capture insights on the subject of workforce transformation. The majority of these interviews were conducted in person by IBM practitioners, with the remainder interviewed via telephone with the assistance of The Economist Intelligence Unit.

The participants we interviewed represent private, public and not-for-profit organizations across a variety of industries and geographic locations (see Figure 1). Their organizations range in size from less than 1,000 employees to more than 50,000. Corresponding revenues for these organizations vary from less than US$500 million to more than US$25 billion. Our interviewees included high-ranking human resources leaders, with 13 percent indicating they are Chief Human Resource Officers (CHROs), 20 percent serving as Executive Vice President, Senior Vice President or Vice President of HR, 35 percent as HR Director, 28 percent as HR Manager and 4 percent holding another title.

The format of the interviews and the number completed allowed for substantial qualitative and quantitative analysis. Our analysis and recommendations also drew on secondary research, financial analysis, prior IBM studies that address human capital issues, our extensive experience working with clients and IBM's own transformation story. We have worked to place our findings into an overall context that provides perspective on the strategic priorities HR and line-of-business leaders will face over the coming years.

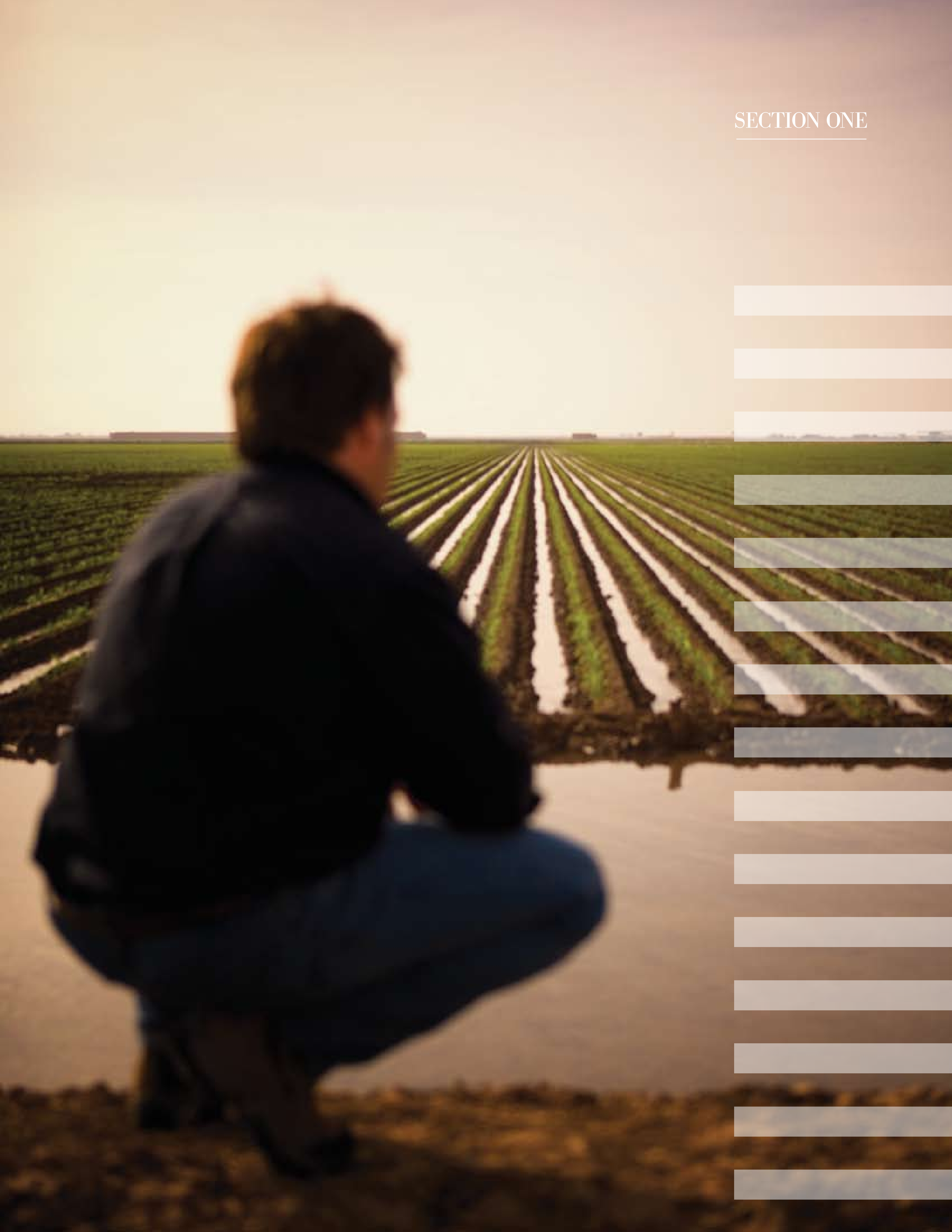
Whenever possible in this report, we share the voices of our participants directly, and hope that their thoughts, as well as the conclusions of this point-in-time study, add to the ongoing dialogue taking place within the human capital community.

Figure 1. Breakdown of study participants.



Source: IBM Global Human Capital Study 2008.

This man is kneeling in front of crops planted by global positioning system technology in the Imperial Irrigation District in California. The district delivers water to nearly 500,000 acres of agricultural lands in Imperial Valley – acres that would otherwise be nonarable desert. In the winter months, the Imperial Valley provides the great majority of the produce consumed in the United States.


SECTION ONE

SECTION ONE

Developing an Adaptable Workforce – A Critical Capability

"Businesses change every day, and the development of a workforce that can cope with change is not easy."
– General Manager, Human Resources Group, Japanese transportation company

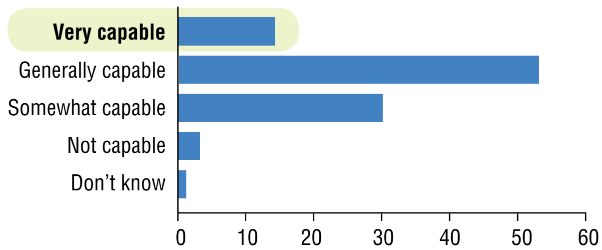
Today's business executives face a host of pressures, including volatile markets, security issues, global competition and the emergence of new business models. These are forcing organizations to be more responsive to shifting market needs; more flexible in how they operate; more focused on their core competencies; more nimble at partnering and more resilient to external threats. Developing a workforce that is adaptable to change has become paramount.

Adaptability: Three core elements

While 53 percent of companies state their workforces are generally capable of adapting to change, only 14 percent say they are *very* capable (see Figure 2). Many of these very adaptable organizations are also top financial performers.[1]

Figure 2. How would you rate your workforce's ability to adapt to potential changes in the business environment?

(Percent)



Source: IBM Global Human Capital Study 2008.

What do these very adaptable companies do differently from others? Our findings suggest three important factors contribute to an organization's ability to develop an adaptable workforce:

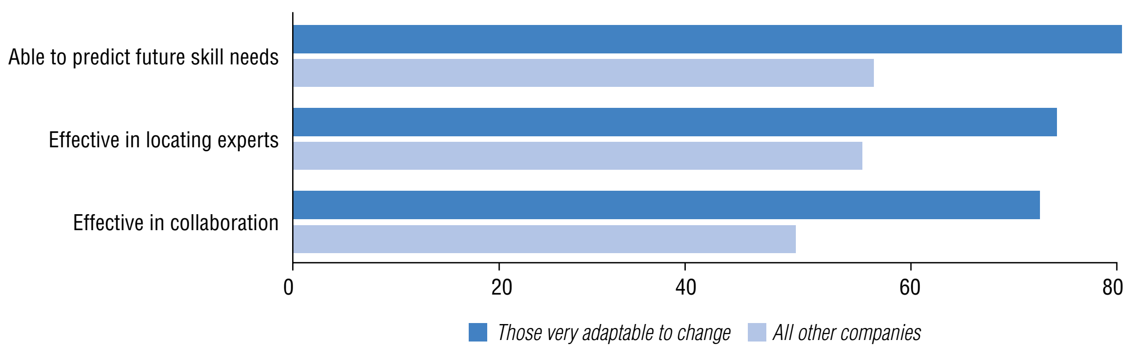
- Predicting required skills and their future availability over the next three to five years
- Identifying and locating individuals with specific expertise
- Fostering an environment that allows people to collaborate across organizational boundaries.

From Figure 3, we see companies that are very capable of adapting to change are also more likely to be able to predict future skill needs, identify expertise and collaborate. Statistical analyses document that these variables – both individually and collectively – are strongly correlated with the ability to change in response to evolving business conditions.

Overall, HR executives reported that their companies have begun to build basic capabilities in each of these three areas. However, given the rapid acceleration of change in the business environment, simply being "good" isn't going to be good enough. Our work with clients suggests that companies are not realizing the full business benefits associated with these capabilities because they are being developed as stand-alone initiatives and are not integrated into a more holistic approach. Over the next several pages, we will examine in more detail how companies are performing in each of these areas, while identifying current challenges and opportunities for improvement.

Figure 3. Characteristics of companies indicating they are *very capable* of adapting to changing business conditions.

(Percent)



Source: IBM Global Human Capital Study 2008.

Seeing the future: Predicting skill requirements

Developing an adaptable workforce requires more than the ability to simply react to change. Successfully anticipating future business scenarios enables organizations to know what key competencies to target in advance of critical market shifts. Identifying future skill requirements isn't enough, though. Leading companies will build, acquire or source these required skills prior to needing them. The combined ability to plan and execute will separate the winners from the "also-rans."

Only 13 percent of organizations interviewed believe they have a very clear understanding of the skills they will require in the next three to five years. While some organizations believe they understand the needs of their *current* businesses, they are less sure of their ability to predict the skills needed in new or emerging markets. For example, the Talent Leader at one European chemicals company states, "Our understanding is better in more-mature markets than in less-developed markets – we do not know how less-mature markets will develop."

There are other companies that, given the pace of change within their environments, find skills forecasting particularly problematic. As one European bank's HR executive describes: "We have created a powerful toolbox to understand the skills and capabilities of the workforce…powerful when maintained. However, which capabilities will I need in the future? Here we have quite a bit of uncertainty – who would have expected the need for tough restructuring in previous years? When I started working, the half-life of knowledge was seven years, now it is 18 months!"

Expertise location: Knowing what you have and where it is

While predicting future skills is important, so is the ability to apply existing knowledge and skills to new challenges. Expertise location is cited by respondents as critical in identifying and allocating resources to address new opportunities and threats. As the EVP of HR at a financial services company highlights, "We could move people around quicker…and fill openings quicker. We have lots of resources all over the place, but our decisions are made by 'who knows who' and anecdotal information."

Likewise, a Group HR Manager from a large postal organization states: "The benefits of improved expertise location would be immense. In a large organization, where you don't have the line of sight with every employee [as you would in a small organization], there is a lack of awareness about skills that are available. Having an expertise locator would provide a double check to help identify potential candidates for new roles, beyond those that are already known or front-of-mind."

Only a small minority (13 percent) believe they are *very capable* of identifying individuals with specific expertise within the organization. Many companies recognize they can not yet *systematically* identify and locate expertise.

Companies are using a variety of techniques to improve their expertise location capability (see Figure 4). Fifty-two percent of companies that rate themselves as *very effective* at locating experts use some form of employee directory, while only 39 percent of all respondents report using one. Company directories not only provide data about an employee's location and phone number, but also can include information about the person's reporting chain, skills and certifications, and even pointers to others within his or her personal network.

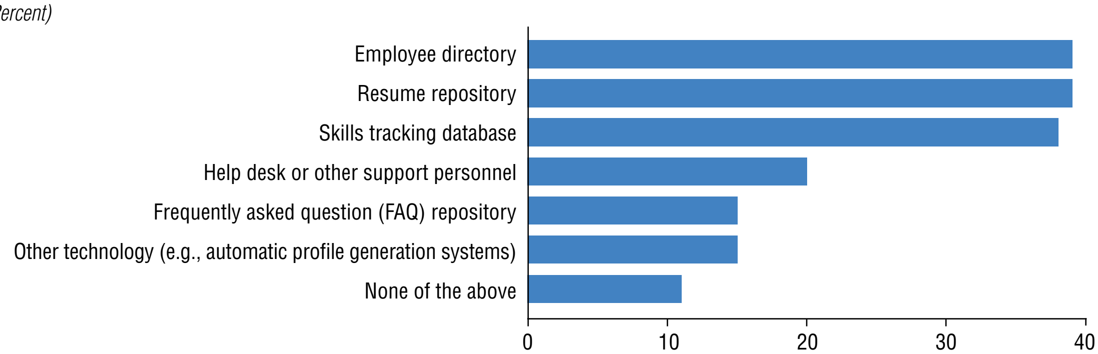
One challenge is that many of these current expertise location methods require individuals to maintain their own information. Only 15 percent of those interviewed are using technology that enables the automatic profiling of skills, expertise and relationships. Relying solely on self-reporting brings a host of challenges, including keeping the data current and reflecting a person's actual capabilities, rather than just self-perception.

Getting together: Collaboration across the organization

Clearly, expertise location plays an important role in the development of an adaptable workforce. However, simply finding those with knowledge and expertise is only half the battle. Once they are identified, these individuals need to be able to collaborate with others – to innovate, share knowledge and solve problems.

Recently, an IBM study polling more than 750 CEOs from around the world identified collaboration as a key tenet to fostering innovation and growth.[2] Our study participants agree. As one SVP of HR from a services firm states, "Better collaboration would enable us to help global customers more effectively and increase the level of product/service innovation." Yet, only 8 percent of companies interviewed believe they are *very effective* at fostering collaboration across the enterprise.

Figure 4. Which of the following does your organization use to identify key skills and subject matter experts?
(Percent)



Source: IBM Global Human Capital Study 2008.

What inhibits effective collaboration in today's global organizations? Surprisingly, a lack of technology does not appear to be at the root of this issue, with only 28 percent of companies indicating this is a significant factor (see Figure 5). As one U.K. financial services executive states, "The perceived lack of technology tools to support collaboration is an excuse, not a barrier."

Instead, we see organizational silos (42 percent), time pressures (40 percent) and misaligned performance measures (37 percent) impeding organizations' ability to collaborate. Clearly these nontechnical issues make a significant difference for organizations that need to leverage their collective knowledge and expertise. As the Director of Leadership Development for one healthcare agency notes, "Culture and mindset are the real inhibitors here. The technology is available, or will be here shortly, but getting people to both understand the importance of collaboration and utilize these tools will take some time."

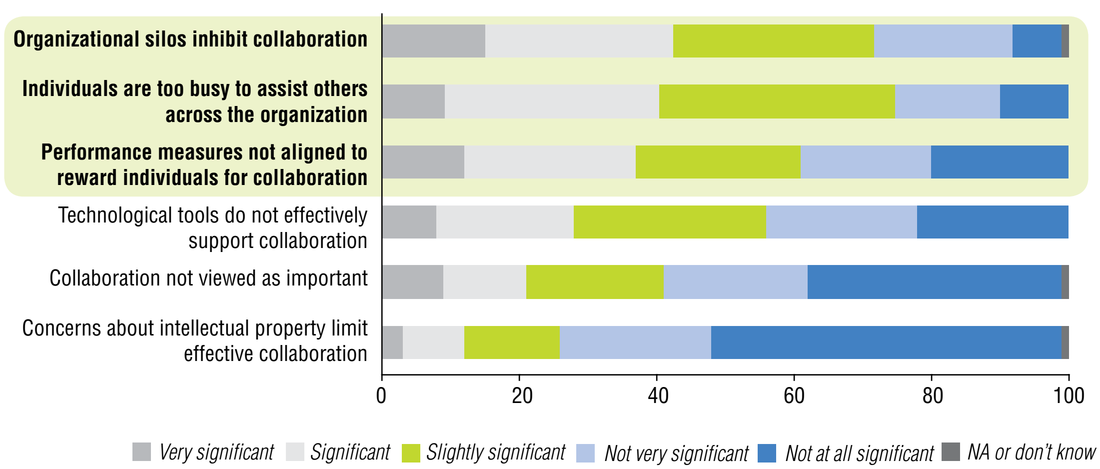
Implications

Our study demonstrates that those organizations identifying themselves as *very capable* of adapting to change also report being *very effective* at forecasting future skill needs, identifying experts and sharing knowledge and expertise. Our data suggests that companies need a greater understanding of the skills required to address future business challenges. This will enable them to make more-strategic decisions regarding developing, buying or sourcing those skills.

As a Managing Director of HR from a U.S.-based investment bank explains: "We need to give more emphasis to this [future skills identification]. We need to anticipate these needs based on various business scenarios [such as preparing for a downturn]. In the current market and company performance scenario, we know what the requirements are. But we know that business cycles exist, and we need to be ready for them. Overall, we need to be more anticipatory."

Figure 5. How significant are the following barriers to collaboration across your organization?

(Percent)



Source: IBM Global Human Capital Study 2008.

Our data also highlights the importance of locating experts. We believe companies should attack this need on two fronts. First, develop a formal skills management process that allows organizations to easily track the quantity and location of individuals with important capabilities and certifications. Second, implement expertise location techniques that are based on social networking and other Web 2.0 technologies, which can more easily unlock the "hidden" talent within an organization.

When developing a formal skills management approach, organizations need to strike the right balance – tracking the appropriate number of skills without creating competency models that collapse under their own weight. In addition, they will need to develop a protocol for periodically updating the data that feeds these skill management systems. When managed correctly, companies will be able to better track required skills against current and future resource needs and better execute against their workforce management plans.

On the less formal side, the use of employee profiles, online resumes, personal Web pages and other tools can increase the visibility of both an individual's personal knowledge and relationships to others (both inside and outside the organization). These informal expertise location capabilities can help people identify individuals with common interests and link people from across the country, or around the world, who are facing similar challenges.

In our work with clients, we are seeing a growing interest in the use of automated expertise identification systems, where sources of content (e.g., e-mail, content repositories, tags on Web pages) are mined to uncover and highlight pockets of interest and expertise. IBM Research has been actively involved in studying and conducting pilot projects in this area. One such project, Small Blue, uses e-mail data to highlight expertise and increase the visibility of connections among people across IBM.

Fostering a collaborative environment is critical for organizations that are targeting growth through the development of innovative products and services. Since our study suggests that technology is not the primary barrier to collaboration, how do companies overcome the actual culprits – entrenched silos (either structural or cultural), limited time and misaligned performance goals?

We find there are a number of initiatives that can jump-start collaboration across traditional line-of-business boundaries. For example, informal communities of practice, which can range in size from as few as 15 to several hundred individuals, are a leading practice in maintaining the flow of knowledge across the organization and serve as a vehicle for preserving organizational memory. These groups can help break down traditional organizational barriers, reduce the amount of time it takes for individuals to get answers to needed questions and provide a forum in which people can be recognized for their contributions by their peers.

As these groups bring together like-minded individuals who share a passion for a topic, face similar challenges or speak a common language, participants are able to experience a sense of trust that allows tacit knowledge to be shared more freely. The United Nations' UN-HABITAT Jam (see sidebar, *UN-HABITAT Jam: Collaborating across a global community*) provides one example of bringing people together; this same approach can be applied within public or private organizations to overcome physical or organizational barriers.

Several of our participants commented on the value of communities within their organizations. A VP of HR at one U.S. manufacturer describes it this way: "We have fabulous collaboration – we have 1,500 communities where people connect to people worldwide and solve issues. These communities are very specific to an employee's job. The key is to have a sharing culture and to connect person to person, rather than having someone search through a database. Here's an example… A U.K. engineer had a problem with a part. So, she posted a question to her community. Within four hours, she received responses from Indiana and Illinois that solved her problem."

We also are seeing companies embed collaborative technologies into everyday work activities and processes. For example, a salesperson looking for reference material related to a particular product or service could enter information into an Intranet search engine. His search results could list not only relevant internal and external documents, but also individuals who are knowledgeable about these solutions. Beside each of the individuals' names could be an instant messaging icon, identifying if this person is online and available to chat.

While recognizing the value of informal collaboration, some respondents also see the need to more formally weave collaboration into the performance management fabric of their organizations. As a retail company's HR leader describes, "A way of improving collaboration would be for the remuneration of senior people to be linked to better collaboration – e.g., bonuses based on overall corporate success rather than business unit results." Similarly, a financial services firm's VP of Corporate HR suggests, "To improve this [collaboration], it would need to be incorporated into performance measures – people deliver what they are accountable for." Combining both formal reward systems and informal methods for recognizing knowledge contributors and users can help overcome the reluctance of individuals to create, share and, most importantly, apply insights from around the company.

Predicting skills, managing expertise and collaborating require extensive cooperation from multiple departments. For example, the learning and development function needs to conduct job-task analyses as part of the skills forecasting process. IT needs to identify, implement and integrate expertise location and collaborative software with other existing systems. HR needs to provide insights into governance models and workforce strategies that foster a collaborative environment in a virtual world. But most importantly, these tools and processes need to be built into the fabric of day-to-day work activities. With these disparate functions working together, the critical need for an adaptable workforce will come closer to becoming a reality.

UN-HABITAT Jam: Collaborating across a global community

"The fact that the debate on slums has moved from the academic world to streets of cities such as Nairobi, Dakar, Cape Town and Mumbai, Rio, Lima and Manila is in and of itself a powerful signal to world leaders on the need for concerted action."
– Mrs. Anna Tibaijuka, Executive Director, UN-HABITAT, Nairobi, Kenya[3]

The World Urban Forum (WUF) was established by the United Nations to examine rapid urbanization and its impact on communities, cities, economies and policies. The organization hosts an international conference every two years attracting some 10,000 delegates to discuss issues, share ideas and set out action plans.[4] However, the expense of travel limited grassroots participation and significant involvement from the very people the organization strives to help. For the then-upcoming 2006 conference in Vancouver, UN-HABITAT and host-country officials needed a new, cost effective approach to gathering input from around the world.

The group used IBM's "Jam" communication method as inspiration to set up an online communication tool capable of reaching out to the urban poor and frontline aid workers around the globe. Jams are multiple-day, round-the-clock, worldwide, Web-based events designed to share insights and connect thousands of employees around a predefined set of discussion topics. Moderators and brokers are employed to monitor the activities, suggest connections among discussion threads, poll the audience about specific issues and help ensure the insights from one part of the world are addressed globally. In December 2005, the Canadian government, IBM and UN-HABITAT hosted a 72-hour "Habitat Jam" to stimulate ideas and discuss urban habitat issues in preparation for the WUF conference scheduled for June 2006 in Vancouver.[5] The group wanted to engage large numbers of people beyond the usual delegates by empowering and stimulating tens of thousands of global citizens – rich and poor alike – with the ultimate goal of turning ideas into action on critical issues related to urban sustainability. The event was followed by a two- to three-week analysis period during which the team used the discussion logs to create an event report with key conclusions and ideas to act on.

Over 600 ideas were identified, of which 70 were included on the WUF 2006 agenda. Habitat Jam engaged more than 39,000 participants from 158 countries in discussions of issues critical to sustaining cities.[6] Partner organizations successfully brought the voices of women, youth and slum dwellers to the dialogue, with 78 percent of the participants coming from these three groups. The WUF's remarkable achievement enabled global idea-sharing among First-World nations and people in some of the poorest regions of the world.

Baltimore, Maryland is typical of a number of smaller cities in the United States. After revitalization of its downtown area, the city has experienced a rebirth, with tremendous growth in commerce and culture.

SECTION TWO

SECTION TWO

Revealing the Leadership Gap – Future Growth at Risk

"The magic ingredient of any organization is leadership."
– CHRO, consumer products company

A lack of leadership capability has become a significant barrier to growth for many organizations. As two leadership experts, Douglas Ready, a visiting professor at the London Business School, and Jay Conger, the chair of Leadership Studies at Claremont McKenna College, describe in a recent *Harvard Business Review* article: "One London-based real estate finance and development firm was gearing up for a major reconstruction job in Berlin…When the executive committee reviewed the list of people who might be ready to take on such an assignment, the CEO noticed that the same names appeared as the only candidates for other critical efforts under consideration. And when he asked the business unit heads for additional prospects, he was told there weren't any. The firm's growth strategy hinged on these projects, but the company had failed to groom people to lead them."[7]

Without sufficient leadership talent, who will set the direction? Who will paint the vision? Who will lead the change? It's not only an HR issue. It is a business imperative.

Help wanted: Leaders

Companies cite a lack of leadership capability as one of their top workforce challenges (see Figure 6). For many, rapid expansion has brought this issue to the forefront. As the head of HR for one global media company describes, "Leadership capability [is a challenge]…after we went public we grew very rapidly. As we grew, we did not think a lot about how we could mature properly." And the SVP of HR for a manufacturing firm explains, "We are…expanding geographically to become more international, and we need leadership in these new areas. Basically, we are trying to develop bench strength to position ourselves for growth."

For others, changing workforce demographics are forcing them to rethink their short-term leadership capacity. As the Personnel Director of one government agency highlights, "Fifty percent of our leadership positions across the organization could be vacated in the next five years, so the need to build leaders and pass knowledge on is consistent across the organization."

We see two groups particularly vulnerable to growth constraints resulting from a lack of leadership: companies operating in Asia Pacific and organizations within the industrial sector. For example, almost half of the companies based in Asia Pacific indicate lack of leadership capability as a primary workforce challenge (see Figure 7). In this region, rapid growth, coupled

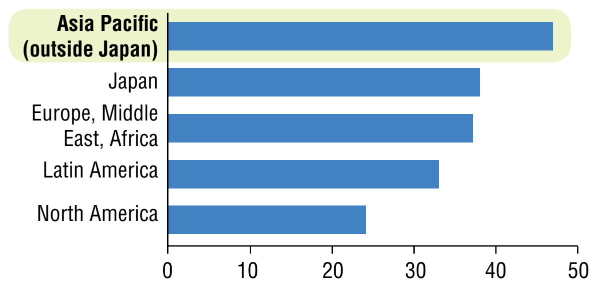
Figure 6. What do you see as the primary workforce-related issues facing the organization?

(Percent)

Source: IBM Global Human Capital Study 2008.

Figure 7. Lack of leadership capability by geography.

(Percent)



Source: IBM Global Human Capital Study 2008.

with a relatively small pool of experienced leaders, has quickly thinned the ranks. As one VP of HR from a Singapore technology company summarizes, "Leadership at all levels is problematic."

Companies expanding *into* Asia are also facing this shortage, as they are having difficulty bringing expatriates into the region. The VP of Corporate HR from one Canadian insurance company notes, "For Asia Pacific, we keep looking for talent to bring over from the U.S., but the talent pool of individuals willing to relocate dries up – we still have leadership shortages in AP and Japan."

We also see leadership issues surfacing across the global industrial sector (see Figure 8). This leadership shortage appears to be contributing to one of the primary business challenges facing this sector – the struggle to expand into new markets/geographies. As one Korean manufacturing company's CHRO remarks, "We lack people who can manage and operate the business in a global environment."

Some senior executives believe the industrial sector's lack of leadership capability is related to both an aging workforce and inadequate succession planning. For example, a U.S. chemicals company's VP of HR indicates, "We need to develop new talent as long-term skills walk out the door." Similarly, a U.S. technology firm's VP of Worldwide HR notes, "People in our business are getting older, and we need to develop the next generation of leaders."

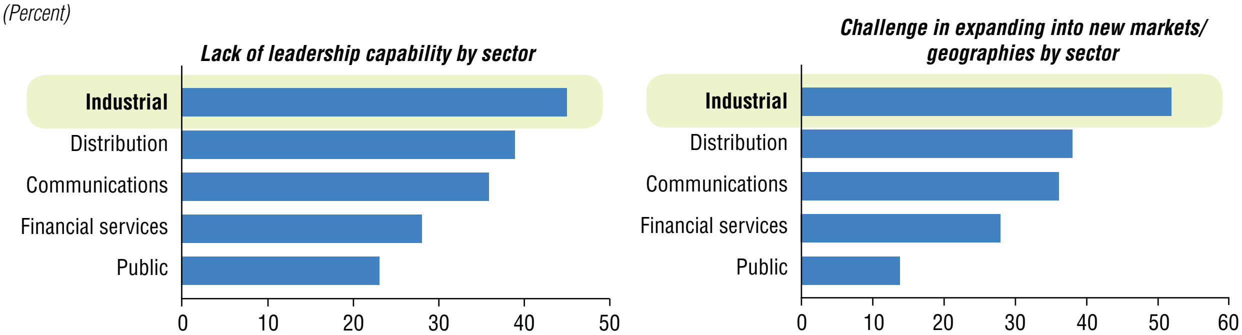
Building leaders from within

Not only are companies concerned with their *current* leadership capacity, they are confronted by their inability to develop *future* leadership talent (see Figure 9). Over 75 percent of companies indicate *building leadership talent* is a significant challenge. Companies in the Asia Pacific region are most concerned with their ability to develop future leaders (88 percent); followed by Latin America (74 percent); Europe, Middle East and Africa, (74 percent); Japan (73 percent) and North America (69 percent). The inability to *rotate top leadership talent* is also cited as an important issue.

Companies in our study are taking some interesting steps to more effectively assess and develop leaders. One approach is the use of action learning programs.

Figure 8. Leadership challenges in the industrial sector are hampering expansion.

(Percent)



Source: IBM Global Human Capital Study 2008.

Figure 9. Which are the most significant capability-building challenges facing your organization today?

(Percent)

Source: IBM Global Human Capital Study 2008.

These initiatives bring people together from across the organization to gain hands-on experience in solving actual business problems. As one SVP of HR describes: "We have put together global teams to work on strategic projects – they have one physical meeting and the rest are virtual. It gives us a chance to see our top people in team situations and test our succession candidates. It gives people a broader view of the company and our global clients."

Action learning can also be incorporated into more traditional education programs. The SVP of HR from an international education provider highlights: "Our highest-impact initiative has been our leadership development aimed at high-potential employees. It started as a two-year program driven by the CEO and COO. It was primarily case study driven, and has started to focus more on action learning as the case studies started to outgrow their usefulness."

One North American technology firm has also incorporated mentoring into its action learning programs. According to its VP of HR, "We form classes of mentees, assign them business issues to solve and match them up with senior leaders. It is a great program for getting visibility into the next generation of leaders and for solving some difficult business problems."

Job rotation was also frequently mentioned by study participants, with almost 50 percent finding this to be a valuable employee development technique. Organizations see this as an efficient way of providing development experiences and a pragmatic method for evaluating future talent. One VP of HR from a manufacturing firm describes the value his company sees in its job rotation program this way: "Job rotations have really helped us with succession planning. We make sure our employees are gaining the knowledge and experiences required by moving them to jobs that may not be in their background. We see if they can step up to the challenge. We are giving people a way to differentiate themselves."

While several companies describe the value they are seeing in job rotation, putting this into practice still remains a challenge; more than one-third of surveyed companies view job rotation as a significant capability-building challenge. One roadblock is the reluctance of operating divisions to surrender top performers. As the VP of HR at one Singapore technology company remarks, "There is a noticeable reluctance by the releasing manager for individuals to rotate jobs – [there is a] fear of losing talent!" Therefore, job rotation needs to be embraced by both HR and line-of-business executives, with both working together to put succession plans in place to backfill individuals who need to move on to new positions.

Implications

Companies are finding themselves with a leadership vacuum, with fewer individuals who have the knowledge and experience to guide others through necessary business transformations. Without leaders who can provide the direction, feedback and clarity needed to navigate in a more complex world, companies will struggle to achieve business goals.

While many companies have invested in a range of leadership development and succession planning activities, we often see these efforts conducted on a regional basis, which does not allow an organization to take a global view of its leadership portfolio. Our qualitative data suggests that companies need to consider a range of factors including the number, location, transferability and proficiency of leaders from around the globe to effectively support their growth plans. One way to meet this need is through talent management software that can help identify current gaps and provide insight into planning processes. This enables companies to make more-educated decisions regarding the types of leadership development programs required, the speed with which those programs need to be implemented, and the business risks associated with not having sufficient leadership talent.

The changing nature of work is also impacting the skills leaders need to be successful. An IBM study conducted in 2007 specifically examines the challenges of "Leadership in a Distributed World."[8] Today's managers are being asked to provide guidance and direction to teams working across time zones, cultures and organizational barriers. In today's dynamic business environment, leaders must take more risks and execute with greater speed – briskly connecting talent and moving information and knowledge around the globe. Leaders need to be increasingly sensitive to the diverse composition of the global workforce. They need to understand the realities of engaging employees from a range of backgrounds and experiences. Effective leadership development programs take into consideration these realities and build in experiences that help develop the new competencies needed to succeed in a globally integrated environment.

While it is tempting for companies to simply shift their leadership development efforts to universities offering "executive education" courses, both clients' and our own leadership development experiences reveal that corporate executives need to think more broadly about development opportunities for their up-and-coming staff. As highlighted by our participants, action learning programs, mentoring and job rotation can all play a valuable role in providing individuals with new experiences, creating effective networks and passing along critical experiential knowledge. Each of these techniques can be cascaded down to lower levels of the organizational hierarchy, making it easier to identify and develop potential leaders earlier in their careers. The Maybank case study (see sidebar, *Maybank: Answering the need for leadership excellence*) describes how one company has worked to prepare its leaders for anticipated transformation.

While leadership development programs are crucial, our 2005 Global Human Capital Study offers a cautionary message.[9] In that study, we found companies that invest in developing their workforces run the risk of losing talent to competitors if employees are not given challenging roles that allow them to apply their new skills. Therefore, leadership development programs need to link closely to succession management strategies across all levels of the organization, providing opportunities for those both ready and willing to accept new challenges.

It will take focused effort from every corner of the organization to build sufficient numbers of adequately skilled leaders capable of achieving business results. HR must provide the development programs and the succession planning processes, but it will require line-of-business leaders to identify the high potentials across all levels of management, provide them hands-on leadership experiences and coach and mentor them as their careers advance.

Maybank: Answering the need for leadership excellence

The Maybank Group (Maybank) is the largest banking group in Malaysia, with well over 400 branches. Maybank has been a leader in the Malaysian banking industry for more than three and one-half decades. However, deregulation and intense competition threatened to jeopardize Maybank's position in the marketplace. It had to become more responsive to customer and market demands. Accordingly, the company needed to strengthen its management talent pool and increase the responsiveness of its leadership. Maybank leaders identified two management development goals: to enhance the effectiveness of managers in transforming the bank in preparation for banking deregulation in 2007 and to drive workforce excellence through innovative programs. However, the company had no consistent way of approaching management/leadership development – training was mostly sporadic, not scalable and required large investments of time, effort and money.

To build a foundation for driving behavioral changes among leaders and managers, Maybank officially launched a new Corporate Management Development Program in 2005 known as "IMPACT" (Integrated Management development Program in AChieving Transformation). This program targets emerging and first-line managers, utilizing a blended learning approach. It integrates distributed learning with classroom experiences, collaboration with peers, on-the-job management coaching and reference material. Experienced managers are incorporated into the program as mentors; online facilitators also support and motivate the students. Because the program is integrated with participants' day-to-day work, their managers are also engaged in their professional development. Initially, 750 managers from various sectors of the business were trained to build core management skills such as communication, coaching and team leadership. They have, in turn, shared what they have learned with their teams, impacting an estimated 3,000 total staff. Compared to previous learning approaches, this program provides a richer, deeper learning experience, yet significantly reduces the cost per student.

The program has resulted in a common management and leadership model across Maybank. Based on tracking via a balanced scorecard of key performance indicators, an estimated US$20 million in business impact has already been achieved. The ability of managers to communicate a strategic vision, engage and energize the workforce and improve employee performance has increased from baseline measures. These estimates of business impact point to a strong return on investment from the implementation of the IMPACT program.

Shanghai Pudong International Airport is a major international gateway into China, handling over 17 million passengers a year. Built in 1999, it replaced the Hongqiao Airport as Shanghai's international transportation hub. It is connected to Shanghai by one of the first commercial high-speed maglev railways in the world.

SECTION THREE

SECTION THREE

Cracking the Code for Talent

"Our market leadership and our international reputation are both key in attracting and retaining employees."
– HR Director, professional services firm

Significant attention in the business press and the conference circuit has been focused on the importance of the talent management lifecycle: recruiting, developing and retaining desired employees. However, HR executives in our sample appear more concerned about their organizations' ability to develop existing employee skills than they are with attracting new talent. Many believe their corporate reputations will allow them to attract and retain the people they need. Yet, changing trends in workforce demographics and mobility patterns suggest they may need to challenge this perception and consider investing more resources in recruiting, selection and retention.

Skill building: What's working and what's not

More than half of our study participants indicate that the inability to rapidly develop skills is a primary workforce challenge, and more than one-third state their employees' skills are not aligned with their current organizational priorities (see Figure 10).

Figure 10. What do you see as the primary workforce-related issues facing the organization?

Source: IBM Global Human Capital Study 2008.

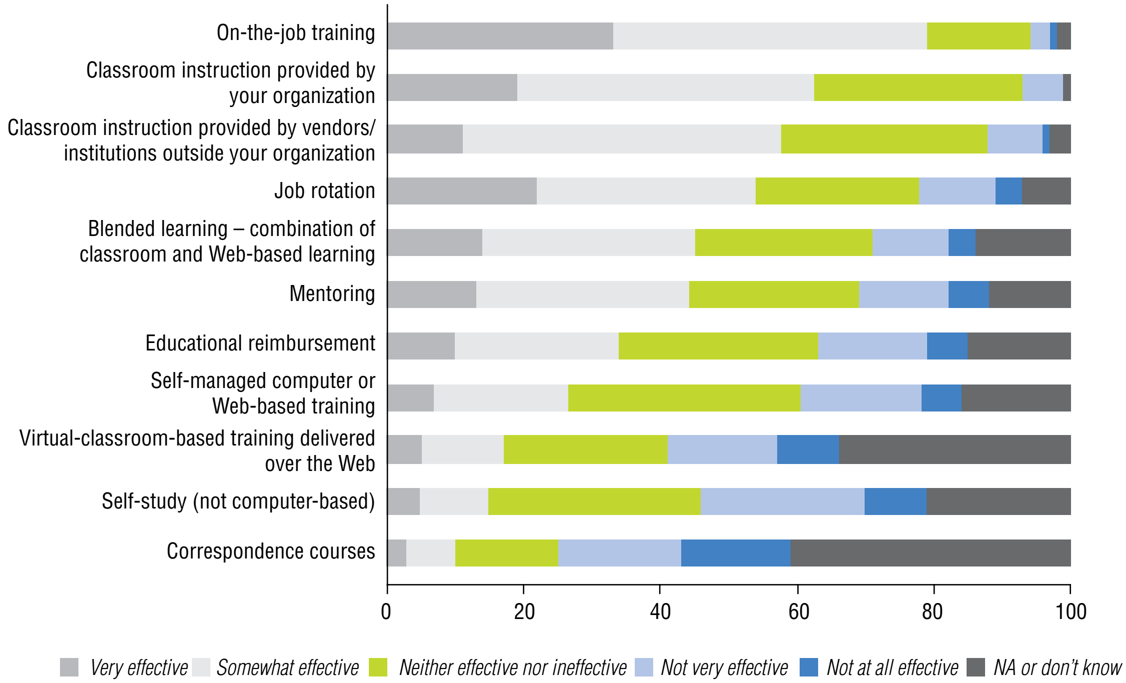
We were interested in understanding which learning techniques organizations believe are the most valuable in closing this skill gap. We found that companies still report greater effectiveness from traditional forms of learning, such as on-the-job training (OJT) and instructor-led classroom experiences (see Figure 11). It is not surprising, then, to see that 52 percent of companies struggle to *rapidly* develop skills. Both OJT and classroom training are time- and resource-intensive, making them costly to the business and potentially slow to respond to shifts in the market.

Some companies recognize that these approaches are not sustainable given today's maturing workforce issues. One French bank's HR Director explains it this way: "There used to be a great use of 'in-situation' knowledge transfer, meaning a new hire working in a team of experienced people. But massive retirements [of baby-boomers] and the number of new hires will prevent this method from being efficient. So, all procedures are getting documented, and training is being created to spread knowledge."

Most companies are not seeing sufficient return from their stand-alone investments in e-learning (see Figure 11). Only 27 percent of companies find self-managed, computer- or Web-based training to be effective. Organizations remain unsure about where and when to employ distributed learning. This is reflected by comments from the head of HR from one bank who states, "e-learning may be appropriate for technical matters and methods, but it is not yet appropriate for learning interpersonal skills where interaction with people is required." Only 17 percent indicate that virtual classroom training delivered over the Web is effective – with more than one-third of companies not using this technique at all.

Figure 11. How effective are the following employee development techniques in your organization?

(Percent)



Source: IBM Global Human Capital Study 2008.

In industries that require tracking of mandatory training for large numbers of people, distributed learning plays a more valuable role. For example, 42 percent of financial services companies state that Web-based learning is effective for their specific needs. As highlighted by the head of HR for one Australian bank that is having success with "product accreditation e-learning," distributed learning techniques may be helpful in addressing regulatory and compliance issues that need to be tracked and evaluated on a global basis.

Blended learning, the combination of distributed learning in its various forms with more traditional learning formats such as classroom, seems to be finding greater traction. The blended learning approach has been highlighted for years as a leading practice.[10] In our sample, 44 percent indicate that blended learning is an effective employee development technique. As the SVP of HR for one industrial products company notes, "We are using blending training. For example, employees start by taking virtual training [to see if interested in an area] then move to other required classes and eventually get certified."

Attracting talent: Are companies paying enough attention?

Much has been written over the last several years about the ongoing "war for talent." For many companies participating in the study, turnover continues to rise. Almost half of the organizations surveyed highlight that turnover has increased over the last two years, while only 16 percent state it has decreased (see Figure 12). Globalization, changing workforce demographics and shifting generational attitudes have contributed to a more transient workforce, making it more difficult to both obtain and retain desired employees. The analyst firm IDC states in a recent report, "With low unemployment, aging population, and employees' weakening allegiance to the workplace in many major economies, companies are expected to look to revamping their human resources and talent systems, and 2007 could emerge as the turning point for these changes."[11]

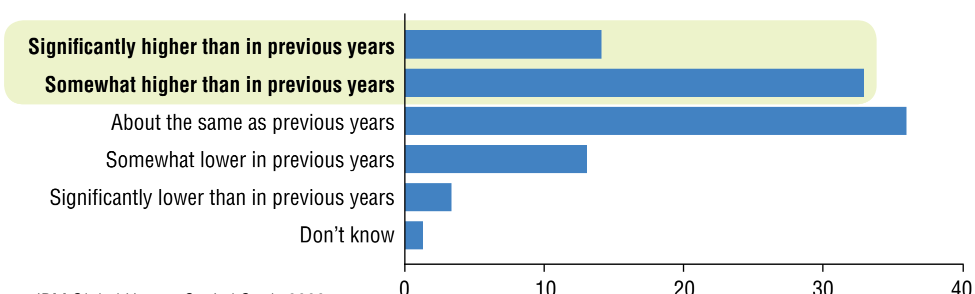
We find it surprising, then, to see HR executives less concerned with their ability to attract and retain key talent, compared to their strong interest in building capability among existing employees. (As previously discussed, 52 percent indicate the inability to rapidly develop skills as a primary workforce challenge, but only 27 percent state that the inability to attract qualified candidates is a problem. As Figure 10 shows, retention seems to be even less of a concern, with only 18 percent highlighting this as a high-priority workforce concern.)

This is not to say that there aren't sectors where talent attraction is clearly top of mind. For example, 40 percent of companies in both the public and the financial services sectors indicate that attracting key employees is a significant challenge (see Figure 13). For financial services firms, growing expansion coupled with increasing competition from nontraditional institutions, such as private equity firms and hedge funds, may be fueling the fire for talent. As one European bank's head of HR comments, "We often have to hire people from the market to fill leadership positions." In the public sector, the wave of retirements may be forcing organizations to focus on the exodus of experienced personnel. One HR leader at a government agency remarks, "Staff turnover is increasing – largely driven by an aging workforce [retirements] and increasing skill scarcity in the market."

The relatively low percentage of HR executives describing talent attraction and retention as critical issues is notable – especially given the contradictory findings from similar outside studies. A 2006 Corporate Executive Board study indicates that three-quarters of

Figure 12. In the past two years, what changes have there been to the level of turnover in your organization?

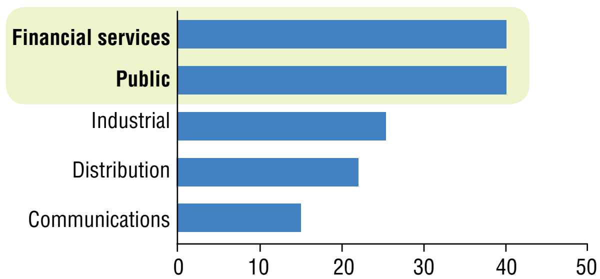
(Percent)



Source: IBM Global Human Capital Study 2008.

Figure 13. Inability to attract qualified candidates by sector.

(Percent)



Source: IBM Global Human Capital Study 2008.

senior HR executives stated "attracting and retaining talent" was their number one priority.[12] Similarly, a recent study by the talent management software firm SuccessFactors states that over 60 percent of firms indicate that talent retention is a critical issue and that almost half cite talent acquisition as a key challenge.[13] Given all of the publicity associated with early retirements, talent shortages and the like, why do the HR executives we surveyed appear less concerned with attracting and retaining talent?

One potential explanation relates to control. HR executives may believe they have more control over skill development than employee attraction/retention and therefore are more concerned about possible outcomes. As the Corporate HR Director for one retailer notes, "The internal issues are the ones I worry about, and therefore we are working hard in management training and development."

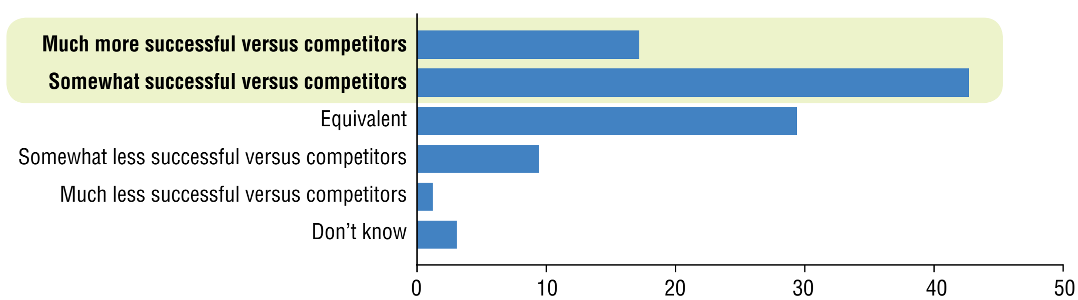
However, another explanation may be that HR executives in our sample believe that they are more capable of attracting and retaining talent than their competitors, despite the ongoing war for talent. When asked to compare their ability to attract/retain talent, almost 60 percent indicate they accomplish this better than their peers, while only 10 percent state they are less effective (see Figure 14).

Comments from our participants also suggest that their current reputations in the marketplace provide them with an advantage in the war for talent. As one Korean consumer products company's HR manager notes, "Since our brand image is very good and well known to Korean candidates, we have a good hiring position in the labor market."

Do these findings suggest that companies have cracked the code for talent? Or, do they believe that since no company is particularly effective in this domain, their corporate brands truly differentiate them in the marketplace? In either case, companies

Figure 14. How do you think your ability to attract/retain key employees compares with your competitors?

(Percent)



Source: IBM Global Human Capital Study 2008.

should be very cautious in overestimating their ability to attract the best and the brightest. Given the departure of older employees, the smaller number of Generation Y employees who will be replacing them, and the increasing demand for talent around the globe, attracting and retaining talent is likely to become more, rather than less, of a challenge. As highlighted in a recent report by IDC: "The typical organization does not have a handle on the effect that talent shortages and the graying workforce may have on the firm's ability to execute on its future strategy. It is imperative that HR lead the way in conducting a risk assessment now. Once the risk is understood, HR can then help alleviate these risks by putting the right talent strategies in place – strategies for identifying top performers, increasing retention and positioning for future talent acquisition."[14]

Image counts: Putting your best foot forward in the talent marketplace

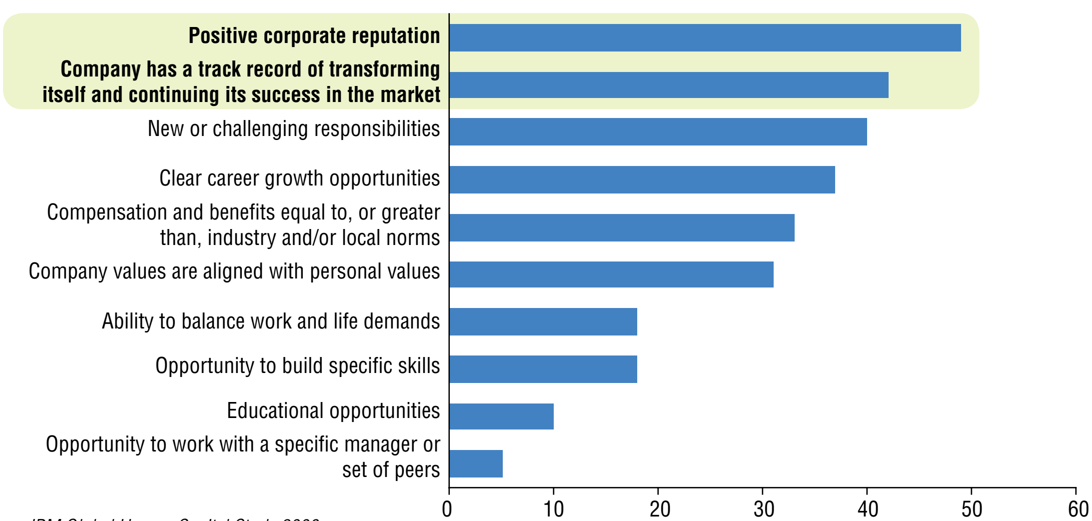
Survey participants clearly believe an organization's image in the marketplace is a primary driver of employee attraction. Almost 50 percent of companies believe that a positive corporate reputation is an important factor, and 42 percent suggest that a company's track record for transforming itself is also a strong attractor (see Figure 15).

One VP of HR Process and Systems from the mining industry, which as a whole is facing significant workforce shortages, states that, "Our company attracts candidates due to its good branding in the market; we leverage the fact that people in the industry want to work here." Even government agencies have begun to realize the importance of perception in the market, as one HR executive notes, "This organization is seen as an icon to potential employees – built from its strong and successful reputation, career progression opportunities and good values, which are aligned with those of our employees."

While our study underscores the importance of external branding, it also points to areas that HR executives believe are less important in grabbing the top prospects in the talent pool. For example, only one-third indicate that equal or higher compensation compared to market averages is a primary attractor. However, this opinion varies considerably by geography. While only 11 percent of Japanese

Figure 15. What do you believe are the most important characteristics that attract candidates to your organization?

(Percent)



Source: IBM Global Human Capital Study 2008.

companies rank compensation as an important factor, almost half of the Asia Pacific survey respondents outside of Japan see it as valuable.

Similarly, only a small percentage of executives believe work-life balance is a strong enticement, with only 18 percent ranking this as an important factor. However, 42 percent of organizations in the public sector identify balance as a powerful attractor, suggesting that government agencies and nonprofits may be targeting individuals who are looking for alternatives to the typical demands of the corporate world.

We recognize that these perspectives are based on the opinions of HR executives, rather than potential job candidates. However, a recent study of job seekers by Monster and Development Dimensions International confirms that positive corporate reputation, potential for job security and the opportunity to gain new responsibilities are high priorities for those currently in the job market. More than 70 percent of the Monster study respondents indicate that these are important factors when deciding on a new opportunity.[15]

Opening doors: Creating opportunities for your best and brightest

While reputation appears to be an important factor in bringing people to the table, creating career opportunities seems to be the primary reason for keeping them in the fold. Our participants believe the most important factors for retaining key employees are providing them with new and challenging responsibilities (48 percent) and clear career growth opportunities (43 percent) (see Figure 16).

For example, one European company's head of HR Operations states retention "is about individual growth and employee engagement," while an industrial products firm's CHRO from Asia Pacific notes that, "If we don't show/give them opportunities for growth, our employees will leave the firm."

Figure 16. What do you believe are the most important characteristics that help retain candidates within your organization?

Source: IBM Global Human Capital Study 2008.

Implications

In today's business environment, we clearly see the importance of managing the entire employee lifecycle, from attraction and recruiting through development and retention. However, our study suggests that companies are primarily focused on the development side of talent management – the building of skills among current employees. In an environment where technologies are rapidly changing, employees are more frequently moving between jobs, and work is more knowledge-intensive, this focus appears reasonable.

Given how quickly new skills need to be acquired, companies relying on resource-intensive learning strategies, such as classroom instruction and on-the-job training, may find themselves struggling to keep up with demand. Blended learning programs that balance the strengths of distributed learning technologies with opportunities for face-to-face engagement will play an increasingly important role in building the workforce of the future. These solutions appear to bring together the best of both worlds: coupling the advantages of distributed learning, such as the ability to easily disseminate content, track results and allow individuals to learn at times of their own choosing, with opportunities to meet with experts, obtain coaching and apply skills to the job environment.

We've seen the value of blended learning within IBM itself. Our sales organization needed to train several thousand salespeople and compress 300 hours of training into a six-month window. At the same time, the organization needed to increase the average revenue per salesperson. Recognizing the significant amount of on-the-job knowledge required to sell effectively, the company set out to develop a learning experience that not only leveraged coursework, but also incorporated mentoring, collaboration and knowledge management. IBM designed a program that not only allowed it to tailor the learning experience to particular needs (e.g., experienced outsiders versus university hires), but also to tap into the knowledge and experience of others within the company. As a result of using this process, new sales professionals were able to customize learning, apply the new tools as part of their day-to-day jobs and tap into coaching resources for feedback.

However, despite the respondents' emphasis in this area, simply focusing on employee development may not be sufficient to address today's changing labor markets. In many sectors and regions, companies are dealing with talent shortages on a scale not seen since the dot.com era. According to a 2007 Manpower study of 37,000 employers in 27 countries, 41 percent of companies worldwide are having difficulty filling positions due to a lack of suitable talent.[16] While organizations may be comfortable today with their ability to battle for talent, the aging workforce and increased competition for workers will place new pressures on companies to rethink their ability to attract candidates and retain high performers. As one technology firm's HR leader remarks, "Attraction and retention will get tougher for us; we must be able to compete."

From our experience with clients, we see a number of leading practices in attracting candidates. One comes from the world of customer relationship management. It includes developing a detailed understanding of the wants and needs of various segments of the labor pool (e.g., Generation Y workers versus retirees), capturing information about potential candidates, focusing recruiting efforts on high-value segments, and tracking and measuring results. Technology can play an important role in enabling an effective candidate relationship management approach. As stated in a recent *HR Magazine* article, "Even though candidate relationship databases differ from CRM databases, the basic tools are the same: The technology is used for building a 'brand,' communicating regularly, highlighting products [job openings], nurturing candidate interest, and collecting data on skills and capabilities over time."[17] Companies are even leveraging virtual worlds as a way of further enhancing candidate relationships as illustrated by Manpower (see sidebar, *Attracting the next-generation candidate: Manpower Island in Second Life).*

Another strategy we see organizations using is to attract individuals from nontraditional labor pools. As competition intensifies for existing talent, companies are starting to look for alternative labor sources, such as retired workers and corporate alumni, women reentering the workforce after having children and disabled individuals seeking a workplace environment attuned to their needs. As one Japanese telecommunications company's HR Development Manager remarks, "We also are trying to rehire women and people who retired at the mandatory retirement age." These individuals not only bring significant knowledge and expertise to the table, but may offer greater organizational loyalty as well.

While companies are already taking an analytic approach to attraction, leading practices suggest applying this same rigor to employee retention. This starts with an understanding of the business: determining those key areas where employee retention is critical. Identifying those employee segments that require specific focus can help firms prioritize and concentrate resources on those populations most vital to success. By assessing the retention drivers, which may be very different for different segments of the workforce, companies can then identify the appropriate mix of employee retention techniques. Using an analytic approach, organizations are able to look beyond global retention indicators and take a more granular approach toward mission-critical workforce segments. At the same time, companies need to avoid conflicts between their compensation and performance management models and their retention strategies.

Initially, it may seem that HR "owns" the management of the employee lifecycle. However, while HR can be the primary driver of strategies and foundational programs, the actual execution of these efforts requires close coordination across multiple areas. Developing a brand that attracts potential candidates requires capabilities found in Marketing, Advertising, IT and Media Relations. Blended learning efforts are dependent upon the interaction of the learning function and the IT department, with proper direction and involvement from the lines of business. The retention of key talent is a critical responsibility of line managers who work with people on a day-to-day basis, understand their personal needs and aspirations, and help shape the overall corporate culture and working environment. While HR can take the lead, ultimately it takes the commitment and active involvement of the entire C-suite.

Attracting the next-generation candidate: Manpower Island in Second Life

How does a sixty-year-old company position itself as an employer of choice in today's rapidly changing world? Manpower, a global provider of permanent, temporary and contract placement with over 4,400 offices in 73 countries, did so by recognizing and acting upon several important shifts in its marketplace. Over the last several years, the company has been experiencing an increased demand from customers seeking to fill positions involving virtual work – such as work-from-home opportunities or outsourced roles. The company is also watching the demographics of one of its primary target-employee pools gravitate toward a younger, more technology-savvy population. As an organization that aims to be the "global positioning system for people's careers," the company recognized the need to position itself as a leader in understanding the future of work.

To accomplish this, Manpower decided to launch an island in Second Life, a virtual community where residents, known as avatars, live and work in a variety of three-dimensional environments. More than 7,000 businesses currently operate in Second Life, which has more than 5 million individual "residents."[18] Manpower Island, launched in July 2007, is a place where job seekers and employers can come together to learn about the world of virtual work, share ideas and interact in a variety of different online meeting spaces. The island offers a number of features, including an orientation trail that illustrates how to effectively build a presence and navigate around Second Life, and areas that provide guidance on developing an online resume, preparing for physical and virtual interviews and locating employment in a virtual world. On this island, avatars staffed by Manpower employee volunteers are available to guide individuals around the site, offer advice and listen to the ideas and concerns of visitors.

Through its presence in Second Life, Manpower expects to drive traffic toward its traditional business and foster awareness among a new set of technology-aware candidates. Not only does the site serve as a source for information, it also allows Manpower to collaborate and engage with a new customer base, capturing additional thoughts and trends that potentially will allow it to stay one step ahead of the market. Manpower hopes to reinforce in the minds of its own employees the need to anticipate and stay abreast of changes in the marketplace and the evolving role of virtual work.

China's first freeway was opened in 1988. Today, the total length of China's freeways rank second in the world. The Central Freeway Interchange, in Shanghai, displays the ambitious municipal transportation projects that have linked China's most populated city to its Western territories.

SECTION FOUR

SECTION FOUR

Driving Growth through Workforce Analytics

"Until recently – and perhaps even now – 90 percent of HR personnel's job has just been about obtaining the data rather than analyzing it!"
– VP of HR Operations, European industrial company

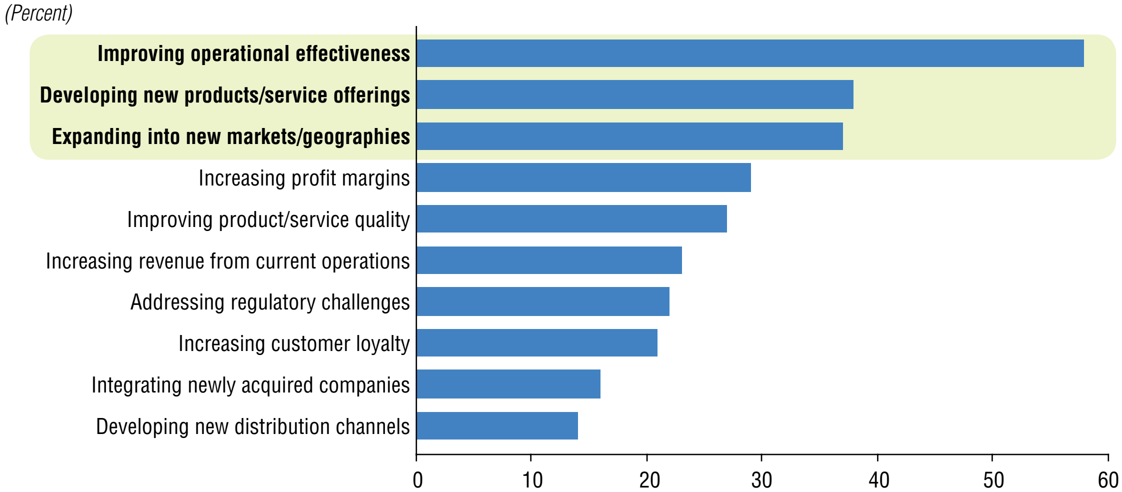
Any meaningful discussion of an organization's workforce strategy needs to start with a conversation regarding its business direction. While HR has made progress in contributing to these dialogues, respondents state they lack the appropriate data and information to make strategic decisions. If the workforce is truly to be valued as an asset, much like financial capital or brand equity, the entire C-suite, not just HR, will need more robust and accessible information about current and future talent needs, employee productivity and resource availability. As echoed in a recent IDC report, "Indeed, the future of business is going to require a more data-driven, fact-based method to hire, pay, and reward top performers."[19]

Traveling down two paths to success

Companies are focused on addressing two main business challenges. For the majority (58 percent) of our respondents, the first priority is operational effectiveness – improving results from existing processes and practices using the same or fewer resources (see Figure 17). In addition, a number of organizations are attempting to grow their top-line revenue through the development of new products and services (38 percent) and expansion into new markets and geographies (37 percent).

Figure 17. What do you see as the primary business challenges currently affecting your organization?

(Percent)



Source: IBM Global Human Capital Study 2008.

Operational effectiveness and growth are not necessarily mutually exclusive options. More than 50 percent of the companies that selected operational effectiveness also identified growth as a top business challenge. In some circumstances, these two strategies may be seen as complementary, with an HR leader from one aerospace company noting, "Operational effectiveness feeds and provides funding for new development of products and services." However, each of these strategies implies a different set of workforce challenges, and the collective burden of investing in multiple workforce priorities may leave companies financially strained.

Business needs drive workforce challenges

Figure 18 highlights some of these key workforce differences. Companies that cite improving operational effectiveness as a top priority see their major workforce challenge as the alignment of employee skills with current organizational priorities. As companies seek to accomplish more with the same or fewer resources, employees need additional skills to perform in a variety of functional and technology disciplines.

In contrast, companies that prioritize developing new products or services appear to be more focused on attracting qualified candidates. Recognizing the significant time and effort it takes to build the necessary capabilities from within, companies are looking beyond their organizational walls for talent.

Figure 18. Linking business challenges to workforce issues.

Organizations that are facing the following challenges:	Are more likely to be concerned with:*
Improving operational effectiveness	• Aligning employee skills with current organizational priorities
Developing new products/ service offerings	• Attracting qualified candidates
Expanding into new markets/ geographies	• Rapidly developing skills to address current/future business needs • Redeploying/realigning resources against new opportunities

*Note: *statistically significant areas of concerns.*

Source: IBM Global Human Capital Study 2008.

Rapid skills development is high on the list of organizations expanding into new markets. Given that moving into new territories or working with new channels requires numerous people to adapt quickly to new business conditions, it is not surprising that these companies are placing an emphasis on speed. These organizations also have difficulty redeploying or realigning resources to these new opportunities.

Different business strategies require different workforce investments. Making the appropriate choices involves a two-way dialogue between HR and the lines of business. Are these discussions taking place consistently within today's organizations?

One step closer: HR moving beyond the transactional role

The good news is that after years of effort, HR has begun to make headway as a strategic contributor. As Figure 19 shows, 56 percent of respondents state they actively participate and provide resources to business transformation efforts. Fifteen percent are actually driving these transformation efforts and are held accountable for them.

However, only 39 percent of organizations report that their workforce strategies are both driven by, and provide input into, the overall business strategy. While another 43 percent of HR organizations use the overall business strategy to develop their workforce strategy, this is only a first step. HR leaders need to go beyond the one-way translation of business strategy and focus more on establishing a two-way dialogue that influences business direction. A U.S. chemicals company's SVP of HR explains, "Clearly, being a partner and influencing business strategy is the goal of HR. However, culturally, the pace and method of achieving this role depends on what HR can deliver and demonstrate, both in its ability to provide business value and its ability to execute."

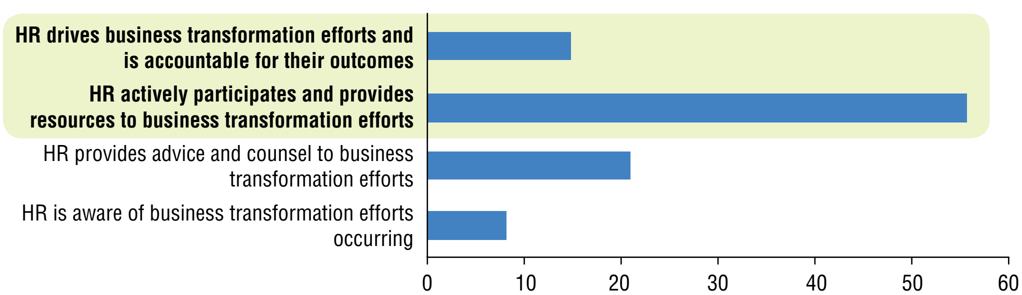
Data and information: Workforce transformation's Achilles heel

So what's holding HR back from contributing to business strategy and driving improved workforce performance? One issue centers on the inability of the organization to make use of its human capital data and information. Only 6 percent of companies interviewed felt they were *very effective* at using human capital data and information to make decisions about the workforce.

As shown in Figure 20, the primary barriers preventing organizations from developing insights from their data stem from a lack of systems integration. Taking a closer look at the top four areas of weakness shows that organizations with poorly integrated HR systems are significantly less likely to effectively use data to make workforce decisions. This is reflected in the sobering comments of one postal company executive who

Figure 19. How would you best describe HR's role in ongoing business transformation efforts?

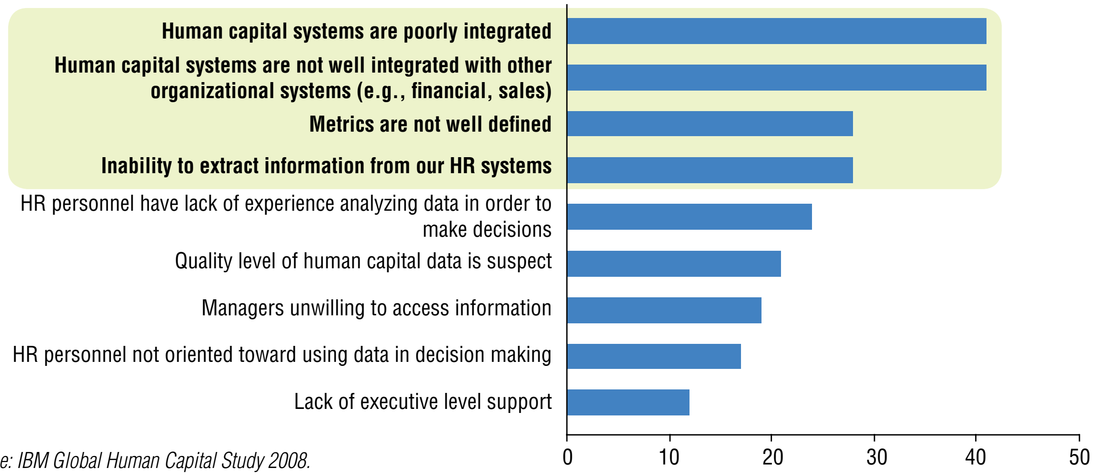
(Percent)



Source: IBM Global Human Capital Study 2008.

Figure 20. Which barriers are most likely to prevent your organization from using human capital data and information to make workforce decisions?

(Percent)



Source: IBM Global Human Capital Study 2008.

states, "We currently have 42 different HR systems in place, making it hard for managers to readily access aggregated data across business silos."

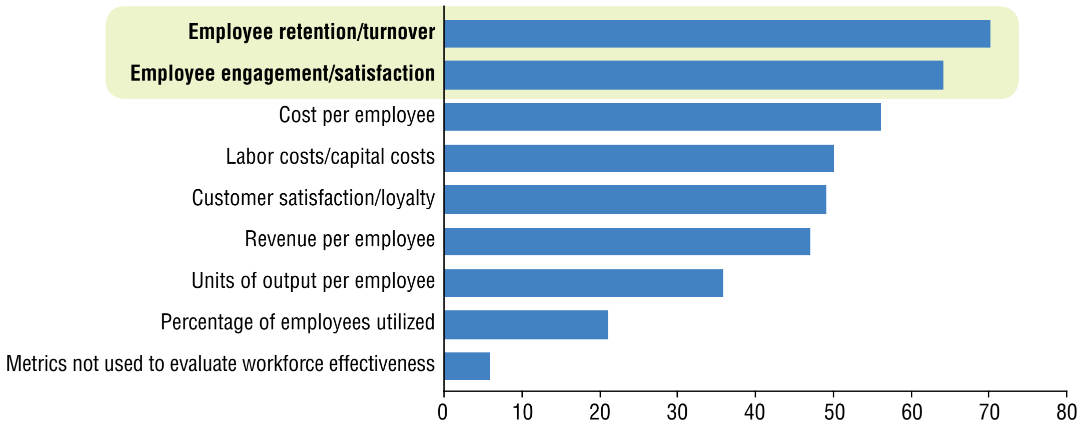
If organizations don't feel the data they have at their disposal is complete or accurate, they can not use it to make decisions about the workforce. At the same time, if the data exists, but is too difficult to access, it will not be used. Either constraint could prevent the organization from using metrics to drive business decisions. Indeed, our research suggests that only 30 percent of organizations use human capital metrics to evaluate many or all of their business transformation efforts. "Whatever data we've had, we use; but we haven't had much data," shares the SVP of HR of a U.S. travel company.

As Figure 21 shows, most organizations are using measurements that are either relatively easy to track (such as employee turnover), based on perception (such as employee engagement/satisfaction) or related to employee costs. Relatively few are using metrics such as revenue per employee or employee utilization, which may provide greater insights into workforce productivity. These more strategic measures may be more difficult to collect, evaluate and interpret, yet may provide greater insights into how to improve workforce performance.

When data is available, do organizations have sufficient talent in place to analyze human capital data and inform business strategy? In this study, we did not find direct evidence that the qualifications of HR personnel present significant roadblocks; only 24 percent cite this as a critical issue. However, it is likely that without accurate and reliable human capital data, no one – not even the most qualified analysts – can confidently make fact-based decisions that provide insights to business clients. As one energy company's HR Director explains, "I cannot speak of a manager's unwillingness to extract information, or lack of experience when analyzing data, since we don't have a system yet. The first step is the implementation of the system, and then we will be advancing in other subjects." What we have seen in previous studies is that once the data becomes available, issues associated with the analytic capability of HR personnel begin to surface.[20]

Figure 21. Which metrics does your organization use to evaluate overall workforce effectiveness?

(Percent)



Source: IBM Global Human Capital Study 2008.

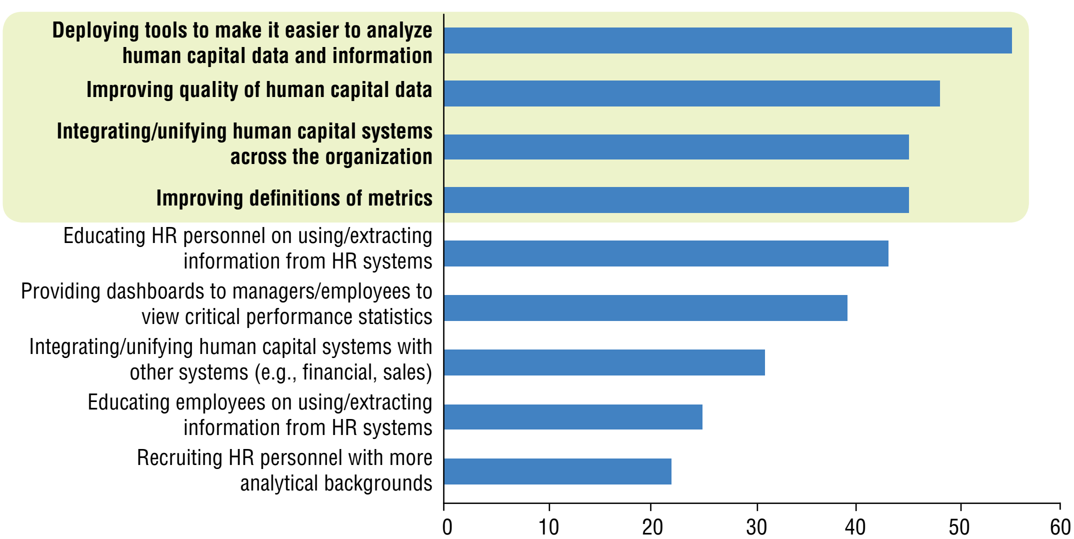
Developing a new capability

We asked survey respondents what steps they are taking to improve the use of human capital data and information to make workforce decisions. Figure 22 suggests that organizations are working to solve the data and systems issues.

Through their efforts in the top four areas, ranging from greater integration to improved metrics definition, organizations appear to be making necessary strides toward developing the foundational requirements needed to make fact-based decisions. Several comments from our respondents validate this direction.

Figure 22. Which steps are being taken by your organization to improve its ability to use human capital data and information to make workforce decisions?

(Percent)



Source: IBM Global Human Capital Study 2008.

For example, on the metrics and analysis front, a VP of Talent Management from a U.S. telecommunications company explains, "We are moving in a positive direction on measurement and have monthly meetings on our HR scorecard and quarterly assessments on diversity, talent, commitments to business, etc." An Australian executive sees the potential upside from his firm's integration efforts, stating, "Faster access to more usable management data would improve the speed and quality of business decisions, while reducing risk. Also, since workforce costs represent a significant proportion of total costs, the resulting savings from the more effective use of human capital can be significant."

Implications

It is clear that organizations pursuing operational effectiveness and growth strategies are concerned with two different sets of workforce challenges. This illustrates the need for close integration and ongoing dialogue between the HR organization and the business. Not only does HR need to be able to translate the organization's business strategy into an executable workforce plan, it must have the data and a seat at the strategic table to provide input back into the corporate strategy on a continual basis.

Because so many organizations lack the necessary HR data and information, it stands to reason that many HR organizations have difficulty playing the role of strategic partner. No matter how much respect the C-suite may have for the CHRO, until the HR organization has access to workforce data and information with the same level of timeliness, consistency and validity as the financial or operational data available to the CFO or the COO, its insights will not hold the same weight. As the analyst firm AMR states, "Companies have been investing in tools to better manage other business process areas. Now it is time to treat human capital as the asset that it is."[21] Having this information will allow HR leaders' insights, and subsequent recommendations, to be taken seriously enough to influence business strategy and drive transformation efforts (see sidebar, *Better human capital information improves resource capacity management*).

The entire corporate leadership team, not just HR, must take responsibility for providing the systems and tools needed to develop this strategic insight. To get started, organizations must first verify that data sources used by strategic HR personnel are of high quality, consistent with other reporting systems and accessible through data warehousing and Web 2.0 interfaces. As HR authors Dave Ulrich and Wayne Brockbank write, "If it's warehoused in files and never fully deployed, it might as well not exist."[22] HR itself can not take responsibility for this deployment alone, but instead, must work with both IT and line-of-business executives to provide relevant information to the appropriate decision makers.

Prior IBM research has identified that many HR organizations have notable shortages in the analytic skills needed to provide more strategic services.[23] There are several potential options for closing this skill gap. For example, providing education to existing HR professionals can improve their ability to think and act strategically. Bringing in HR professionals with analytic skills from outside the company can increase knowledge and capability, but there is typically a time lag between finding talent in the outside market and getting them up to speed. Personnel rotated in from other parts of the business, possibly Finance or Audit, can also bring the needed skills to the department. Lastly, mentoring individuals as part of their day-to-day job activities will make the HR staff more comfortable as they apply their new analytic skills. All of these efforts can upgrade the competency of HR personnel and make a difference in delivering strategic insights.

Once the data is available and the personnel have the skills necessary to analyze the information, what impact will this have on workforce performance? That depends on the type of data being analyzed. Traditional HR analytics focus on understanding the effectiveness and efficiency of HR as an organization, measuring the cost of delivering HR services in relation to the size of the total employee population or total revenue of the organization. While this information is beneficial in analyzing ways to manage costs, it typically does not provide insights into how to improve workforce performance. For example, analyzing recruiting metrics in order to fill open positions more quickly does not help ascertain whether the new recruits are better performers. Rather, the focus of workforce analytics must be on levers such as employee productivity that influence the organization's ability to meet business objectives. HR, working more closely with the business, can monitor and influence the behaviors that have a direct impact on business performance. The more aligned the workforce metrics are with business priorities, the greater the ability to improve workforce performance to meet business goals.

If HR can solve the significant data and integration challenges that have been consistently identified by our respondents and take inventory of its own analytic capabilities, it will be in a position to not just react to business strategy, but also provide meaningful input into the strategy itself. With better data and information, we would expect that more companies will "close the loop" between business and workforce performance.

Better human capital information improves resource capacity management

A medium-sized health care company needed to reorganize its project-based research and development workforce to meet growing demand. A key driver for changing its resourcing model was the need to deploy similar resources across multiple products. The company was also seeking a consistent and automated demand forecasting process to support faster decision making and scenario modeling. These initiatives required a more data-driven approach to workforce management.

To accomplish this, the firm started by classifying employees by skill type and developing roles based on these various skill categories. Employees were then identified by role, and employee allocations were tracked by project. As a result, resources could be deployed when and where needed to more cost effectively staff projects.

At the same time, it began to estimate how many projects of each type would be in the pipeline over a three- to five-year period and then identified the demand for each role based on project type. This data allowed the firm to estimate demand for each role and thus skill set, and ultimately determine hiring needs.

A more structured, data-driven approach enabled the company to forecast equivalent FTE needs for permanent, contractor and outsourced work. This activity- and role-based approach brought more rigor to short- and long-term workforce planning. It also equipped resource managers with the data to assign work to individuals with the appropriate skill sets.

Employees are now deployed much more effectively by explicitly estimating and recognizing workforce peaks and troughs and assigning new project work that fits with availability and expertise. This effort has allowed the company to quantify its longer-term workforce needs, reducing costs through a better understanding of when to allocate work to employees, use short-term contractors or outsource.

CONCLUSION

Your business isn't standing still. Can your workforce keep pace?

Changing business models, demographics and customer trends are forcing companies to rethink the way they use human capital to address today's challenges and tomorrow's uncertainties. An adaptable workforce can more easily react to these changes in environment and take advantage of these new market opportunities. Our conversations with over 400 HR leaders around the globe, as well as our ongoing client work, offer fresh insights into how organizations can transform their workforces to address potential shifts in the business landscape.

We believe HR has a strategic mandate to provide guidance and expertise on workforce effectiveness issues. But it can't do so alone. Organizations need to approach workforce transformation as an integrated set of activities, driven by the executive suite. Line managers who are plugged into employees' day-to-day work activities, problems, ideas and career aspirations must step up as well. The CIO's office needs to identify and implement new technologies that can highlight workforce trends, locate experts, deliver learning content and connect individuals separated by time and distance. Linking workforce productivity to financial performance and establishing consistent data standards are all tasks that involve significant time and attention from the CFO. Marketing can contribute messaging that can motivate potential candidates to join the organization. And so on.

Building the adaptable workforce requires leadership. Not just in the executive suite, but across all levels of the organization. When it comes to developing leaders, however, our study paints a dubious picture. Not only are companies wrestling with the lack of current leaders, they have highlighted their inability to develop new ones. Just as the worldwide expansion is fueling the demand for individuals who can communicate an inspiring vision, provide guidance to global teams and deliver on business commitments, they are fast becoming scarce commodities. Organizations need to redouble their efforts to develop skills and provide learning experiences to future business leaders to prepare them for their increasing responsibilities.

Data and information represent the lifeblood of any organization. Many organizations continue to struggle with a lack of reliable, consistent and meaningful data about employees, their skills and competencies, and most of all, their performance. Without these insights, companies can not expect to effectively acquire new talent, find experts from around the company, determine future capability gaps, and reward and retain strategically important contributors. While companies have invested significant time, energy and resources fixing a myriad of information challenges that have plagued their financial systems and supply chains, providing these same capabilities for their human capital assets still remains a work in progress.

Like any complex change, transforming the workforce must be architected from the outset, rather than implemented as a series of independent initiatives. Each component of a workforce transformation needs to be aligned both with the organization's overall business direction and with other improvement efforts. For example, investments in upgrading the firm's leadership development programs will be wasted if the organization fails to create career opportunities where the new skills can be applied. Rolling out a new virtual collaborative technology will be less effective if performance measures are based solely on individual accomplishment. Therefore, various tasks and programs associated with improving workforce performance need to be anchored to a common philosophy and transformation blueprint and constantly focused on performance outcomes.

The Human Resources function has a unique window to make a strategic business contribution by shaping the adaptable workforce. If there ever was a time and an opportunity for HR to prove its strategic mettle, it has arrived.

Since 1990, when Shanghai's Pudong district was designated a Special Economic Zone, it has been transformed from marshy fields and warehouses to ultramodern towers housing the city's economic and trading centers. These sculptures in Lujiazhu Green are symbols of this transformation.

APPENDIXES

APPENDIX A

Regional Viewpoints

Both the 2005 and 2008 IBM Global Human Capital Studies highlight varying human capital challenges faced by companies located in different regions. These differences are based on a host of factors, ranging from economic growth rates to technology maturity to business traditions and customs. Local variations in human capital infrastructure, attraction/retention drivers and education levels can all have an impact on how organizations transform their existing workforces or acquire/build talent in new locations. The following pages provide additional perspectives that highlight some of the significant differences in workforce management practices and trends that we see in each of the major geographies.

ASIA PACIFIC (excluding Japan)

Encountering the challenges of rapid growth

Key points:

- Asia Pacific respondents have a strong focus on leadership development.
- Compensation is a strong influencer in attracting new talent.
- Career development is an important tool in reducing attrition.

Growth continues to remain on the agenda for the countries in Asia Pacific. For the region as a whole, recent projections for gross domestic product (GDP) growth are estimated to be in the neighborhood of 8 percent.[24] Given such rapid growth, significant attention is being paid to the role of leadership. Firms in this region indicate greater challenges stemming from an insufficient number of leaders and leadership development constraints (88 percent as compared to 76 percent in the global sample).

Many companies, having grown at a rapid pace, have not yet established a rigorous, sustainable leadership development process. As one technology executive notes, “We have no leadership model, no leadership assessment mechanism. The criteria for selecting leaders are mainly based on the subjective judgment of the management team.” While Chinese firms are finding success in the use of executive mentoring, it is difficult to scale such approaches on a widespread basis.

Tight labor markets in certain sectors are also making it more difficult to develop and retain leaders, as opportunities outside the organization are often easy to obtain. For example, companies in the natural resources sector in Asia Pacific are facing significant personnel shortages at the same time as customer demand for raw materials continues to increase. As one mining company’s VP of HR states, “With unemployment less than 3 percent, there are not enough people, and therefore people have more choices.”

Companies in Asia are also expanding beyond their home markets and creating a more global footprint. The head of HR from one financial services company summarizes this issue by stating, “Building skills and leadership bench strength are fundamental to expansion into other parts of Asia. We are currently enhancing our talent strategy to support this.” This rapid growth strains organizations’ already limited leadership development capabilities.

The drivers of attracting and retaining talent in Asia Pacific also differ somewhat from those in other regions. Companies in Asia Pacific report that compensation plays a stronger role in attracting candidates (46 percent versus 33 percent worldwide) and increased career opportunities play a greater role in employee retention (53 percent versus 43 percent worldwide). The financial dimension is particularly important in China, where over half the companies indicate compensation is a primary vehicle for attracting candidates. As an HR leader from one electronics company notes, “At lower levels, money is always a problem and a motivator for movement – at the higher levels, it is more about better jobs and opportunities.” This can result in either a virtuous cycle, where growth allows companies to pay their talent above-market wages, or a vicious spiral, where a lack of growth makes it difficult to attract the best and brightest and constrains future growth potential.

JAPAN

Moving in a more flexible direction

Key points:
- Japanese organizations recognize the need for greater workforce flexibility.
- Personal values play a stronger role in attracting/retaining key personnel.
- HR personnel are less experienced in using HR metrics and analytic techniques.

Historically, Japanese companies have been known for their unique employment model, in which workforce stability and lifetime employment were important characteristics. However, an emerging period of sustainable growth, coupled with changing workforce demographics, is causing Japanese firms to rethink their overall workforce management approaches.

Japanese companies indicate they have been challenged in their ability to redeploy/realign resources to new opportunities. For example, the HR leader of one automotive company indicates, "We could not reorganize people because of legal limitations…and we could not relocate people according to business needs due to a lack of skills and the cultural tendency for each department to be independent."

Recognizing this issue, these companies are clearly working to increase the flexibility of their employment models. As one industrial products executive notes, "Relying on…the regular workforce is risky in a business where there are big changes in the business environment." Compared to other organizations in the worldwide sample, Japanese companies are more likely to have increased their use of global staffing agencies (57 percent versus 35 percent globally), offshoring (54 percent versus 39 percent), contingent workers (78 percent versus 47 percent) and tiered labor systems (57 percent versus 34 percent) over the last two years. The rise of offshore centers in Japanese-speaking locations such as Dalian, China reflects this new trend. Given the aging issues associated with the Japanese population, as well as recent legislative changes, Japanese firms are also much more likely to bring back retired employees (76 percent versus 26 percent globally).

HR executives within Japan also provide a different perspective on employee attraction and retention. Personal values play a much stronger role in both attracting and retaining employees compared to other regions. "To secure a job, we always talk about our culture face to face and ask them [recruits] to join our company after they are confident that their values match ours," reports the VP of HR from a consumer products company. Providing new and challenging responsibilities is also seen as a strong attraction and retention tool – as one automobile manufacturing executive reports, "We think that individual growth and achievement is the most important incentive…we want them [candidates] to know that the company is focused on 'developing people.'" Specific skill development is seen as less of an attractor, as individuals are expected to learn multiple jobs throughout their careers.

Japanese firms place less emphasis on using human capital analytics and metrics than other firms around the world. While they do believe there is organizational support for using human capital data, Japanese firms are less likely to deploy tools that make it easier to analyze the data (32 percent versus 55 percent globally), develop dashboards (19 percent versus 39 percent), or integrate their HR systems with other organizational systems (16 percent versus 31 percent). As a result, Japanese companies are finding it difficult to use quantitative data to make resourcing, staffing and training decisions – as one manufacturing company's HR Planning Manager notes, “Our talented person data is not updated sufficiently – and we cannot utilize data effectively when we look for a talented person.”

Japanese organizations place less emphasis on developing an analytic capability within their HR function – either through hiring HR personnel with analytic backgrounds (8 percent versus 22 percent worldwide) or educating HR personnel on the use of human capital analytics (24 percent versus 43 percent). Finally, Japanese companies are less likely to use metrics such as employee satisfaction (41 percent versus 64 percent), turnover (43 percent versus 70 percent), labor/capital costs (27 percent versus 50 percent) and employee utilization (5 percent versus 21 percent) to measure workforce effectiveness.

Despite these challenges, we find some Japanese companies beginning to take a more data-focused approach to managing their human capital. As one consumer products executive indicates, “We have to analyze our employee status and specifications in detail, and we can improve our HR strategy by matching our business strategy and long-term human capital plan.” Similarly, one financial services firm’s HR leader states, “We’ve just started to accumulate skill data and want to integrate various HR systems in the future.” These examples suggest that many Japanese companies are starting to build upon their key areas of expertise and more effectively identify and develop talent across their organizations.

EUROPE

Needing to move HR to the fast lane

Key points:

- HR primarily takes an advisory rather than a proactive role in workforce transformation.
- Organizations are less focused on using analytics in decision making.

From a workforce management standpoint, organizations in this region face a host of challenges. Overall, the European economy is becoming more knowledge-intensive – it is estimated in coming years that knowledge-based industries will generate more than half of Europe's GDP and total employment.[25] Shortages of skilled workers continue to increase; in 2005, IDC projected that an additional 500,000 workers with advanced technical skills would be needed across Europe by 2008.[26] The aging of the European population also has changed the demographics of the workforce – over the next two decades, the total number of people between the ages of 50 and 64 will increase by 25 percent, while those in the 20 to 29 year bracket will decrease by 20 percent.[27]

Despite these fairly substantial demographic shifts, European HR organizations still appear to take a less active role in workforce management issues than their peers worldwide. European firms are more likely to take an advisory role in business transformation efforts (31 percent versus 21 percent of the global sample), rather than making a proactive contribution of time and resources. As one U.K. industrial products company's Group HR Director indicates, "HR is traditionally seen as a supporter, rather than a driver of change."

One of the challenges that European firms face is an apparent lack of interest and capability in the area of human capital analytics. Respondents indicate their HR personnel are less likely to use data in their decision-making processes. As one Italian insurance executive indicates, "Unfortunately, our HR department never creates any materials for decision making – our leaders do not know what data we have and how this data can be used." European firms indicate there is a lack of organizational support for using human capital data. Such findings suggest that these firms will have difficulty identifying the key data required to flag potential workforce issues and develop business cases for interventions. As one British governmental agency's HR leader states, "We still have a lot of 'horse-trading' happening in our organization – decisions are still based on relationships and what we know of our people, rather than the data. We need to systemize this and move to fact-based decision making as opposed to intuition."

Many European organizations recognize that HR can no longer afford to remain a passive player with workforce issues. As one European bank's head of HR notes, "We have to do a 'triple jump' from an administrative role to a consulting role to a partnership role…we will need a few, highly qualified business partners as opposed to the large number of HR 'consultants' who have HR administration on their minds." We believe that, given the growing human capital challenges in this region, other companies will begin to follow a similar strategic path.

LATIN AMERICA

The next phase of growth

Key points:

- Higher turnover is causing an increased focus on skill development and on-boarding.
- Positive corporate reputation is important in both attracting and retaining key personnel.
- While HR executives perceive their organizations as effective, they may face new challenges as their organizations and economies increase in size.

A recent Manpower report on the future of work in Latin America provides an interesting summary of the workforce opportunities in the region, "The worldwide rise in the prices of commodities and goods produced in Latin America…plus a large, young workforce with fewer economic dependents than in the past, represents a unique and historic growth opportunity: a demographic dividend in a region with abundant economic resources."[28]

With this growth potential comes a host of workforce challenges. One of the clearest messages coming from the Latin American companies in our sample is the increase in employee turnover over the last two years. Forty-one percent report that they see a *significantly* higher amount of turnover, while another 31 percent indicate it is *somewhat* higher. Increased growth and opportunities seem to be the primary drivers of this trend. One consumer goods executive remarks, "Turnover has increased because of the reactivation of the market and because the company is a trainer of good employees who are requested by the market." As a result, getting new employees up to speed is cited as a key capability challenge.

At the same time, it appears that memories of past economic crises still remain. Job seekers in this market are looking for companies that have positive corporate reputations and are less likely to be attracted by new or challenging responsibilities. As one financial services firm's CHRO states, "Candidates are looking for quality of life and confidence in the promising future of the organization," while a petroleum executive highlights, "The fact that we are a company with a good reputation attracts people." Also, a positive corporate reputation and a record of transformation appear to be important retention vehicles. These factors, which are somewhat different from the attraction and retention drivers in other fast-growing regions such as Asia Pacific, suggest that Latin Americans are looking for companies that have a stable track record and are less susceptible to the business fluctuations that have plagued the region in the past.

Firms in this region are fairly confident in the ability of their HR organizations. They are less likely to cite that HR personnel have a lack of experience in analyzing human capital data or that their human capital data is suspect, and are more likely to indicate that their organizations are very capable of adapting to change. As one retail company's HR leader notes, "We have highly effective assessment and talent identification tools…That allows us to respond to our accelerated growth." Companies in this region are somewhat smaller than those in the overall sample, which may explain their expressed confidence; they may not have yet encountered the challenges of process and systems integration that come with increased size. However, another rationale may be that firms in this region have already survived significant upheaval during the last decade, have effectively weathered the storm and are well positioned from a human capital management perspective. It will be interesting to see how these firms position themselves during this next phase of growth.

NORTH AMERICA

Building the "wired" HR function

Key points:

- North American firms have a strong focus on "e-enabling" HR processes and activities.
- Companies recognize the need for knowledge transfer due to changing workforce demographics.
- HR appears less likely to play a leading role in workforce transformation because business unit leaders are in greater supply and may have more experience in leading change.

Companies in North America appear to be focused on using technology as a mechanism for both lowering costs and improving the quality of HR delivery. North American firms report greater success in using virtual classrooms and self-managed, computer-based training than other regions. These organizations are more likely to develop dashboards to provide managers and HR personnel with human capital specific data. They are more likely using frequently asked question (FAQ) systems, in which employees submit questions to a database of previously addressed questions, to locate experts within the organization.

To take full advantage of this HR technology, companies in this region are recruiting HR personnel with analytic backgrounds (31 percent versus 22 percent of the global sample). However, North American companies recognize that their journeys toward a more analytic HR function are not complete – they are more likely to state that their HR systems are not integrated with other systems across the organization (56 percent versus 41 percent globally).

North American firms indicate they are concerned with their ability to pass knowledge along from older to younger workers (39 percent versus 28 percent worldwide) and their ability to bring new employees up to speed (39 percent versus 24 percent). As one financial services firm's VP of Corporate HR indicates, "If we look at the Senior Vice President level and above – one-quarter can retire in the next five years. Our challenge is making sure the next group down has a broad range of experiences that prepare them to take on big jobs." Another knowledge transfer focus area for North America is the need to transfer experiences from employees in more mature markets to those in other parts of the world. As one chemicals company's SVP of HR shares, "Transferring knowledge from the USA and other 'mother' markets/plants to emerging markets will be a significant need and priority, especially in business models and cultures that might not have the same values, priorities and focus."

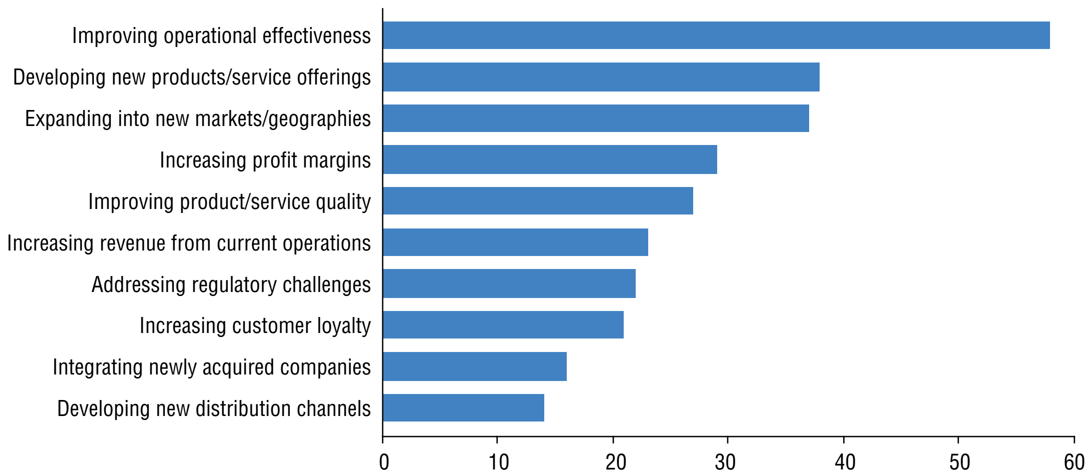
North American firms demonstrate a relatively high level of experience and maturity in terms of their internal leadership. They are less likely to indicate a lack of leadership capability than companies from other regions (24 percent versus 36 percent). At the same time, they are less likely to state that HR drives business transformation efforts within the organization (7 percent versus 15 percent globally). As one utility executive notes, "HR has changed from administrative to become a partner…HR will always participate but not drive change." Given the cadre of experienced leaders in these firms, it could be inferred that many HR organizations in North America are not being asked to play a strong transformative role within their companies, relying more on leadership within the business units to drive change. This is in contrast to areas such as Asia Pacific, where a shortage of leadership talent coincides with a more activist HR function that is focused on business transformation.

While North American firms appear to be taking the lead in the use of analytics and technology to address HR challenges, they also need their HR leadership to play an active role in the business transformation process. As the HR leader of one information technology company that recently undertook a major global resourcing program states, "HR was the most experienced in change – first among equals in terms of developing governance, communication and metrics." Even though North American firms may have a more experienced business unit leadership pool, HR still needs to play a critical role in developing and enabling future leaders.

Study Results

What do you see as the primary business challenges currently affecting your organization?

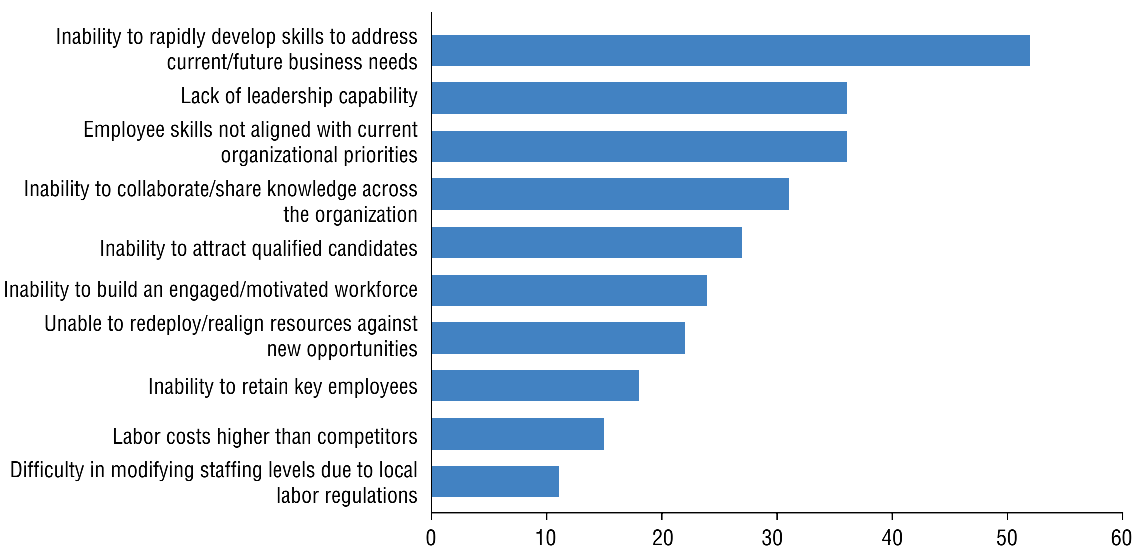
(Percent)



Source: IBM Global Human Capital Study 2008.

What do you see as the primary workforce-related issues facing the organization?

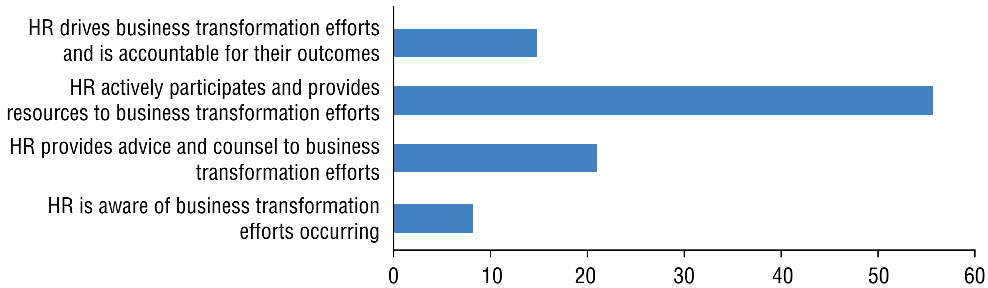
(Percent)



Source: IBM Global Human Capital Study 2008.

How would you best describe HR's role in ongoing business transformation efforts?

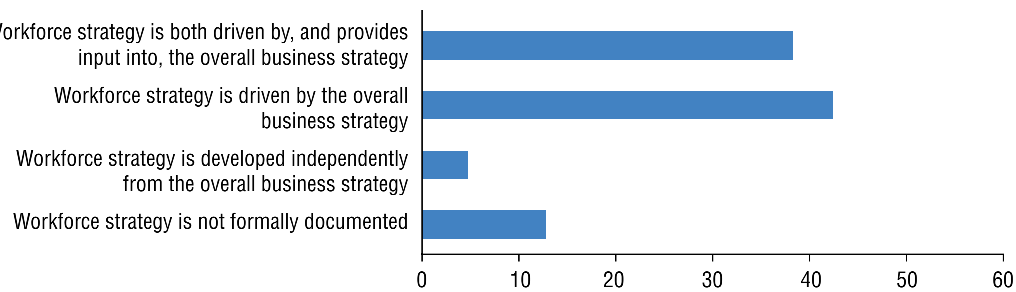
(Percent)



Source: IBM Global Human Capital Study 2008.

Which of the following best describes the relationship between your organization's business strategy and its workforce strategy?

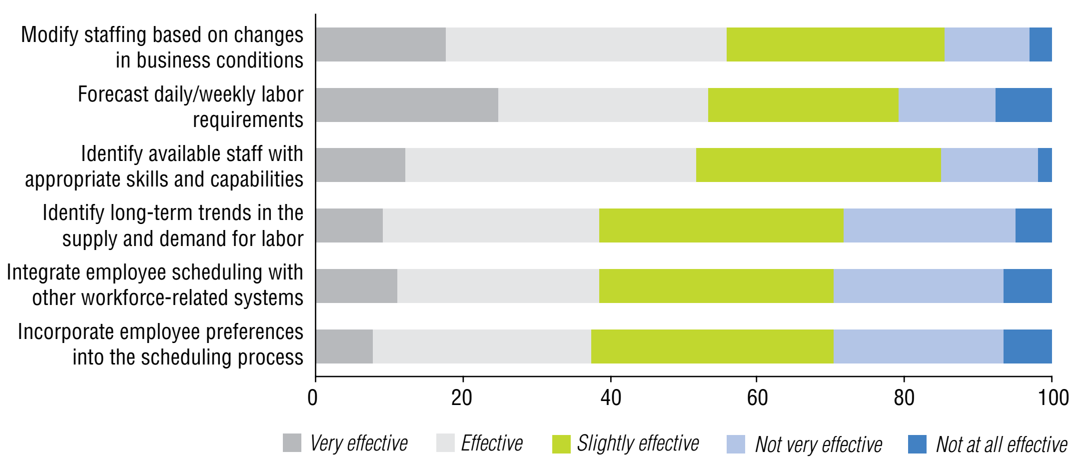
(Percent)



Source: IBM Global Human Capital Study 2008.

How well does your organization perform the following workforce management activities?

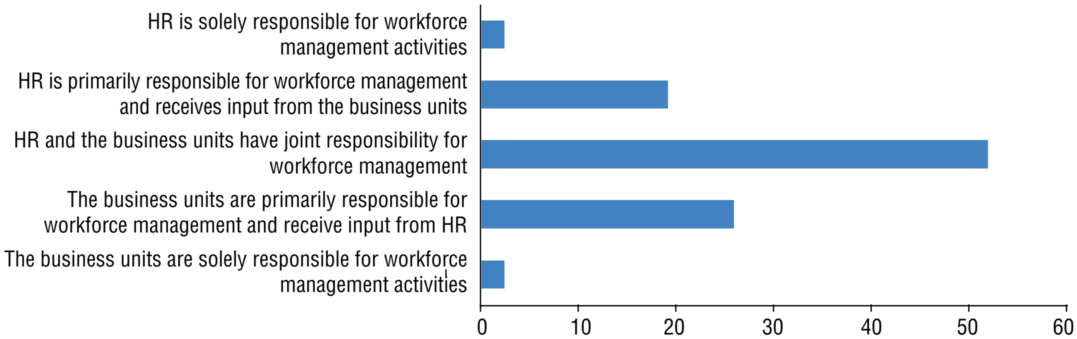
(Percent)



Source: IBM Global Human Capital Study 2008.

How would you best describe your HR organization's involvement in the workforce management process?

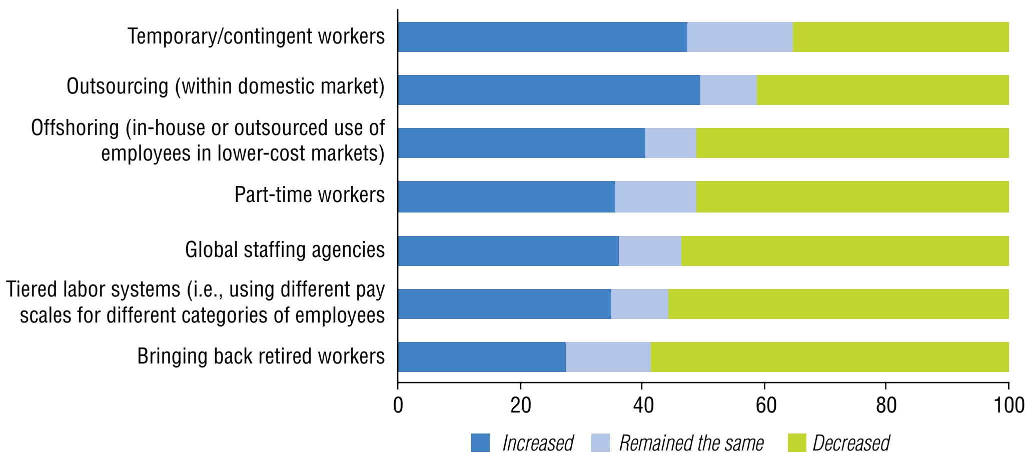
(Percent)



Source: IBM Global Human Capital Study 2008.

How has your organization's use of the following labor flexibility techniques changed over the last two years?

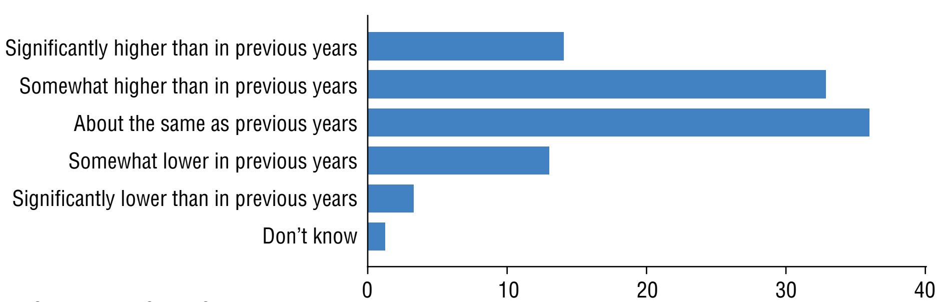
(Percent)



Source: IBM Global Human Capital Study 2008.

In the past two years, what changes have there been to the level of turnover in your organization?

(Percent)



Source: IBM Global Human Capital Study 2008.

What do you believe are the most important characteristics that attract candidates to your organization?

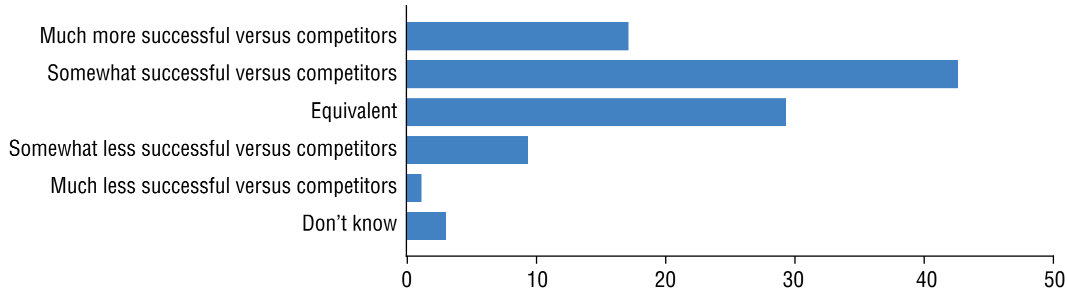
Source: IBM Global Human Capital Study 2008.

What do you believe are the most important characteristics that help retain candidates within your organization?

Source: IBM Global Human Capital Study 2008.

How do you think your ability to attract/retain key employees compares with your competitors?

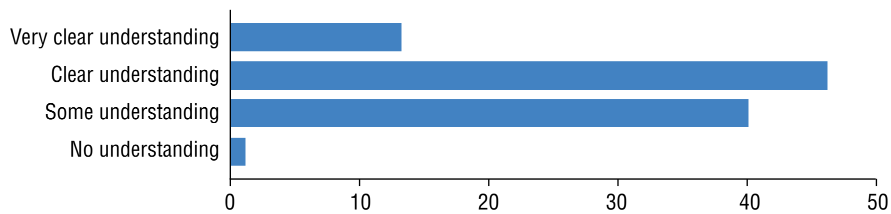
(Percent)



Source: IBM Global Human Capital Study 2008.

How well does your organization understand the key workforce skills required in the next three to five years?

(Percent)



Source: IBM Global Human Capital Study 2008.

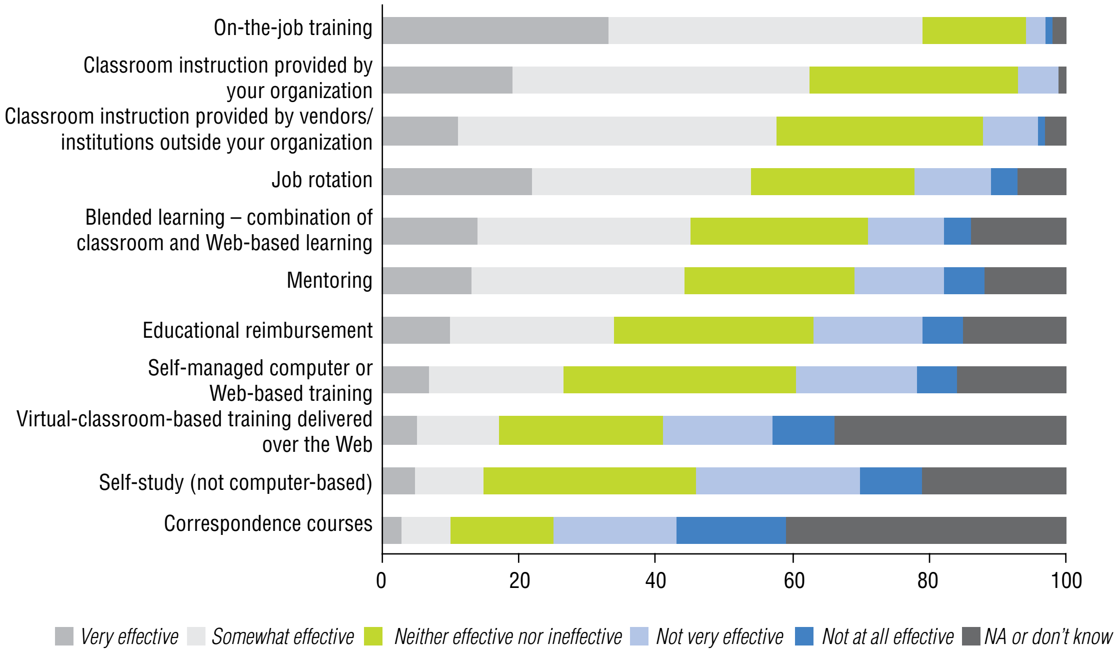
Which are the most significant capability-building challenges facing your organization today?

(Percent)

Source: IBM Global Human Capital Study 2008.

How effective are the following employee development techniques in your organization?

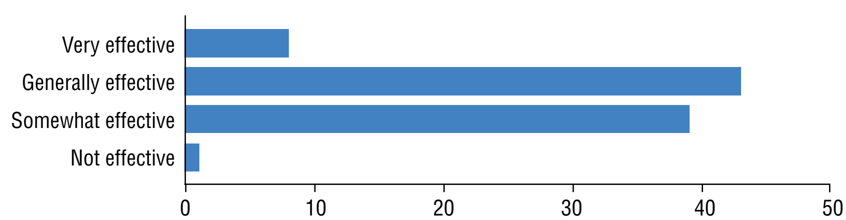
(Percent)



Source: IBM Global Human Capital Study 2008.

How effective is your organization in enabling people to collaborate with one another?

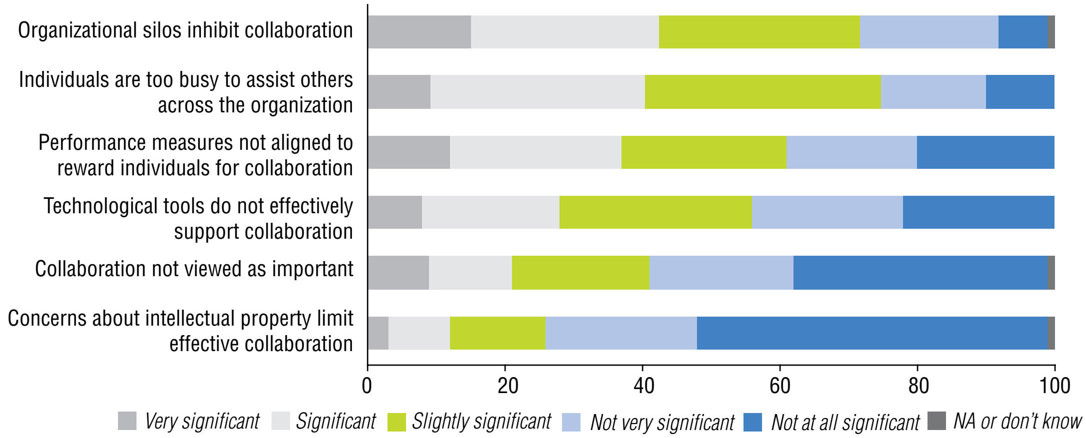
(Percent)



Source: IBM Global Human Capital Study 2008.

How significant are the following barriers to collaboration across your organization?

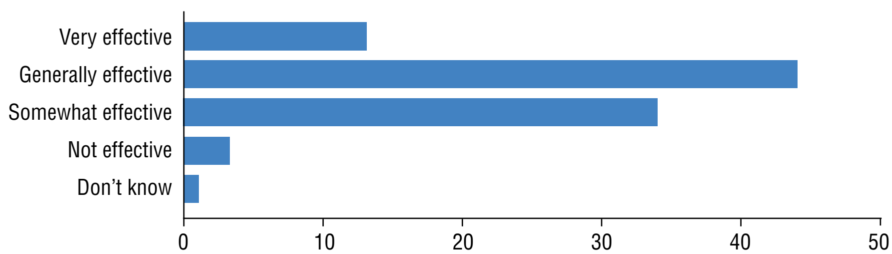
(Percent)



Source: IBM Global Human Capital Study 2008.

How effective is your organization in identifying individuals with specific expertise within the organization?

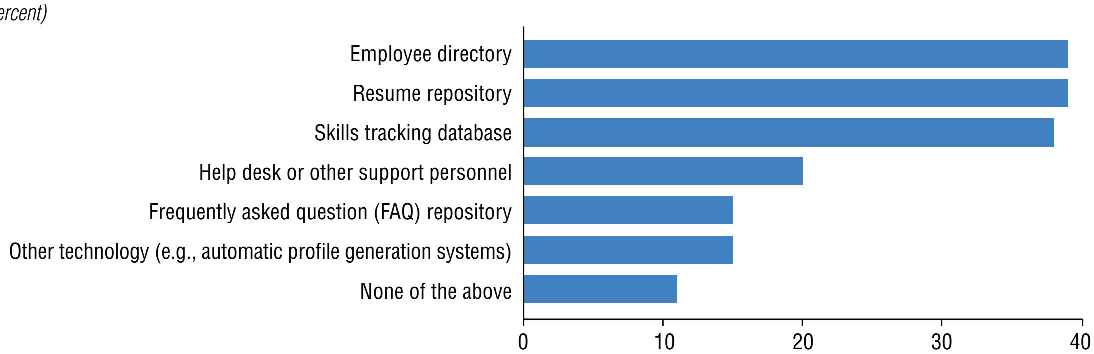
(Percent)



Source: IBM Global Human Capital Study 2008.

Which of the following does your organization use to identify key skills and subject matter experts?

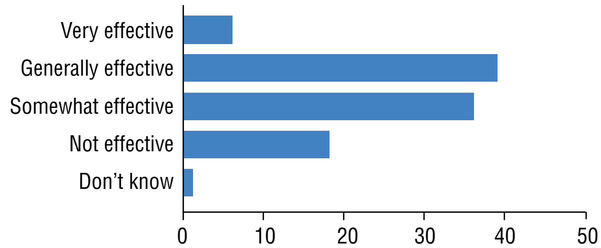
(Percent)



Source: IBM Global Human Capital Study 2008.

How effectively does your organization use human capital data and information to make decisions about the workforce?

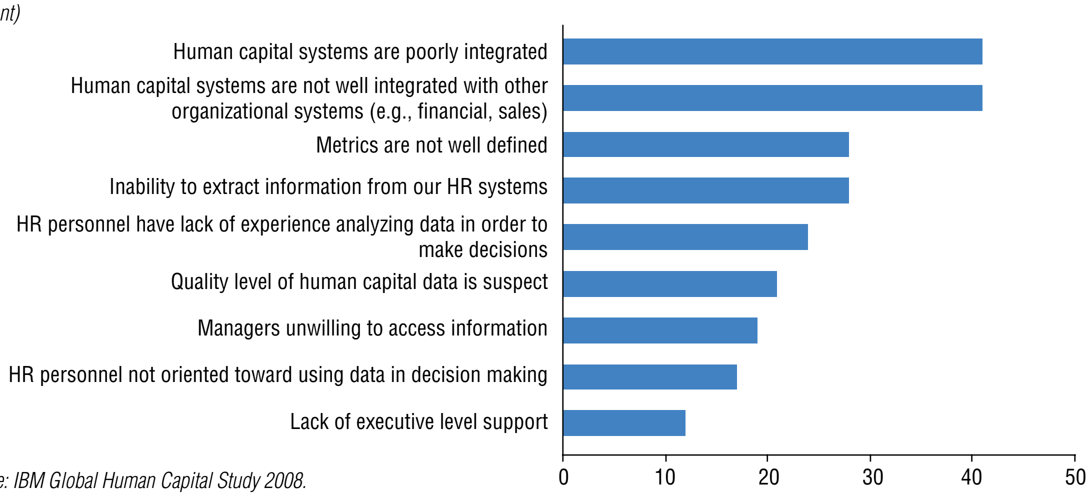
(Percent)



Source: IBM Global Human Capital Study 2008.

Which barriers are most likely to prevent your organization from using human capital data and information to make workforce decisions?

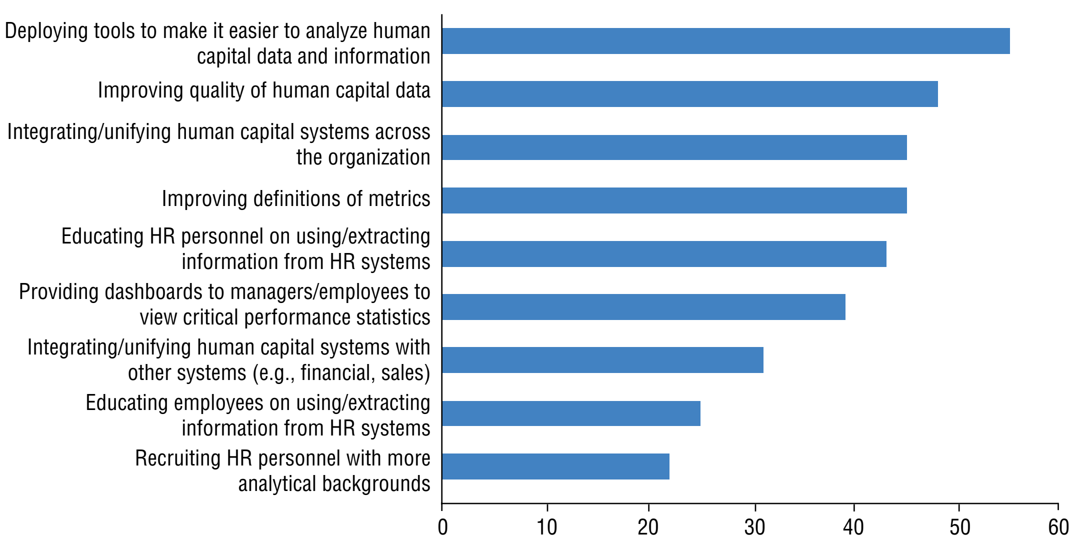
(Percent)



Source: IBM Global Human Capital Study 2008.

Which steps are being taken by your organization to improve its ability to use human capital data and information to make workforce decisions?

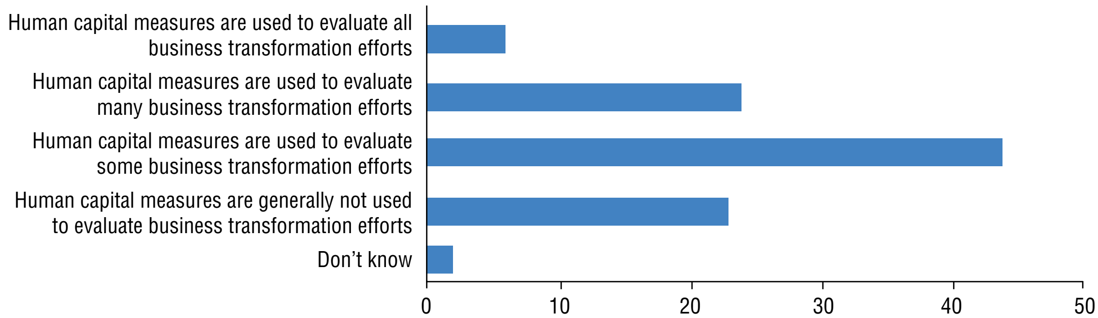
(Percent)



Source: IBM Global Human Capital Study 2008.

To what extent are human capital metrics used to evaluate the success of business transformation efforts in your organization?

(Percent)



Source: IBM Global Human Capital Study 2008.

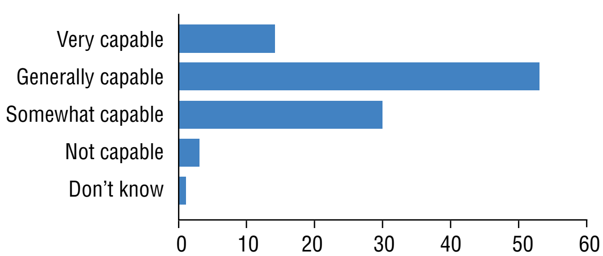
Which metrics does your organization use to evaluate overall workforce effectiveness?

(Percent)

Source: IBM Global Human Capital Study 2008.

How would you rate your workforce's ability to adapt to potential changes in the business environment?

(Percent)



Source: IBM Global Human Capital Study 2008.

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