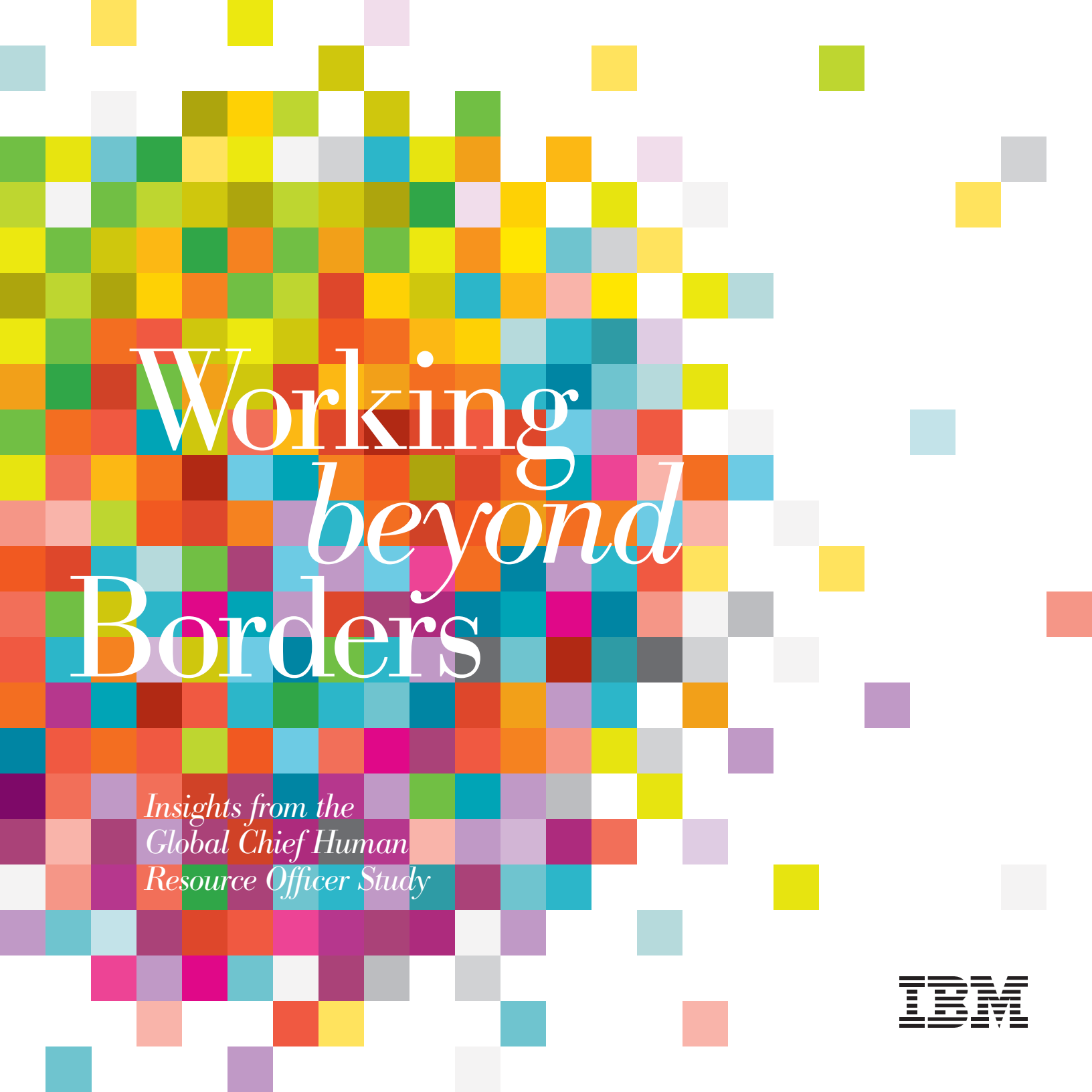




Working *beyond* Borders

*Insights from the
Global Chief Human
Resource Officer Study*

IBM

This study is based on conversations with more than 700 Chief Human Resource Officers worldwide.



J. Randall MacDonald
Senior Vice President, Human Resources
IBM Corporation

A note to fellow Chief Human Resource Officers (CHROs)

Since IBM's last CHROs study nearly two years ago, the business world has been rocked by unprecedented challenges across nearly all markets and industries. Despite the tumult, the global HR leaders whose perspectives shaped our study this time displayed an unfailingly optimistic – yet sharply practical – outlook that is both insightful and aspirational.

I am pleased to provide you with this study, which reflects insight from more than 700 organisations across 61 countries. As part of this work, nearly 600 senior global HR leaders contributed in-depth interviews, further elevating our understanding of the issues that my fellow CHROs see ahead.

Consistently, these forward-looking HR leaders expect their businesses to remain focused on two equally important goals during the next three years – the need to drive growth yet, at the same time, maintain operational efficiency. My CHRO colleagues anticipate, though, that achieving these goals in the future will mean working quite differently than many businesses do today – engaging much more seamlessly across a wide range of geographic, functional and generational boundaries and borders.

Amid that backdrop, the study found three key workforce gaps CHROs cite as the biggest opportunities for HR:

- *Cultivating creative leaders* – who can more nimbly lead in complex, global environments
- *Mobilising for greater speed and flexibility* – producing significantly greater capability to adjust underlying costs and faster ways to allocate talent
- *Capitalising on collective intelligence* – through much more effective collaboration across increasingly global teams.

At IBM, we, too, have wrestled with these same challenges. Just this year, we launched an entirely new approach to leadership based on our own understanding of what it will take to lead business in the new global era. Similarly, we have for some time now focused on creating more flexible labour strategies and variable-cost programs, to help our own business succeed.

And as our world becomes increasingly instrumented and interconnected, we have invested heavily in new collaboration technologies, so IBMers can work differently with each other and with our clients. For example, I just finished hosting a highly interactive, three-day summit with IBM HR professionals from 170 countries and no one left their desks to participate. We joined together via interactive technology to share ideas, debate concepts and chart a course for future change.

As a result, the findings from this study resonate strongly with me. I believe the successful HR leaders in the future will be those professionals who best drive and sustain real change in these high-opportunity areas.

You can get started on that journey yourself, with the perspectives shared here. I want to thank my peers who gave their time and input to provide these insights into the future.

A handwritten signature in black ink, appearing to read 'J. Randall MacDonald', with a stylized, cursive script.

J. Randall MacDonald
Senior Vice President, Human Resources
IBM Corporation

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Executive summary

We live in an increasingly borderless world. The broad penetration of high-speed Internet has peeled away the barriers of time, distance and even language to create a global forum for the exchange of ideas and information. Instrumented, interconnected, intelligent systems seamlessly link organisations from every part of the world. Today, work can be easily performed across various cultures, geographies and time zones.

Yet, despite the steady falling away of many boundaries in society, government and commerce, the global workforce still finds itself encumbered by numerous impediments that inhibit the ability of organisations to quickly respond to emerging opportunity.

To better understand the boundaries that confine the workforce – and how to move beyond them – we conducted nearly 600 face-to-face interviews with HR executives and workforce strategists in diverse industries and institutions around the world. Additionally, we received input via survey from more than 100 executives.

Among our findings is that, while organisations continue to develop and deploy talent in diverse areas around the globe at an accelerated rate, the rationale behind workforce investment is changing. Unlike the traditional pattern of movement – in which companies in mature markets

seek operational efficiency through headcount growth in emerging economies – we are now seeing workforce investment moving both ways. Many CHROs in growth markets, such as China and India, told us their companies are planning to increase their workforce presence in North America, Western Europe and other mature markets.*

Opportunities to penetrate new markets and develop new offerings will drive future workforce investment, regardless of region. However, while businesses have traditionally managed their workforces with an eye toward operational efficiency, they have not necessarily done so with the creativity, flexibility and speed to capitalise on the growth opportunities that spring from an ever-more dynamic global marketplace. Nurturing these capabilities will require organisations to focus on cultivating creative leaders, mobilising their workforces for speed and flexibility and capitalising on collective intelligence – things they admittedly have not done well in the past.

**Growth markets include Latin America, Asia Pacific (excluding Japan), Central and Eastern Europe, Middle East and Africa.*

Cultivating creative leaders

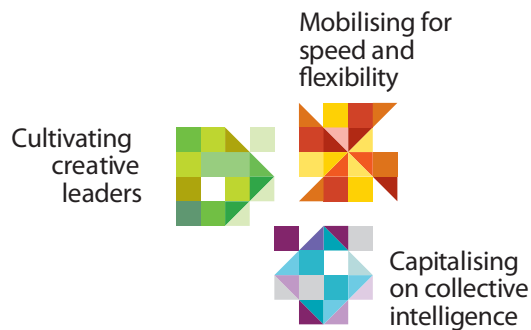
CHROs need to focus on facilitating the development of energised leaders with a flair for thinking about opportunities and challenges in completely different ways. These leaders must be able to provide direction to, as well as motivate, reward and drive results from an increasingly dispersed and diverse employee base.

Mobilising for speed and flexibility

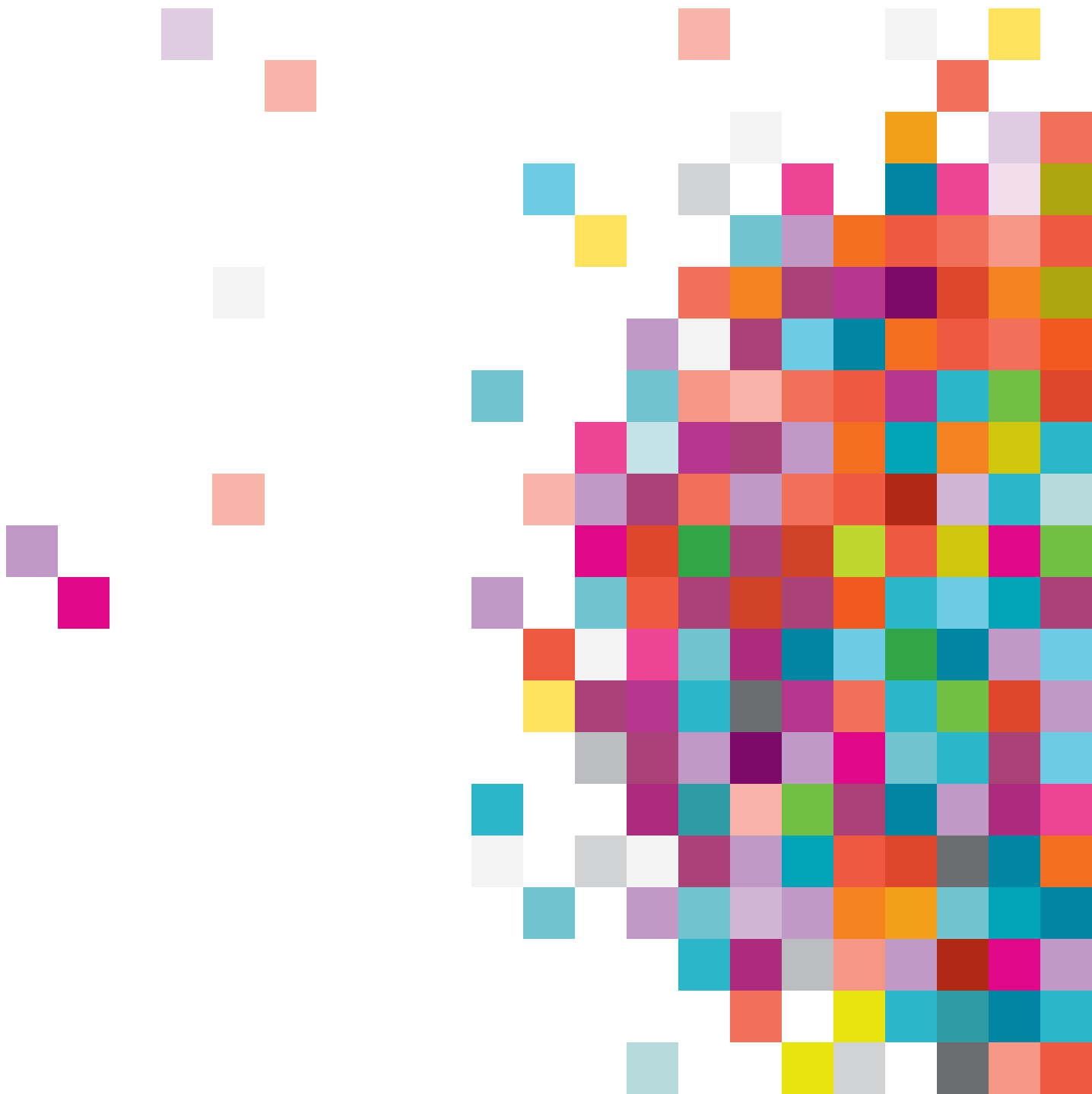
Companies must be willing to simplify processes and provide fast, adaptive workforce solutions to meet the requirements of a quickly changing marketplace. A responsive human capital supply chain and the ability to fluidly allocate resources are essential for competitive differentiation in today's tumultuous environment.

Capitalising on collective intelligence

Tapping into a broad base of institutional knowledge is critical to developing and maintaining an innovative culture. Enterprises must adapt innovations, apply them across their organisations and find new ways to connect people to each other and to information, both internally and externally.



Working
beyond
borders
requires...



Unleashing creativity, flexibility and speed

Coming out of the global downturn, organisations are turning their attention to growth. Yet, numerous boundaries constrain the ability of CHROs to optimally deploy their workforces. How can organisations move beyond these borders to align resources with opportunities and improve business performance?

“To better support the next generation of products, we want to develop a workforce that is agile, able to quickly pick up on trends, gets leadership support and is disciplined in its execution of business strategy.”

Anne-Marie Leslie, Senior Vice President, Human Resources, Cochlear Limited

A workforce designed to seize opportunity

The agility to match critical talent with strategic opportunities is critical to outperforming in today’s dynamic and hypercompetitive global marketplace. Unharnessing this potential will require organisations to overcome the restricting boundaries that limit workforce dexterity and infuse their operations with creativity, flexibility and speed.

Lessons in workforce and organisational agility can be learned from observing those organisations whose missions depend on the ability to assess, deploy and adapt quickly. Take, for example, Doctors Without Borders/Médecins Sans Frontières (MSF), the international humanitarian medical organisation that must rapidly analyse developing situations, tap into a vast bank of institutional knowledge and promptly deploy teams of highly skilled, diversely talented individuals.¹ These international teams of doctors and support personnel, each with varied but specialised skills, must creatively adapt to quickly changing and often deteriorating conditions. In January 2010, for example, faced with a devastating natural disaster, a failing communications infrastructure and a nation in chaos, MSF was still able to co-ordinate the efforts of 700 physicians and support staff to render aid to many of the hundreds of thousands of Haitians injured in a magnitude 7.3 earthquake.²

Few businesses must contend with the same life or death decisions that MSF faces. However, the same capabilities are fundamental components of companies that differentiate themselves in an ever-more competitive global economy.

Embedding creativity, agility and speed, however, won’t be easy. A number of boundaries – functional, cultural, geographical, generational and informational – constrain workforce productivity and prevent enterprises from realising their full potential. Organisations must overcome these borders to address emerging opportunities, whenever, wherever and however they arise.

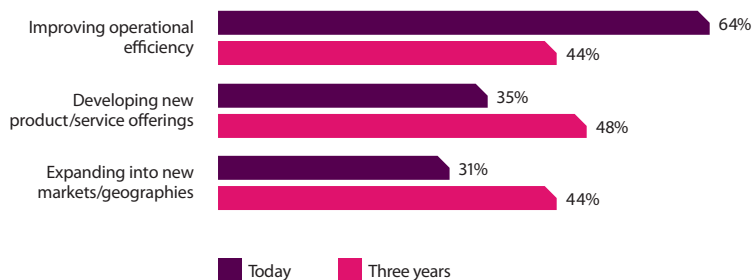
The new target: growth

For many companies, particularly in mature markets, the last two years have required a keen focus on stability and managing costs. Not surprisingly, operational efficiency tops the list of business issues facing today's organisations, with 64 percent of CHROs identifying this as their overriding business challenge (see Figure 1).

However, emerging from varying degrees of economic shock, we are now seeing organisations turn their attention toward expansion, both in the markets they are entering and the products and services they are offering. 48 percent of those interviewed said new product and service introductions will be a primary focus for their organisations over the next three years, while 44 percent cited expansion into new markets and geographies. 'Our current stance is defensive to protect our profits under difficult economic circumstances,' a U.K. director of operations told us. 'However, over the medium and long term, our agenda is geared toward global growth.'

Figure 1 Planning for growth

Although operating efficiency is still a top business priority, HR leaders are definitely preparing for expansion over the next three years.



“It’s about globalising rather than offshoring; about being unconstrained by location; about taking the right candidate without insisting that they live in this country.”

Fiona Michel, Head of Group HR,
Insurance Australia Group (IAG)

This shift toward growth-driven strategies has profound implications for the workforce. Companies will need to redirect their workforce investments to areas that provide the greatest opportunities, not just the lowest costs. They will have to tap into new sources of talent and expertise, as well as move closer to emerging-market customers with increasing purchasing power.

Workforce investments follow opportunity around the world

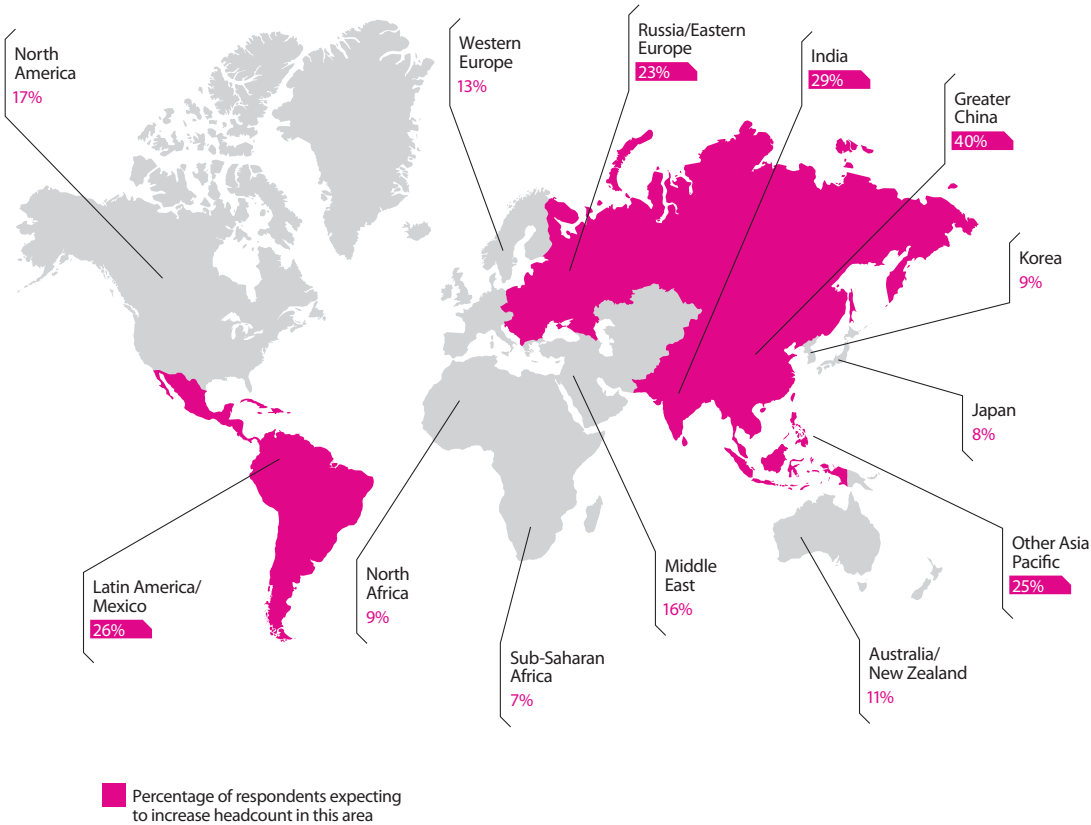
Not surprisingly, China and India will continue to be the largest beneficiaries of increased workforce investment over the next three years (see Figure 2). 40 percent of CHROs told us they anticipate headcount growth in China and 29 percent in India. Other regions where CHROs expect to see significant growth include Latin America (26 percent), Asia Pacific, excluding Japan (25 percent) and Russia/Eastern Europe (23 percent).

But this is not just a one-way migration. Not only will enterprises in mature economies be investing headcount in growing economies, but companies in emerging markets will continue aggressively moving beyond their own borders and become fierce competitors on the world stage. For example, 34 percent of CHROs in growth markets say they anticipate increasing headcount in North America over the next three years, while 37 percent plan additional investment in Western Europe. This includes companies from India, where 45 percent of respondents indicated they plan to increase headcount in North America and 44 percent in Western Europe. In China, 33 percent of CHROs we interviewed said they plan to increase headcount in North America and 14 percent in Western Europe.

This worldwide focus on growth will require companies to fundamentally rethink how they manage the workforce and overcome borders. They will have to consider differences in how they attract and retain key talent (see sidebar, ‘Understanding and acting on geographic differences.’ page 16).

Organisations will need to identify new partnerships and relationships that will allow them to gain access to needed skills and capabilities. They will be forced to gather information and share insights from a diverse group of employees around the globe.

Figure 2 Headcount investment mirroring growth
Over the next three years, companies are increasing headcount most dramatically in growth markets.



Understanding and acting on geographic differences

As organisations expand their workforce investments into new geographies, they need to be cognisant of differences in attracting and retaining desired talent in these areas. Our study clearly highlights contrasts in attraction and retention drivers that, while perhaps understood by companies already operating in these regions, may represent a challenge for new entrants.

In different parts of the world, senior HR leaders expressed clear variances in the importance of sourcing and recruiting talent. While most CHROs are generally confident in their ability to go out and find the right employees (overall only 16 percent of organisations saw this as a top workforce challenge), those based in growth markets are almost twice as likely to identify sourcing and recruiting individuals outside their organisations as a critical issue.

Given the demand for talent in many growth markets, it's not surprising that CHROs from those regions cite compensation and benefits as the most important factor for attracting talent. In mature markets, however, where employee movement is less pronounced, creating challenging opportunities, balancing work and life demands, and aligning corporate and personal values are most important (see Figure 3).

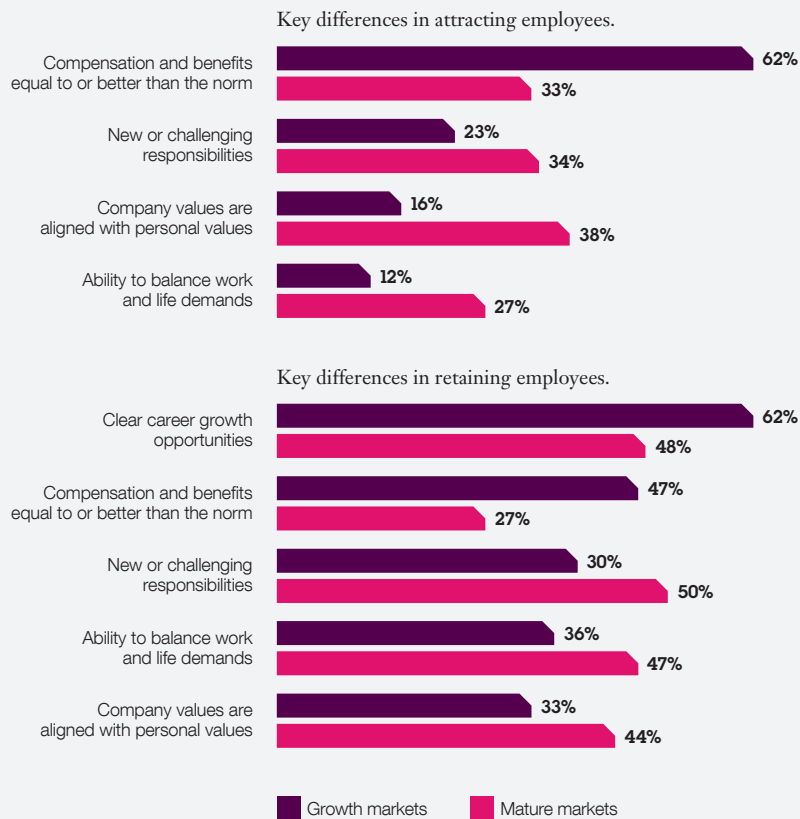
In contrast to bringing talent in from the outside, retaining valued talent is considered to be significantly more important, with over 45 percent of organisations in growth markets and 33 percent of companies in mature markets indicating this as an important workforce challenge. Clear growth opportunity is, by far, the most important factor in growth markets in employee retention, with over 60 percent of companies seeing this as a primary driver. In mature markets, the focus is on new or challenging responsibilities, followed by clear growth opportunities.

These differences have important implications for organisations considering workforce investments in regions where they previously have had little experience. Compensation design, performance management and workforce policies have to incorporate local perspectives while, at the same time, balancing the need to adhere to global guidelines and policies.

In addition, attracting and retaining talent across different geographies will require leaders who appreciate and understand how to drive performance and motivate individuals from different cultures and backgrounds.

Figure 3 Know what matters to whom

Compared to their counterparts in mature markets, HR leaders in growth markets wrestle with a substantially different prioritisation of employee attraction and retention drivers.

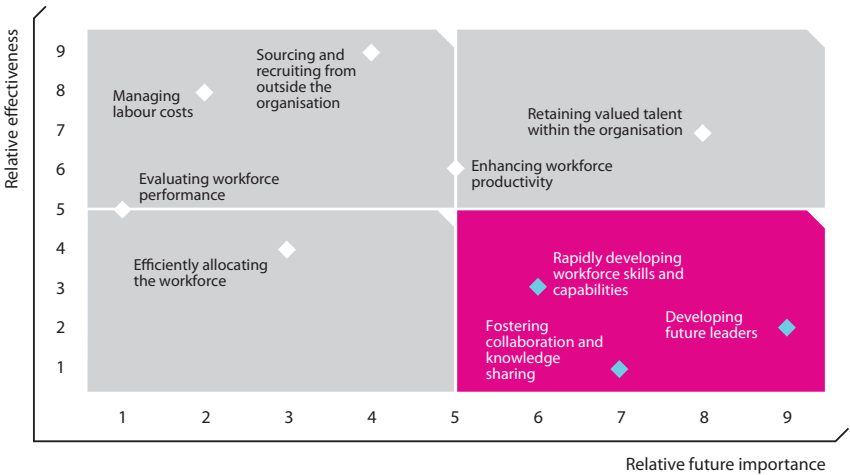


Three workforce shortfalls

As we examined the capabilities CHROs said are most important to their organisations’ future success and how effectively they are implementing them, three key workforce gaps emerged (see Figure 4).

CHROs say they are adept enough at certain aspects of assembling, managing and deploying the workforce, such as sourcing and recruiting outside the organisation, managing labour costs and evaluating workforce performance. They also rate themselves as relatively effective in the strategically important areas of enhancing workforce productivity and retaining valued talent.

Figure 4 Exposing the gaps
Based on respondents’ relative ranking of importance and effectiveness, their organisations fall short in three key capabilities.



However, CHROs are less confident in their ability to efficiently allocate the workforce. While HR leaders don't consider this to be an essential element of future growth (only 18 percent see this as particularly important in the next three years), our data suggests otherwise. Examining our sample of financial outperformers, we found that they were 47 percent more likely than underperformers to rate themselves as effective in workforce allocation.³

Most problematic are those capabilities CHROs deem highly important but currently beyond their ability to achieve. These three gaps – developing future leaders, rapidly developing workforce skills and capabilities, and fostering knowledge sharing and collaboration – are critical areas that CHROs must address if they are to move beyond borders and unlock the potential of the workforce.

A shortage of creative leaders

The ability to identify, develop and empower effective, agile leaders is a critical imperative for CHROs over the next three years. 'We have strong managers, not leaders – and we need strong leaders to achieve our strategic objectives,' said a U.K. HR director. To instill the dexterity and flexibility necessary to seize elusive opportunity, companies must move beyond traditional leadership development methods and find ways to inject within their leadership candidates not only the empirical skills necessary for effective management, but also the cognitive skills to drive creative solutions. The learning initiatives that enable this objective must be at least as creative as the leaders they seek to foster.

Inability to rapidly develop workforce skills and capabilities

CHROs told us developing workforce skills and capabilities is highly important, but that they do not do a particularly good job of it. As one U.K. CHRO said, 'We've previously taken a 'sink or swim' approach to putting talented people in new roles. We haven't done a good job of front-end assessment.'

Closely related to skill development is how people with the necessary knowledge and skill sets are deployed. Despite garnering relatively little attention from CHROs as a critical capability, we believe this directly aligns with the creation of new growth opportunities.

Ineffective collaboration and knowledge sharing

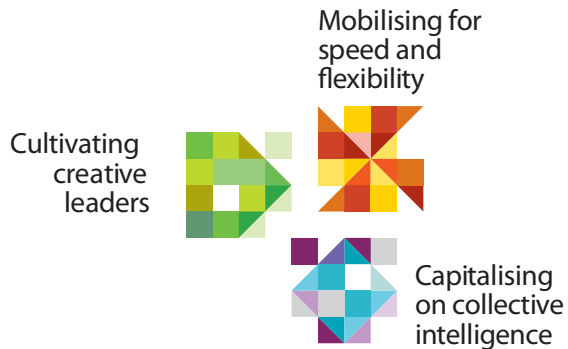
Application of collective organisational knowledge and experience is essential to building an agile and responsive workforce. Yet many organisations lack the structure and resources to facilitate institutional knowledge sharing and collaboration.

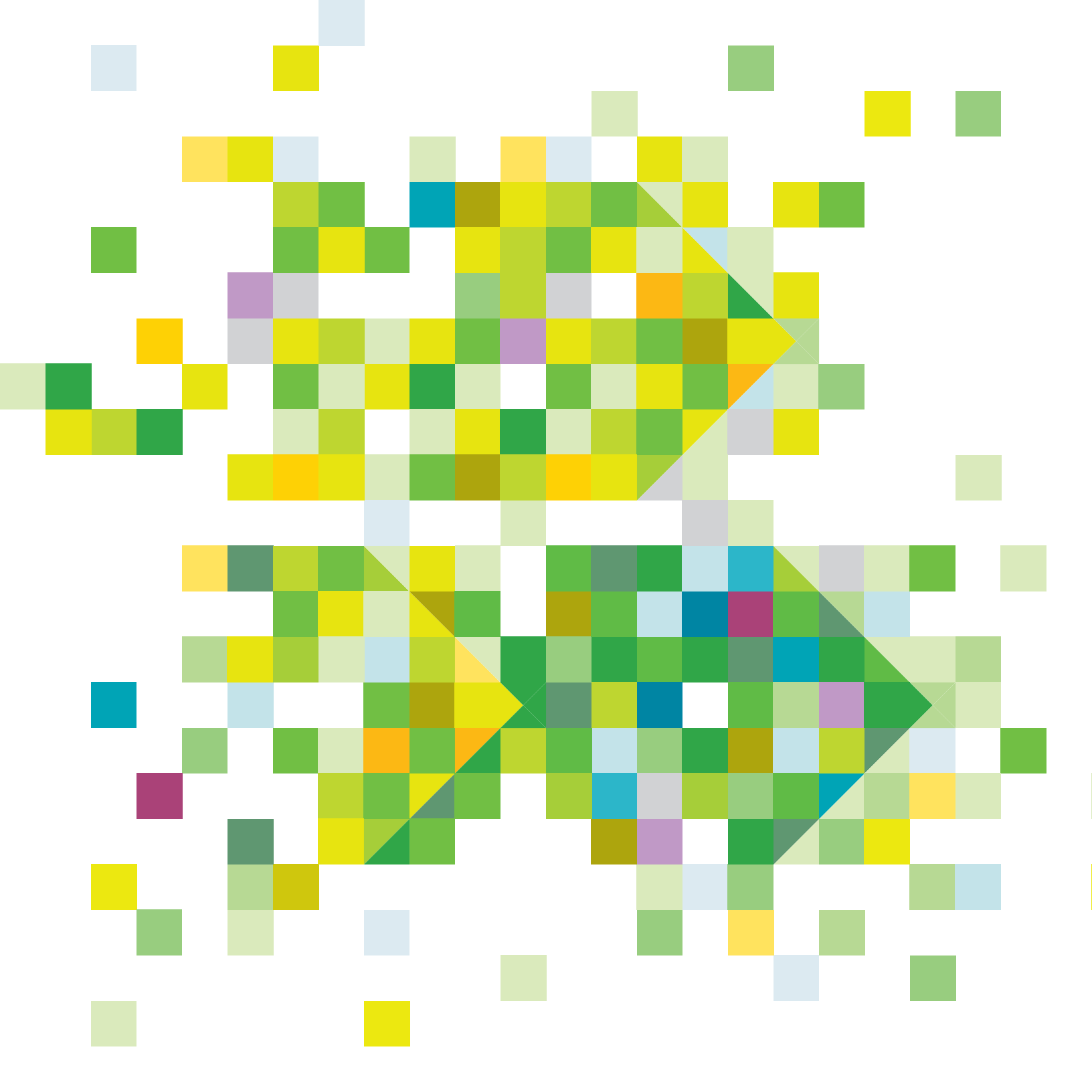
Cultural and organisational silos often compromise the ability of companies to share information across functional boundaries. As one North American senior vice president of HR said: 'We need to know our stuff and be self-reliant, to solve problems cross-functionally and to fully leverage our talent and our ideas.'

Attacking the gaps

The location, structure, makeup, skill set – and, critically, the agility – of the workforce and its leadership fuel efficient operations, energise entry into new markets and spur development of innovative products and services. But the gaps between organisational need and effectiveness are blocking the path to growth.

Based on insights from more than 700 senior HR leaders, we believe three essential capabilities will enable organisations to move beyond the remaining borders that constrain workforce effectiveness: cultivating creative leaders, mobilising for speed and flexibility and capitalising on collective intelligence.





Cultivating creative leaders

HR executives say the ability to develop future leaders has the greatest impact on their organisations' future success. Yet, only one in three think they can do this effectively. What will it take to cultivate the kind of creative leaders demanded by today's new environment?

“Developing future leaders is always a priority. One of the challenges with growth is to remain nimble. This is something that we recognise and continuously focus on with leadership.”

Marcelo Modica, Senior Vice President of Human Resources, Discover Financial Services

Leaders: high demand, hard to develop

Building an organisation with flexibility and dexterity requires leadership with the creativity to adapt to a constantly changing environment. These leaders must be able to negotiate through a maze of differing cultures, complex inter-generational dynamics and varied communication styles. Creative leadership, in fact, was identified in our most recent Global CEO Study as the top organisational need over the next five years (see Figure 5).⁴

Yet, companies struggle to both find and nurture effective future leaders. Less than one in three executives we interviewed rated their companies as adept at leadership development – a surprisingly low number given its relative importance.

Figure 5 **Top executives’ priorities**
The 2010 IBM Global CEO Study highlighted creative leadership as a critical capability for success.



The availability of leadership talent is an issue for many companies throughout the world. As competition increases, attracting, developing and retaining the employees with the potential to be molded into effective and dynamic leaders becomes more difficult. 'We have leadership development programs in place,' said a U.S. senior vice president, 'but in some cases, there is not enough 'talent' to fuel them.' A CHRO in Venezuela told us, 'We must focus on the development of future leaders, especially in light of deteriorating educational quality. New hires are less prepared today than they used to be several years ago.'

As companies embark on growth strategies, the leadership challenge becomes even more pronounced. A senior vice president in Japan said, 'Our leaders do not have the skills required as the business expands into various areas. We need to develop leaders who can perform globally to win against global competition.' And a U.K. HR director said, 'Our leaders currently rise to the top by chance, not design. We need to foster talent.'

What it takes to be a creative leader

Creative leaders share a set of common characteristics that help them innovatively lead their organisations. They challenge every element of the business model to realise untapped opportunities and improve operational efficiency. Leaders grow their businesses through the exploration, selection and execution of diverse, even unconventional, ideas about the potential of new markets. They leverage new communication styles to motivate talent and reinvent relationships, both internally and across the supply chain, to create collaborative productivity. They focus on the bigger picture – the global marketplace – and how to lithely optimise the collective skills of their organisations.

"We are starting to measure leadership quality and connect it directly to the bonus system: you 'get the behaviour you pay for.'"

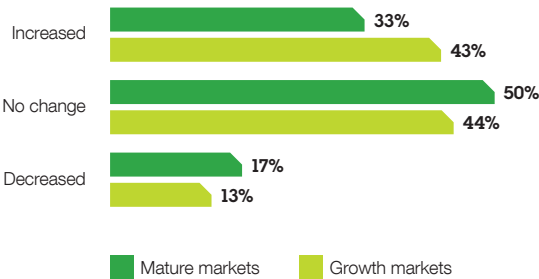
Axel Tripkewitz, Senior Director
HR and Business Support,
Fujitsu Semiconductor Europe GmbH

Tomorrow's leaders must be cultivated to think in terms of a virtually unrestricted global environment. They must create within their organisations integrated, cross-functional capabilities and tear down the institutional silos that inhibit creativity and speed. A senior vice president of HR in the United States said, 'We have hired and trained people to work in silos. We need to identify future leaders who can operate in a globally integrated company and train them to think and work globally.'

Investing in the future

The good news is that companies recognise the need for effective future leadership and are working to close the gap. Even during the height of the global recession, 33 percent of our respondents in mature markets and 43 percent in growth markets increased their investment in leadership development, heady numbers considering the cost containment initiatives many companies instigated at the time (see Figure 6).

Figure 6 Invest now or pay later
Despite economic uncertainty, some companies – particularly in growth markets – have actually increased investment in leadership development, placing their bets on the capability CHROs say is most important to future success.



Recommendations

Enabling the workforce to work beyond borders requires leaders to be effective champions of the corporate growth and transformation agenda. Leaders must be flexible and adaptable and be imbued with the power, knowledge and skills to deal with an increasingly complex world. Traditional training and ‘osmosis’ are not enough. Companies must equip leaders to build the skills necessary to prosper in today’s virtual and distributed world. They must:

Look beyond headquarters

Identify and cultivate rising stars regardless of location. As organisations increase their global presence, rising stars can emerge from anywhere. Proactively select opportunities that allow them to gain needed experiences as well as provide mentors who can give them the right guidance and global perspective.

Use global issues facing the organisation as the basis for real-life learning experiences. Charter teams to solve real-world problems, such as evaluating new market opportunities and responding to changing customer/employee demographics, to bring together future leaders and generate unique insights from different parts of the business.

Offer short-term, focused opportunities for individuals to work in new markets/geographies. Identify assignments and projects of short duration that can help individuals gain exposure to new markets and experiences without the expense and commitment associated with long-term expatriate programs.

Nurture creative leaders

Provide opportunities for creative leaders to move beyond traditional leadership styles. Develop new ways of inviting, persuading and influencing employee participation in decision making through social media and other emerging communication channels.

Incorporate external perspectives (e.g., suppliers, customers) into leadership development efforts. Create assignments that require leaders to garner insights and develop relationships with others outside of their direct sphere of influence, such as key customers, suppliers, academics and trade associations.

Create rigour around leadership investments

Analyse future business trends to determine leadership requirements for emerging business opportunities/locations. Make sure that leadership roles reflect the geographical mix of future business locations, employees and customers.

Create company-specific models, processes and assessment tools for leadership roles. Identify those competencies that differentiate the business in the marketplace and build them into hiring, development and performance management processes.

Monitor job progression of potential future leaders from around the globe. Identify the types of roles that build necessary skills and continuously assess the progress of employees with leadership potential.

Case Study

LAN Airlines

Spreading its wings with strong leaders

When Chilean flagship carrier LAN Airlines established an Argentinian subsidiary in 2005, it already had thriving operations in Ecuador and Peru. But moving into Argentina was to prove a much bigger challenge.

The Argentinian airline industry was underdeveloped because of high tariffs, heavy regulation and a history of bankruptcies. LAN Argentina also needed to integrate 650 employees from Argentina's state carrier, LAFSA, which it had agreed to acquire from the government. And the executive team, though enthusiastic, was relatively inexperienced. Even so, LAN Argentina set itself an ambitious goal: to capture 30 percent of the domestic market within 18 months.

However, it soon began to struggle and, in May 2007, LAN decided to launch a leadership development program. It began by asking all its Argentinian executives to define what they meant by leadership, given their personal beliefs and values, and identify role models within the organisation. Then it clarified what it wanted from everyone, including what they were to do and when and how they were to do it – right down to a list of weekly tasks.

This process ultimately produced a model of the competencies required of a 'LAN leader.' He or she must possess integrity; aptitude (i.e., technical proficiency and emotional intelligence); a results-oriented perspective, with the ability to set demanding targets and take the initiative; strong communication skills; and the expertise to spearhead change.

Cultivating a new generation of leaders has paid off. Today, LAN is the world's eighth largest airline, with a market capitalisation of USD6.2 billion. It has also transformed the 'state' culture it inherited from LAFSA into a service culture, and tripled employee satisfaction levels.



Case Study

Maxis Communications

Connecting for creativity

Maxis Communications is Malaysia's leading mobile communications service provider. It has attracted over 12 million customers, thanks to a corporate ethos that combines simplicity, trustworthiness and creativity 'in everything we do and everything we say.'⁵ But with the need to step up the game in the telecommunications industry, Maxis wanted to refresh its pioneering spirit.

In December 2009, Maxis sent 18 of its senior personnel on a business trip to San Francisco, Silicon Valley and Los Angeles. The team interacted with entrepreneurs to obtain in-depth clarity on the culture of start-ups, visited Paramount for first-hand exposure to the latest technologies for distributing multimedia content – a major interest for Maxis, which is already the top music distributor in Malaysia – and attended lectures by management gurus like Michael Tushman, author of the classic *Winning through Innovation*.

Maxis had another smart idea up its sleeve. To further broaden the team's horizons on technological creativity, all 18 members used Twitter and Foursquare on their iPhones to share real-time experiences with their 8,300 colleagues in Malaysia and India. Employees could tweet back with questions, which the team then raised to the people they were meeting.

The result? At the end of the tour, the 18 personnel had not only bonded, but they were also brimming with ideas for reinvigorating the corporate culture – and their enthusiasm was shared by those who had participated virtually throughout their entire journey.

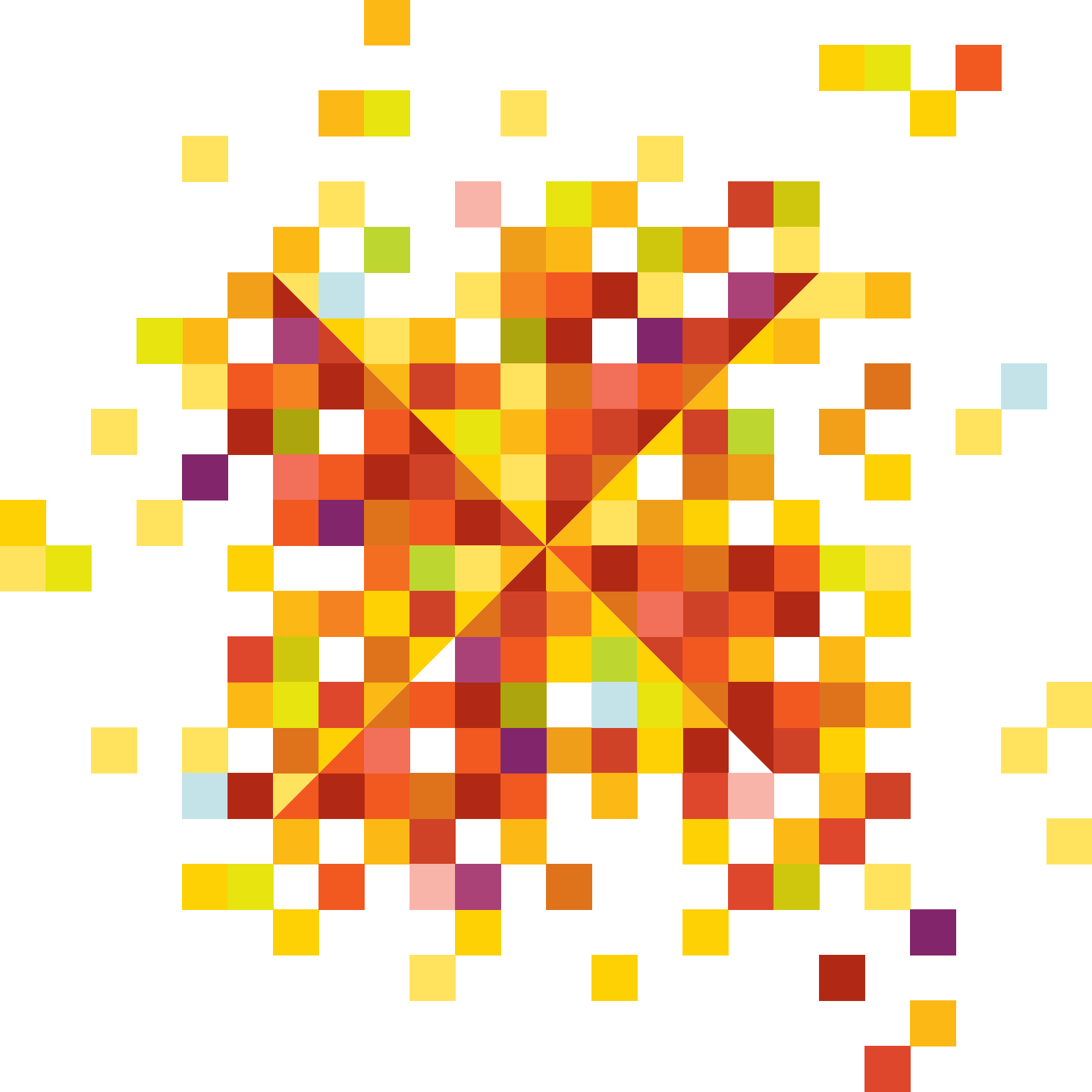
For Maxis, innovation has enabled collaboration and that, in turn, has triggered a new surge of creativity. The company's innovative approach to nurturing human talent has now earned it wider recognition, with a gold award at the 2010 Malaysia Human Resource Awards.

Key questions for cultivating creative leaders

How are you fostering creativity and borderless thinking among your leadership team?

Are you radically rethinking leadership development to rapidly close the effectiveness gap?

Do you integrate leadership development with emerging business opportunities to better prepare leaders for the future?



Mobilising for speed and flexibility

CHROs rank rapidly developing workforce capabilities as one of their most important imperatives, but their effectiveness in this area sits among the bottom three. How can companies better match resources with opportunities?

“Increased need for flexibility will dictate strategies that allow us to bring in employees to respond to peaks of work. Uneven recovery from recession will mean that our business will not be the same in all geographic locations—some programs will be in higher demand.”

Gina Rallis, Assistant Deputy Minister, Human Resources Services Branch, Human Resources and Skills Development Canada

Synchronising people, time and opportunity

The ability to mobilise the workforce for speed and flexibility, the second essential capability revealed by analysis of our CHRO interviews, is as vital as effective leadership in generating growth in today’s competitive global marketplace.

Even with today’s technology, which often allows anyone to work from almost anywhere at any time, it is still a huge challenge getting the right personnel in the right roles and places. Finding people with the skills to compete in an increasingly borderless marketplace and sustain innovation is difficult enough. Managing people from different cultures, across different locations and time zones, is, arguably, even harder.

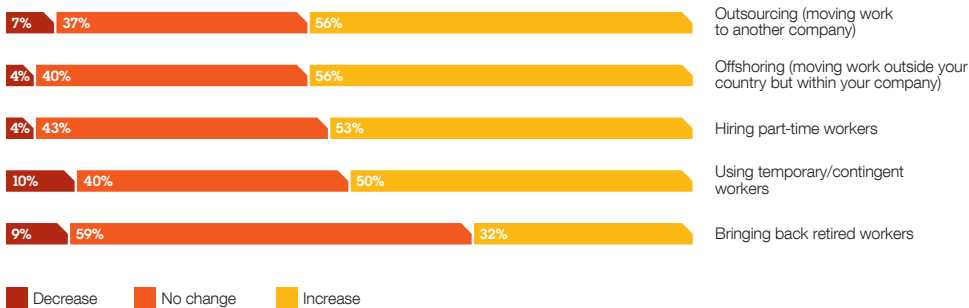
Most respondents are acutely aware of the uphill struggle they face.

‘We need to be able to deploy global resources with excellent knowledge of skills and competencies in a fluid and consistent way,’ the vice president of HR at one U.S. consumer products company said. An HR executive at a professional services firm put things more bluntly, ‘Globalisation is our key corporate strategy and workforce deployment in the global marketplace is our biggest challenge.’

Diligently developing flexibility

As organisations work to balance the demands of efficiency and growth, many are working to build greater flexibility into their operational practices. For example, in our 2010 CEO Study, 62 percent of CEOs said they anticipate a shift toward the greater use of variable versus fixed costs within their operating models. From our study, we see CHROs are echoing this trend toward flexibility as it applies to the workforce. More than half the HR executives we interviewed expect the use of techniques such as outsourcing, offshoring and the use of temporary, contingent and part-time workers to grow over the next three years (see Figure 7). In contrast only 10 percent or fewer indicated that they are decreasing their use of these techniques over the same period.

Figure 7 Labour models undergoing radical change
Over the next three years, more than half of CHROs worldwide plan to inject a higher dose of flexibility into the composition of their workforces.



Where flexibility falters

Increasing organisational flexibility mandates a number of important capabilities. Organisations need to be able to predict fluctuations in demand for products and services and allocate resources to support those changes. They must establish strong relationships with suppliers and partners that allow them to manage non-core activities and supplement their existing workforce to handle peak loads and demands. They need to invest limited learning resources to quickly get individuals up to speed on new processes and technologies.

Unfortunately, companies are challenged across many of these dimensions. For example, only 35 percent believe they are able to allocate people efficiently and 31 percent think their company is effective at rapidly developing new skills.

From our study, we see that many organisations lack the infrastructure to make fact-based decisions regarding workforce allocation (see Figure 8). With a lack of insight into what skills and capabilities the organisation has at its disposal at any given time; models that help to evaluate potential

“Knowing what skills and capability you have in your workforce and employing a common skills taxonomy allows you to move people around and create flexibility and agility.”

Christian Archambeau,
Principal Director Human Resources,
European Patent Office

talent shortages; and resources that can monitor talent supply and demand. Many organisations are placing themselves at risk for making poor decisions and reacting to market changes after their competition.

Figure 8 What’s missing in managing the talent supply chain
CHROs are struggling to establish the infrastructure they need to balance talent supply and demand.



Rapid skills development demands new ways of learning

In addition to allocating resources more effectively, companies must be more innovative in how they reduce the learning curve and develop new capabilities. Our findings indicate that companies most effective at rapidly developing skills are more likely to use collaborative tools (43 percent versus 34 percent) and immersive learning techniques such as virtual worlds (19 percent versus 9 percent). They provide business simulations that reflect real-world issues and encourage creative adaptation, calculated risk taking and iterative improvement. Immersive learning allows people to practice new roles and rapidly develop new skills, as well as learn how to collaborate effectively across distance and make decisions quickly.⁶

Recommendations

Many companies spread responsibility for talent management across multiple functions, including recruitment, learning and development and purchasing. Business unit leaders may also have responsibility for some or all of these activities within their respective domains. But, as the competition for human capital heats up, no company will be able to rely on such a fragmented approach to build and deploy the talent it needs. Organisations will have to develop an integrated approach that crosses traditional functional silos. Companies should also revisit the workforce implications of their policies and processes on an ongoing basis and incorporate workforce planning into strategy development. Key activities companies can undertake to address these issues include:

Build a single, integrated workforce perspective

Develop a unified workforce strategy that aggregates the needs of different business units and considers a variety of workforce options (e.g., full-time employees, part-time employees, contractors, outsourcing partners). Ensure that HR, Operations and Purchasing actively work in concert to develop and revise the workforce strategy on a continual basis. Focus on outcome-based models when designing flexible workforce arrangements.

Create a common expertise taxonomy that serves as a 'currency' of enterprise competencies. Use this platform to evaluate talent shortages and surpluses across the organisation and drive more information-based human capital decisions.

Accelerate response to opportunity

Provide internal marketplaces where individuals and managers can gain visibility and access to new opportunities and needed skills. This allows managers and employees to take more control of their staffing and career management decisions, to enable more rapid decision making and provide access to candidates that might otherwise not be considered.

Develop more flexible organisational structures that can address rapidly emerging situations. Units such as centres of competence and rapid response teams can help to quickly size up situations, identify and mobilise key resources and quickly respond to customer needs while limiting disruption to the core business.

Dramatically lower time to competence

Allocate learning resources toward focal positions and roles. Scarce resources need to be directed to improve the performance of those functions that truly differentiate the organisation in the marketplace (or in the public sector, that are critical to achieving the mission).

Build social media features into learning platforms, events and activities. Tools that allow learners to more easily share insights with others and link to internal and external information sources can help increase knowledge retention and enable employees to more rapidly and effectively apply new skills to their jobs.

Position virtual worlds, gaming and business simulation as techniques to augment face-to-face learning. The next generation entering the workforce is already immersed in interactive, virtual experiences as part of their learning environment. Organisations can help motivate learners and reinforce desired behaviours through greater use of these techniques.

Case Study

CLP Holdings

Engineering its future

CLP Holdings (CLPH) is one of Asia Pacific's leading energy providers. Although it operates internationally, it has to accommodate local variations, and the investments it makes must last up to 25 years. So CLPH's perspective is different from that of many other companies; it must be nimble and flexible, while taking the long view.

This isn't the only challenge CLPH faces. Generating and distributing power requires highly qualified engineers, but CLPH has an aging workforce – and good young engineers are in short supply. Add the fact that anyone who works in the field must be able to speak the local language and it's easy to see why strategic workforce planning is critical to CLPH.

The company started by analysing all its employees and subdividing them into two categories: those with core skills and those with non-core skills. It defined core skills as a combination of the skills required to manage critical business or operational processes and activities in the generation, transmission and distribution of electricity *and* company-specific expertise that could only be developed in-house over a substantial period of time. Examining the demographic profiles of these two groups of people showed where the most important shortfalls would arise, and CLPH launched various initiatives to fill the gaps – e.g., fast-tracking high-fliers and optimising the ratio of engineers to technicians on each team. It also established scholarships and internships to attract the best engineering graduates and apprenticeship schemes for the less academically inclined.

CLPH routinely monitors internal statistics such as staff turnover, but it now looks at the big picture, too. It tracks population changes and degree patterns in each of its markets – the sort of trends that count when a company's in business for the long haul.



Case Study

American Airlines

Carrying flexibility to new heights

American Airlines is a leading global passenger carrier, serving 250 cities in over 40 countries with more than 3,400 daily flights. It takes a large workforce to perform such a task – and American employs almost 82,000 people worldwide.⁷

For many years, the company managed the HR functions required to support these employees internally. However, although American's HR services centre and technology were outstanding, the technology was becoming increasingly dated and expensive to maintain and upgrade. More importantly, doing everything in-house gave American little flexibility to scale up and down in line with the economy, with minimal disruption.

Therefore, in 2007 the company decided to outsource many of its HR functions, while retaining the more strategic elements in-house. Working closely with its HR outsourcing partner, American identified the functions it wanted to outsource, the areas where it could realise benefits and the best applications for its needs. It also refined many of its HR processes and developed a roadmap for managing the transition.

American is now realising its goals and utilising a robust suite of services, standards and technologies for administering processes such as Learning, Talent Management and Benefits. In addition to meeting its functional requirements, American's new HR business model has positioned the airline to respond dynamically to changing economic conditions, with a variable pricing structure that lets it scale up or down and a technology base that can be expanded or modified as business needs dictate. American now has the flexibility to deal with all eventualities.⁸

Key questions for mobilising for speed and flexibility

Which alternative work structures provide greater opportunity for efficient and more flexible deployment?

How do you break down the organisational silos that prevent the best use of your talent?

How can you reduce time to competence in your most critical jobs?



Capitalising on collective intelligence

Across the workforce capabilities CHROs evaluated as part of this study, they rated their organisations as least effective in fostering collaboration and knowledge sharing. Can companies work – and innovate – effectively as diverse, dispersed teams without addressing this issue?

“The HR function should be taking a leadership role in identifying tools for collaboration. It should also set up and facilitate ‘communities of practice.’”

Kevin Mahoney, Chief Human Capital Officer, U.S. Small Business Administration

Collaboration impacts the bottom line

Innovation is the lifeblood of any enterprise, driving efficiency and facilitating new product and service development. But innovation is more than the creative application of acquired skills; it is the sum of an enterprise's capabilities, experiences and institutional knowledge. And maintaining the innovative edge requires capitalising on this collective intelligence.

Collective intelligence allows companies to gain efficiency by sharing and applying relevant practices across the organisation. It enables companies to build on experience and avoid reinventing processes and procedures. Intelligence creates the ability to adapt and apply innovations across new markets and opportunities. And it facilitates the discovery of new avenues of improvement through communicating with customers and other external sources, evaluating feedback and leveraging what they learn.

While collaboration may be regarded by many as a ‘soft’ skill, our data suggests it can have bottom-line consequences. In our sample, financial outperformers are 57 percent more likely than underperformers to use collaborative and social networking tools to enable global teams to work more effectively together.

Three-quarters are poor collaborators

Despite the emerging importance of connecting and tapping into insights around the globe, the majority of executives struggle to effectively connect their workforce. For example, 78 percent of the HR leaders we interviewed do not think their organisations are effective at fostering collaboration and social networking. Yet only 21 percent have recently increased the amount they invest in the tools required to promote collaboration and networking. Even further, less than 20 percent are actively applying analytics to understand the impact of their efforts.

‘HR should play a greater role in encouraging innovation through finding and looking after the tools for collaboration and also by providing the incentive mechanisms to support collaboration’ said a senior vice president from Australia. An HR manager in Japan clearly feels the same way, ‘Collaboration and knowledge sharing are handled separately within each region and there are silos between different regions and countries. We need to remove those silos and promote global collaboration and knowledge sharing.’

Aiming too low with collaborative capabilities

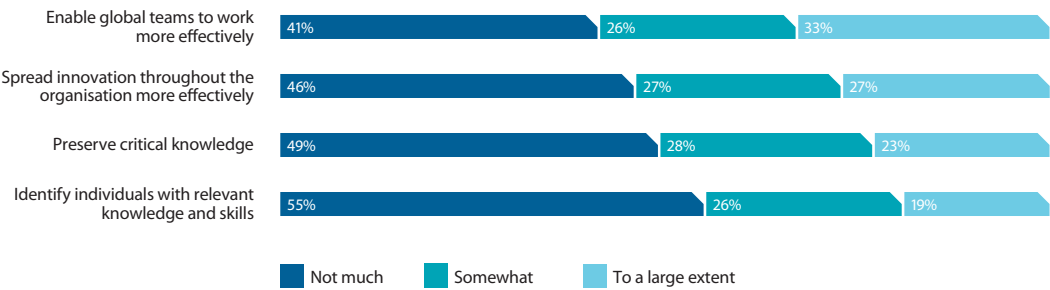
Not only are companies not investing heavily in new collaboration and communication tools, many organisations fail to fully utilise the knowledge-sharing resources they already possess. Our respondents said they most frequently employ collaborative tactics to enhance the effectiveness of corporate communications and learning programs and to target and recruit external candidates. They are less commonly used for strategic purposes or to raise the visibility of ideas.

“We are not as good at innovation as efficiency. The HR function should help to build an innovative culture, create forums, develop leaders and find ways to measure and reward innovation.”

Veronica Rörsgård, Senior Vice President, Human Resources, Skanska

Only 19 percent of our respondents regularly use collaborative technologies to identify individuals with relevant knowledge and skills, 23 percent to preserve critical knowledge and 27 percent to spread innovation more widely (see Figure 9). As an HR manager of a Japanese industrial products company said, ‘We don’t share intellectual assets fully, even though we have the IT infrastructure to do so.’

Figure 9 Are companies making the right connections?
Less than one-third of companies are regularly applying collaborative tools and techniques to drive knowledge sharing and innovation.



Recommendations

Today's CHROs can play a major role in developing the organisational culture and infrastructure required to stimulate innovation and enhance operational efficiency and effectiveness. They can help build a common context and encourage the creation of new connections and relationships among employees scattered around the world. And they can look for ways of making good ideas and practices more visible throughout the organisation. To accomplish these objectives, they must:

Weave collaboration into the way employees work

Encourage formation and use of cross-organisation communities around strategic business topics. Find issues that tap into the passion of employees while at the same time serve a critical need of the organisation. Provide the groups with sponsorship, collaborative tools and other resources to foster knowledge sharing and trust among individuals from different parts of the organisation.

Build collaborative capabilities directly into business processes and project management activities. Use tools such as instant messaging, blogs and wikis to facilitate real-time communication and keep far-flung project teams aware of new information and progress.

Raise the visibility of ideas and insights

Sponsor online collaborative events to source and refine ideas and put funding and focus behind the best ideas prioritised by event participants. Companies have found significant value in raising the visibility of new ideas at a global level, but at the same time, they need to be able to prioritise those initiatives and provide resources to execute them.

Solicit and recognise fresh insights and new thinking from internal and external sources. As the external environment becomes more complex, organisations need to make sure they incorporate all parts of their business network into the innovation process.

Use network visualisation techniques to highlight connections between individuals/work teams. Identify those individuals at the heart of conversations to see where new trends are coming from and how they are being disseminated across the organisation. Use dashboards and other tools to increase the visibility and understanding of collaboration patterns and help identify potential collaboration gaps.

Create and share assets to drive productivity improvement

Create value through the systematic capture and reuse of individual work outcomes. Build communities responsible for filtering and growing a shared catalogue of assets leveraged across the organisation. Develop talent management programs that recognise collaboration and the value it generates.

Case Study

Pfizer

Gathering ideas from around the globe

Companies that can pull together the right resources to meet problems and opportunities with speed and efficiency have an edge in a fast-paced, competitive market. One such company is Pfizer, the world's biggest biopharmaceutical firm.⁹ In 2006, Pfizer launched its 'Idea Farm' – a collaborative process for solving problems creatively in an analogous but far more flexible, scalable and cost-effective manner than the traditional method involving meetings, presentations and flipcharts.

The process begins with the selection of suitable problems. They can emanate from anywhere in the organisation, but they must be large and complex. They must also be backed by a business sponsor. If a problem is chosen, the next step is to formulate it clearly in a way that immediately conveys the issue and what sort of help is wanted. The 'Challenge,' as Pfizer calls it, is then released to everybody the company has singled out to participate – which may be anywhere from 200 to 20,000 people.

When participants enter suggestions in the system, a preconfigured electronic form streamlines the process of capturing ideas and automatically issues a warning if an idea is duplicated. Everyone in the group can also see the suggestions that have been submitted, so people with different areas of expertise can comment and ask questions to provoke further thought. Thereafter, all the suggestions are assessed through informal and formal reviews, the recommendations are collated and the final decision is made.

The Idea Farm has proved very fertile. Since it was introduced, Pfizer has identified USD100 million in pipeline net present value by discovering new markets – and avoided USD20 million in costs.



Case Study

Esquel Group

Teaming up with its talent

Esquel is a global apparel manufacturer with production facilities in China, Malaysia, Vietnam, Mauritius and Sri Lanka, and a network of branches servicing key markets. It makes cotton shirts for some of the world's best-known brands, including Tommy Hilfiger, Hugo Boss and Brooks Brothers, and for major retailers like Nordstrom. In fact, it not only makes the shirts, it grows and spins its own cotton and weaves and knits its own fabrics.¹⁰

But apparel manufacturing is an intensively competitive business. So how does Esquel stay ahead of the game? It does so by collaborating with its employees to capture and share good practices that will help them enhance their productivity and by promoting a culture of continuous innovation.

Esquel gives its farmers technical support to help them increase the quality and quantity of cotton they grow. Replacing flood irrigation with drip irrigation has, for example, enabled its farmers to increase the amount of land they can cultivate (by eliminating the need for ditches), improve cotton yields and boost their incomes by 30 percent.¹¹

Similarly, Esquel gives its cotton spinners and cloth weavers guidance on enhancing their operating efficiency. And it trains its garment workers to perform their own quality checks (which eliminates rework and thus cuts down on waste), as well as equipping its factories with improvements such as hanger systems that reduce the amount of handling required. "If you simply increase wages, you become uncompetitive and ultimately go out of business," explains Calvin Tsang, Esquel's Head of HR. "So we look for sustainable ways of increasing people's income."

Esquel's collaborative business model has helped it to become a state-of-the-art garment manufacturer. It has also proved that an apparel company can be both profitable and ethical.

Key questions for capitalising on collective intelligence

What will you do to get multiple generations of employees to actively engage in online collaboration?

In what ways can you explore, reward and integrate diverse and unconventional points of view?

What novel techniques are you using to tap into the insights and ideas of employees around the world?



Becoming borderless

As organisations set their sights on growth, they will need a different and more dynamic set of workforce characteristics to achieve their goals. How can they infuse their workforces with enough creativity, agility and speed to render borders irrelevant and capitalise on emerging opportunities wherever they're found?

Tearing down the borders

Addressing efficiency and promoting growth, the two primary challenges CHROs indicated they will be facing in the years ahead, will require overcoming numerous internal and external borders that affect workforce productivity. Physical and functional boundaries will need to be addressed to make the most of an increasingly dispersed and diverse workforce that will stretch across traditional institutional lines. Overcoming these hurdles will not be a trivial activity; rather, it will need to be at the core of an organisation's transformation agenda.

In this new world, creative leaders will help to dissolve boundaries through the creation of innovative strategies, the development of a commonly shared vision and the ability to motivate individuals from across the globe. Developing this next generation of leaders will necessitate identifying candidates from all reaches of the organisation and providing them with the real-world training and experiences to lead in an increasingly complex and dynamic global marketplace.

Mobilising the workforce for speed and flexibility will also be critical as organisations look to match capabilities with emerging opportunities in a borderless world. Functional and institutional silos that stymie growth must be replaced with an integrated workforce perspective that links an organisation's core and extended workforce to its business strategy and identifies, builds and deploys capabilities regardless of location or organisational affiliation.

Successfully operating across borders will require companies to capitalise on their collective intelligence – ensuring the best ideas are identified and disseminated regardless of where they originate. This sharing of cumulative institutional knowledge allows best practices to be tapped and duplicative efforts reduced. Soliciting new insights from both internal and external sources and fostering the development of connections and relationships will enable the transfer of critical knowledge necessary for organisations to take full advantage of their scale and reach.

Workforce insight: A missing link?

The ability to develop effective leadership, strategically build and deploy the workforce, and stimulate knowledge sharing and collaboration frequently hinges upon the information available to make evidence-based decisions regarding the workforce. However, for many organisations, this level of insight continues to be elusive. Only seven percent of respondents say they are very effective at using analytics to make workforce decisions. As one public sector CHRO in Australia said, ‘We have been ineffective at using analytics to date, as we don’t have the skills or senior management buy-in.’

Many companies have the capability to use analytics to look backward to identify historical trends and practices within their organisations. Yet few are adept at using information to develop scenarios and predict future outcomes. Only in developing future leaders and business strategy did more than a quarter of the CHROs we interviewed use analytics for forward-looking analysis (see Figure 10).

“What do we do well? Talent management and organisation development. What could we do better? Training delivery and workforce analytics.”

Shirley Gaufin, Chief HR Officer,
Black & Veatch Corporation

Figure 10 Use of workforce analytics remains limited

Less than one-quarter of CHROs are using sophisticated analysis and modelling to make decisions about the future.



Without workforce insight, companies place their ability to grow effectively at risk. They will have difficulty putting the right skills in the right places and will have trouble making intelligent decisions about locations suitable for expansion. They will be challenged in knowing where their top performers are located and will struggle to justify the need for future workforce investments.

However, some companies are stepping up the game and focusing on analytics as a core component of their workforce planning. For example, Shell (see page 57) has begun to add more analytic discipline to its leadership development process to better understand the traits of successful executives and make appropriate investments in its next generation of leaders.

Case Study

Shell

Illuminating the leadership pipeline

Heading the downstream (manufacturing and marketing) operations of Shell, one of the world's largest petrochemicals companies, requires enormous expertise. But identifying those with the potential to become future leaders is difficult in an organisation that employs 40,000 people. So, in 2009, Shell decided to tackle the task more systematically.

The HR team began by collating the information it held on the 450 most senior executives. It wanted both to provide top management with a 'talent book' of robust leadership pipeline data and to explore several questions: Was the coverage and diversity right? Did people have the right performance profiles, leadership qualities and experience? How were they flowing through the pipeline? This involved analysing all the candidates by tenure and performance to identify which ones were still learning new roles, which were performing well, which were seasoned professionals and which were performing less strongly. The HR team also examined the routes these executives had taken to see whether they were acquiring the skills required to run Shell's downstream business.

Then the HR team studied the detailed histories of those who seemed to be advancing more slowly. It provided 'stretch roles' for some executives, reviewed the potential of others and ascertained any 'blockers' preventing people from rising up the ladder. It also identified 'destination roles' for the executives with the greatest promise and created development paths to prepare them.

Shell's downstream leaders now have a clear picture of the calibre and coverage of the leadership pipeline, and how best to improve coverage in the future. They also have robust short- and medium-term succession plans which are helping to ensure business continuity for critical leadership roles. Meanwhile, the HR function is much better equipped to evaluate the most talented executives on an ongoing basis.



Imperatives for working beyond borders

As we saw in our quick look at MSF, those organisations with the capability to rapidly assess developing situations, effectively apply their collective institutional knowledge and quickly deploy creative teams of highly skilled individuals often make a big impact in a short time. In the case of MSF, these attributes often determine the difference between life and death. For other organisations, they can dictate whether an organisation becomes an outperformer in the market or an also-ran.

Instilling creativity, flexibility and speed within both the organisation and the workforce will require creative leaders with the capabilities to solve old problems and capitalise on new possibilities. Rapid skill acquisition, on-target deployment of top talent and the ability to quickly scale up or down will become critical to mobilising the workforce for speed and flexibility. Collective intelligence, the sharing of an organisation's sum of knowledge and experience, will be necessary to take advantage of cumulative organisational capabilities.

Key imperatives include:

	Improve operational efficiency	Expand into new markets/geographies	Develop new product/service offerings
Cultivating creative leaders	Be comfortable with distributed and virtual leadership approaches; create leaders who leverage informal power	Accelerate the development of truly borderless leaders; be creative in combining global and local talent	Design leadership development programs to generate innovative emerging business opportunities
Mobilising for speed and flexibility	Develop online marketplaces to efficiently match global talent supply with demand	Adapt a global approach to sourcing talent; eliminate the policy and process barriers to cross-border movement	Leverage flexible work structures to rapidly align talent with critical jobs in new business areas
Capitalising on collective intelligence	Improve productivity through best practices sharing and reducing duplicative efforts	Improve cross-functional effectiveness by providing an online platform for virtual team collaboration	Establish a culture of creativity and innovation where new product ideas get visibility and executive support

We look forward to continuing the discussion at ibm.com/workingbeyondborders

How our research was conducted

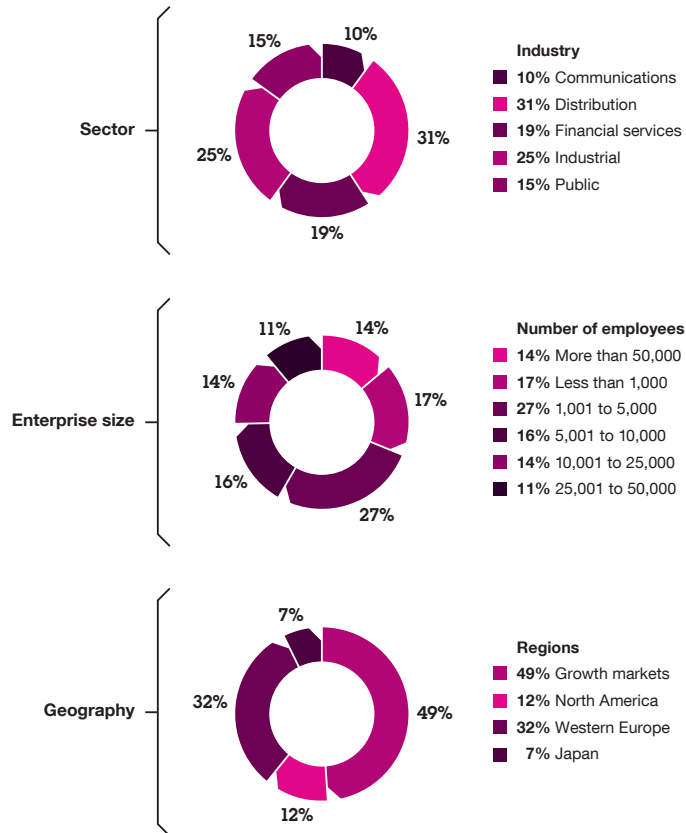
The 2010 IBM Global CHROs study is the third edition of our Global Human Capital Study series, led jointly by the IBM Institute for Business Value and IBM Strategy & Transformation. To understand the challenges, opportunities and goals of today's Chief Human Resource Officers, we conducted the largest survey of human capital executives ever undertaken by IBM. Between November 2009 and April 2010, we surveyed 707 executives, almost 600 of whom we met face-to-face.

Our research was conducted with organisations of all sizes, in 61 different countries and was almost evenly split between executives in mature and growth markets.

Additionally, we compared the results of this study with our 2010 IBM Global CEO Study. Wherever possible, we conducted statistical analysis of financial outperformers to ascertain how and to what degree they differed from other organisations. We analysed the performance of those companies with publicly available financial information in our sample using the compound annual growth rate in earnings before interest, taxes, depreciation and amortisation (EBITDA) between 2003 and 2008. We also compared the results with the average for the industry each company represented to identify the organisations that delivered more than the median level of growth. Lastly, we looked for meaningful differences between the responses of HR executives working for these 'financial outperformers' – as we called them – and those working for the 'underperformers' that delivered less than the median level of growth.

Figure 11 Organisations of various sizes contributed to this year's study

The 2010 study sample of 707 participants includes almost 600 face-to-face interviews with senior HR Executives.



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The IBM Institute for Business Value, part of IBM Global Business Services, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This Global CHROs study is part of our ongoing C-Suite Study Series.

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For further information

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