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Creating a New Deal for Middle Managers

Empowering a Neglected but Critical Group

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July 2010

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The success of almost every corporate initiative depends on the willingness of employees to go the extra mile. Yet the Great Recession has taken its toll on engagement and the social contract between employers and employees. Executives now recognize that in order to fulfill their strategic goals, they will need to repair the social contract and rekindle the enthusiasm and energy of their employees.

Middle managers are critical to improving overall engagement and corporate performance. They see the vision at the top of the organization and the pain at the bottom. Middle managers, however, frequently do not have the support of senior management or effective levers to do their jobs and provide assistance to their employees. In fact, for the past decade, middle managers have been cast aside or neglected. The organization of the future, however, will require this group to be strong, effective, and prepared. Middle managers, who supervise the majority of employees, are key to bringing engagement back.

The Boston Consulting Group and the World Federation of People Management Associations (WFPMA) surveyed more than 5,500 executives in more than 100 countries to understand the current and future people challenges worldwide. We also conducted more than 150 interviews with senior leaders.

This White Paper lays out a framework for companies to strengthen the middle in order to improve the entire organization. It previews the findings of the survey conducted by BCG and WFPMA, focusing on the specific challenges of—and opportunities for—middle managers, a critical group of employees whose needs are often neglected.¹ The findings were validated by analyzing BCG's proprietary Engaging for Results database, which represents more than 1 million responses from employees about their level of engagement.

Losing and Winning Engagement

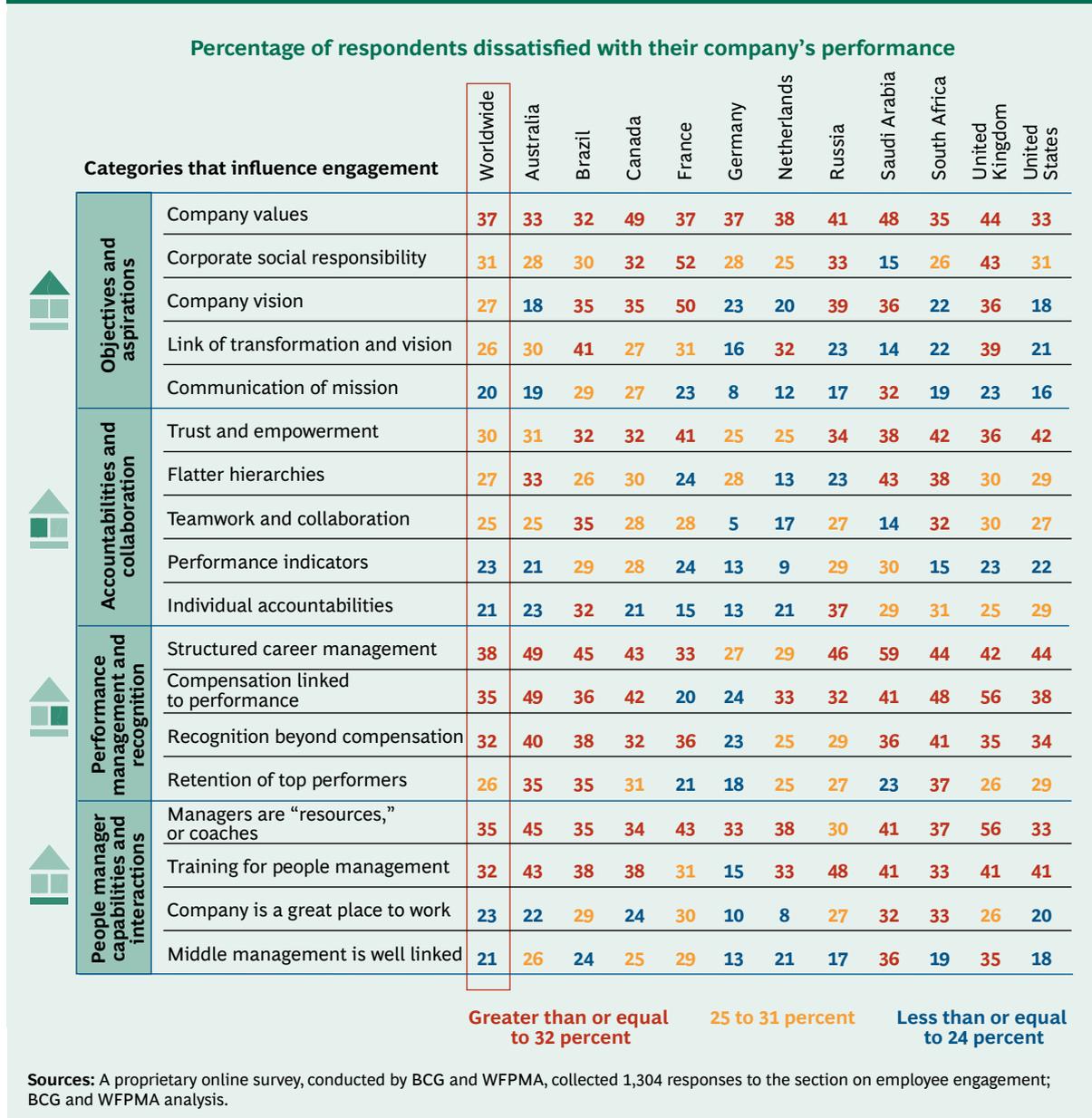
The loss of employee engagement during the Great Recession is neither merely anecdotal nor conjectural. The survey conducted by BCG and WFPMA revealed a global engagement problem. Respondents were asked to rate the effectiveness of their organizations in 18 categories that influence engagement. Six areas emerged as trouble spots:

- ◇ Clear consequences for individuals not living the company values
- ◇ Structured career management that rewards appropriate behaviors
- ◇ Compensation linked to performance
- ◇ Recognition beyond compensation
- ◇ Managers acting as “resources,” or coaches
- ◇ Training and development of employees in people-management practices

About one-third of the 1,304 executives who responded to the engagement section of the survey reported that each of these six areas was especially weak at their companies. (See Exhibit 1.)

1. The final *Creating People Advantage* report, based on the survey and interviews, will be released in September 2010 and will cover a full range of people topics. That report will be the second such global report. The first was published in 2008. BCG and the European Association for People Management published European editions of the *Creating People Advantage* reports in 2007 and 2009.

Exhibit 1. Performance Management and Recognition Are Weak in Most Countries

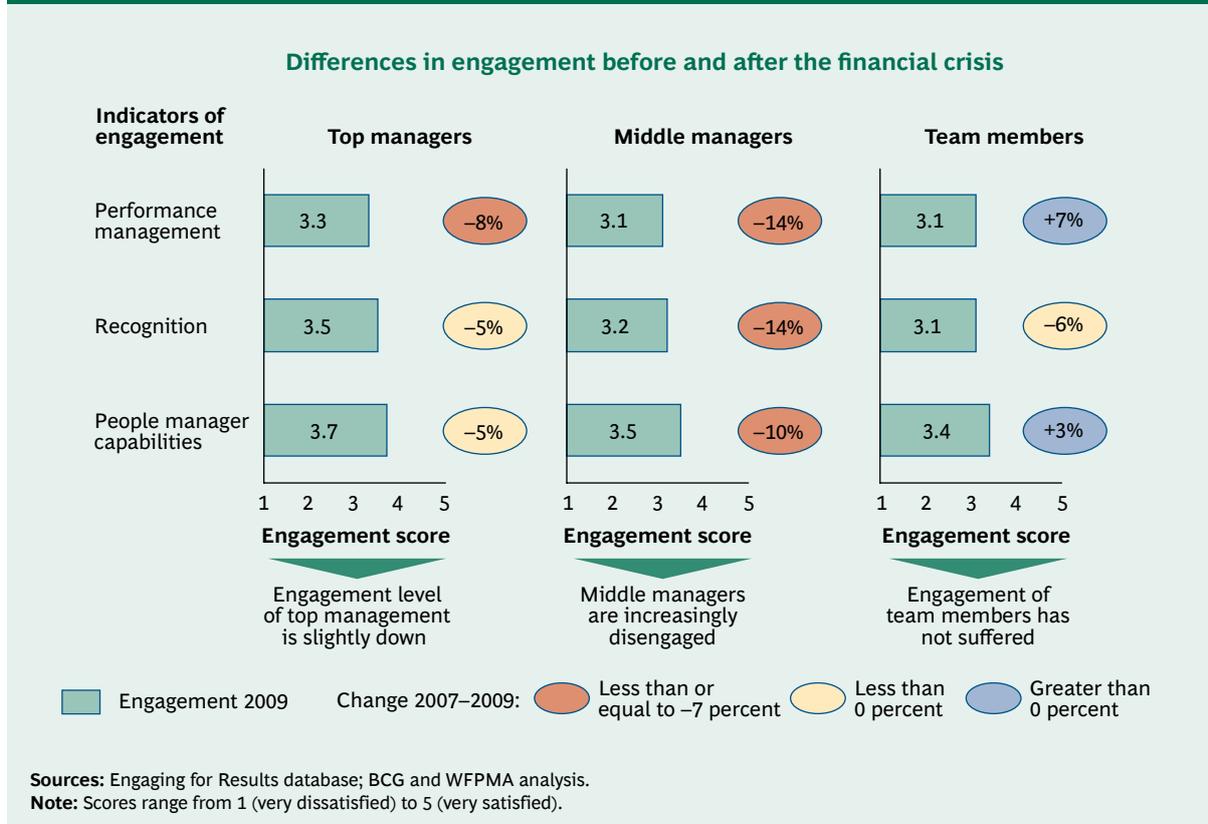


In order to understand the root causes of this global engagement problem, we analyzed BCG's Engaging for Results database, which represents more than 1 million data points. (For a fuller explanation of Engaging for Results, see the appendix "Both Sides Now.") Two conclusions jump out of this deeper analysis.

First, employees were particularly dissatisfied with the performance of their companies in three broad areas. (See Exhibit 2.)

- ◇ *Performance management*, which includes the processes and systems that set targets, collect feedback, and link actions to results
- ◇ *Recognition*, which includes formalized ways of acknowledging and rewarding strong performance
- ◇ *People manager capabilities*, which include people skills and leadership behaviors throughout the organization

Exhibit 2. Engagement of Middle Managers Is Still Suffering After the Recession



These areas are closely related to the six problem spots flagged in the survey conducted by BCG and WFPMA. Even in good times, employees tend to be critical of their companies in these three areas. The recession helped intensify their disengagement.

The second conclusion is that the decline in engagement was most dramatic among middle managers. In 2009, the scores for performance management and recognition dropped by 14 percent when compared with 2007, and the scores for people manager capabilities dropped by 10 percent.

Why the Middle Matters

Middle managers play essential, if unheralded, roles in an organization. They fall below the third or fourth level in a company and consequently do not have much contact with the executive board. They oversee a mix of managers and team members and include frontline managers who supervise only team members. If senior leaders set aspirations and strategy, middle managers translate the strategy into concrete business plans, communicate with employees, and manage the business—and most of the people within the business—while team members execute and interact with customers.

In a typical organization of 50,000 employees, there are 50 to 200 senior executives and approximately 7,000 middle managers overseeing some 43,000 employees. These 7,000 managers supervise most of the workforce and are vital for success. In the survey conducted by BCG and WFPMA, for example, 64 percent of respondents said that middle managers were more critical to the engagement of team members than top managers were.

Ideally, middle managers act as a bridge between the top managers and team members. They must be effective communicators, implementers, and trust builders. It is a difficult position—one that is not fully recognized at many organizations. Companies have, for example, tended to focus their training and

attention on the top managers and a narrow selection of high-potential employees, who oversee a relatively small number of employees.

“Middle managers face a particular challenge. They feel pressure from their bosses to achieve ever-challenging objectives, and they feel pressure from their teams, which do not always understand the direction. They are squeezed in the middle. One of our major challenges is how to improve the communication at this interface,” said Karen Ferguson, executive vice president of global human resources at Schneider Electric, an international company based in France.

How can this link be repaired?

First, companies need to recognize that the social contract between employers and employees, including those in the middle, has weakened. Employees are less willing to exchange their effort and loyalty for reduced compensation, diminished recognition, slower personal and professional growth, and tarnished pride.² The good news is that organizations can rescue the social contract.

Second, although senior executives are ultimately responsible for overall employee engagement, they need to enlist the help of middle managers in making it happen day to day.

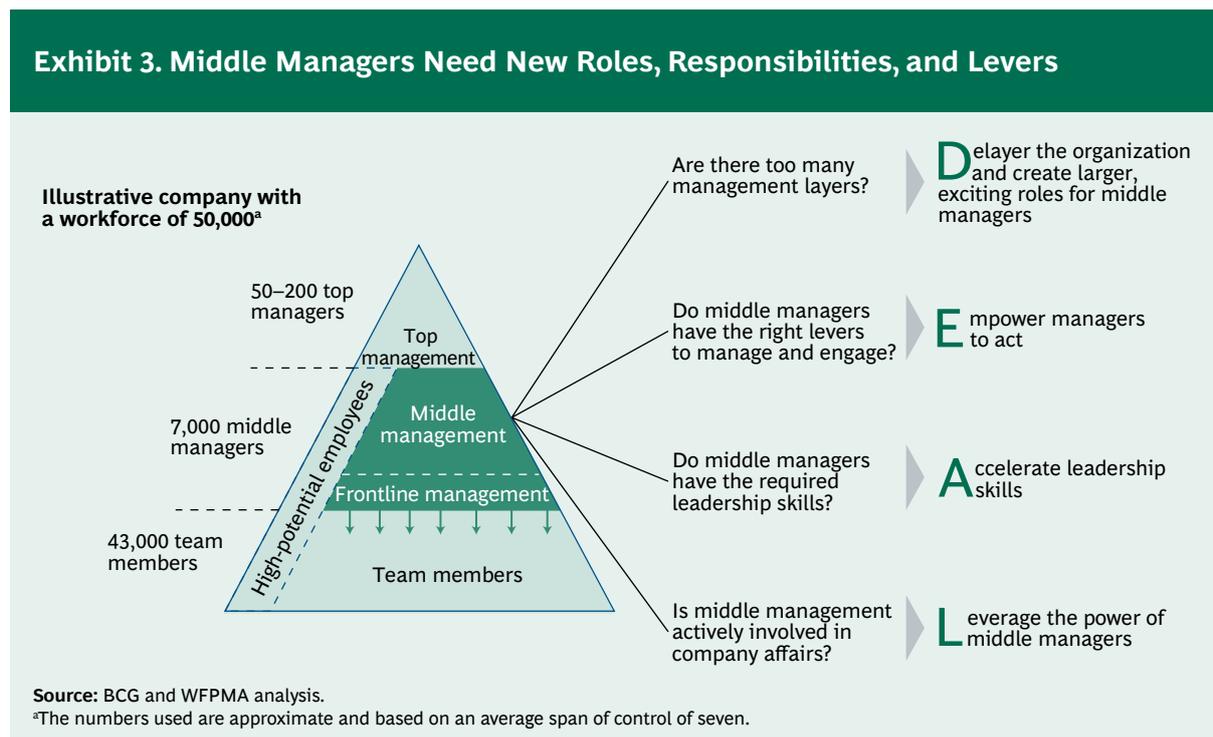
Third, companies need to give these middle managers new roles, responsibilities, levers, and respect if they are going to play meaningful roles in improving engagement.

Creating a New DEAL

What is the best—and most cost-effective—way for senior leaders to create the right conditions for middle managers to excel? There is no quick fix.

In this White Paper, we lay out a new DEAL for middle managers. Like President Franklin Delano Roosevelt’s series of programs to pull the United States out of the Great Depression, the DEAL can provide tremendous liftoff and recovery. (See Exhibit 3.)

2. See “The New Social Contract,” BCG Opportunities for Action, September 2009.



There are four pillars of the new DEAL:

- ◇ *Delay* the organization and create larger, exciting roles for middle managers, in order to remove the barriers that frustrate them, and encourage initiative
- ◇ *Empower* managers to act by giving them the levers and authority to succeed, but first make sure they understand what is required of them
- ◇ *Accelerate* leadership skills so that middle managers have the training and tools to manage effectively
- ◇ *Leverage* the power of middle managers so that they can convey the corporate mission and vision, and help transform the organization

By adopting this framework, companies will help unleash middle managers from the ties that bind them. (See the sidebar “Qantas’s New Leadership and Engagement Model: Off to a Flying Start.”)

Delay the Organization and Create Larger, Exciting Roles for Middle Managers

Employees respond to ambitious goals and fresh challenges. In many traditional organizations, however, middle managers remain stuck in jobs and feel that they do not matter. As a result, these managers become disengaged, and their performance suffers.

Qantas’s New Leadership and Engagement Model: Off to a Flying Start

Alan Joyce became chief executive of Qantas Airways in November 2008, when the global recession was killing demand for air travel. The Australian carrier had also recently gone through a protracted labor dispute with its engineers and faced challenges with other employee groups.

Joyce, who had founded Qantas’s successful low-fare Jetstar subsidiary, knew that long-term success hinged not only on responding intelligently to the short-term crisis but also on turning around employee engagement in the long run.

Along with his senior team, Joyce created a clear 100-day plan that ensured the airline’s survival through the economic crisis and began an ambitious organizational transformation. Improving employee engagement was a critical part of the plan.

To establish a baseline, Qantas conducted an Engaging for Results survey, first with its top 300 managers and then with all 32,000 employees. The survey showed that although employees had pride in and passion for working at the 90-year-old airline, overall engagement was low.

Realizing that improving employee engagement would take a significant effort and strong and united leadership, Joyce initially concentrated on uniting the top 100 leaders before expanding the focus to middle managers.

Joyce sharpened and explained Qantas’s strategy, which helped clarify the organization’s objectives

and aspirations for employees. He reduced the number of layers and improved spans of control, thereby decreasing the number of senior and middle management ranks by 15 to 20 percent. The executive team collectively established role charters in order to improve and clarify accountabilities. Each senior executive then facilitated the development of role charters for his or her direct reports.

Qantas had historically rewarded performance without much regard for leadership behavior. As part of its transformation, behavior became a key component of the evaluation process. This shift in performance management systems was accompanied by investments in coaching, leadership, and mentoring skills for senior and middle managers. These leaders became accountable for raising engagement scores in their parts of the organization. They have definite targets to reach by 2012.

Qantas continues to monitor engagement annually across the entire organization, either in a full employee survey or in “pulse checks.” It has established a single score that identifies the percentage of employees who are engaged.

A year and a half after the start of the journey, the early returns suggest that the focus on engagement is paying dividends. Levels of accountability and engagement have already significantly increased at senior and upper-middle-manager levels, and positive behaviors are taking root.

The solution is to reshape the organization by flattening the corporate pyramid and defining and widening the responsibilities of managers. Increasing spans of control and delayering the company help create an energized workforce. Middle managers will be closer to both the chief executive and to customers, and they will have clear roles with the resources and authority to improve performance. They will focus on outcomes, not overmanaging.

Delayering—with its emphasis, at least in the United States, on staff reductions—may seem counterintuitive. Properly executed, however, it will improve employee engagement because the remaining middle managers will have more meaningful jobs, with real power. They can focus on getting things done rather than on coordination.

If layoffs are necessary, companies must terminate poor-performing middle managers respectfully. Otherwise, the survivors will be unlikely to commit fully to the company.

“In a large company of 200,000 employees and 12 to 15 hierarchical layers, the challenge is to reintroduce entrepreneurial behaviors and to better decentralize in order to empower the middle managers,” said Marc Janssens de Varebeke, performance director of GDF Suez, one of the world’s largest energy utilities.

As a first step, companies should analyze the corporate pyramid layer by layer and determine the span of control for each middle manager. “At Microsoft, the spans of control are an important indicator that gets measured more than once a year,” said Ulrich Holtz, general manager of HR for Microsoft International.

As a general rule, a company with more than eight layers and fewer than eight spans of control will be sluggish. Even if average spans of control are adequate, companies should nonetheless look out for pockets of microteams with fewer than six employees. There are, of course, exceptions. A call center manager can frequently oversee 20 employees, although an in-house lawyer in charge of complex corporate-finance transactions might be responsible for only four direct reports.

The most effective way to delayer an organization is by using a cascading process. Senior leaders should design the work requirements for their direct reports and then staff the layer below them. Their direct reports, in turn, should do the same for the level below them. And so on. This cascading approach helps create accountability and ensures that the entire organization or unit is systematically redesigned.

Role charters are the next logical step after delayering. Simply stated, role charters translate overall corporate objectives into four interlinked aspects: individual and shared accountabilities, key performance indicators, decision rights, and desired leadership behaviors. Role charters ensure that the organization is focused on work that serves the overall strategy. The role-chartering process follows the same sequence as delayering but accountabilities and decision rights are cascaded through the organization. Employees write their own charters and, therefore, have a hand in crafting their new responsibilities rather than simply receiving them from above. They now have autonomy within defined boundaries. Being self-discovered, versus delivered, the change sticks.

By flattening their organizations, leaders will need to rethink career management and design both vertical and horizontal career paths. Although there may be fewer opportunities to move up, employees will be able to gain a greater variety of experiences and skills in a delayered organization.

Executives may worry that high-performing managers may leave, but experience suggests the opposite. A well-designed and well-explained delayering initiative motivates managers. An industrial goods company recently went through a delayering and role-chartering exercise in order to improve managerial practices and simplify operations. High performers were the most enthusiastic supporters of the effort, which created little of the turmoil frequently associated with reorganizations.

Finally, companies must gear their performance systems and metrics to encourage middle managers to take the initiative. They also must create formal recognition systems. Demanding performance without acknowledgment and reward is a recipe for failure.

Empower Managers to Act

Too often, middle managers have responsibility but no authority. Or they are lost in a matrix organization with unclear roles and responsibilities. They are in a gunfight with only one bullet in their revolver or playing five-card stud with only two cards. They need more levers in order to improve overall engagement and performance. Companies must empower middle managers to do the following:

- ◇ *Make Organizational Changes.* Allow middle managers to organize the work of their teams and drive continuous improvement.
- ◇ *Manage Performance.* Establish a rigorous process that middle managers can use to set the objectives for and evaluate the results of their employees.
- ◇ *Offer Compensation and Recognition.* Give middle managers leeway to use incentives to reward short-term achievements and use base salary and career advancement to reward long-term performance. Additionally, give managers latitude to recognize employees in other ways.
- ◇ *Create Development Opportunities.* Give middle managers the responsibility, skills, and means to develop their employees.

Although this list may seem like common sense, most companies do not allow middle managers to apply these levers fully or exercise their managerial muscle. It is unrealistic to hold middle managers accountable for engagement and performance if they do not have at least two or three of these tools at their disposal.

In examining high absenteeism in its back offices, a European retail bank discovered that low engagement among middle managers was the root cause. These managers said they did not have the ability to reward or recognize their people because of an inadequate evaluation and compensation system. Promotions, vacations, and work schedules were largely dictated by collective-bargaining agreements. The only lever they fully controlled was the ability to create a good work atmosphere, which by itself cannot increase productivity and performance.

Recognizing the need to give these managers more tools, the bank has begun to renegotiate its collective-bargaining agreements in order to change performance management, compensation, and work scheduling. “A visceral sense of engagement is the trick—none of the processes matter if you don’t get this,” said Craig Dinsell, executive vice president of HR at OppenheimerFunds, based in the United States.

Accelerate Leadership Skills

Leaders are born, but they also can be made. Natural leaders will likely rise out of the ranks of middle management fairly rapidly. The leaders who remain require training and coaching, especially to develop people management and strategic visioning skills.

Generally, middle managers need to be able to understand the corporate vision and strategy, and communicate those concepts to their employees. They must know how to develop and motivate their staff, and they must conduct difficult conversations with employees.

In particular, young managers who are new to supervisory roles require coaching and guidance. Young managers may be the sweet spot for companies that are actively trying to change their cultures. These managers generally are more flexible and ambitious and have a desire to make a difference.

Seasoned managers may need less training to develop people management skills but more to understand younger employees and their desire to find meaning in their work and a work-life balance.

All middle managers, however, need to receive feedback from their direct reports in order to know whether their new skills are taking hold. Although the results of 360-degree reviews need to be treated cautiously, this type of evaluation generally encourages managers to improve their leadership skills and pay attention to people development.

Sibur, a leading petrochemical company based in Russia, has focused on developing the people skills of middle managers in order to increase engagement on the shop floor, according to Svetlana Chekalova, head of HR. “Traditional behavior is very transactional and missing empathy. Skills that need to be improved include delegating, giving feedback, and discussing performance,” she said.

Allianz, a German insurer, also pays special attention to these managers. “Ninety-two percent of our lower management levels receive further training at least once a year. Precisely in this group, we invest the most,” said Wolfgang Brezina, chief HR officer.

The Linde Group, a global industrial-gases and engineering company with almost 48,000 employees, has set up a program to train 5,000 first- and second-line managers. In addition to classroom-based training, the program consists of e-learning modules and a 360-degree assessment. For newly appointed line managers, a self-development tool set has been created to assist them in their new jobs. (For a longer case study, see the sidebar “Banking on Engagement.”)

Leverage the Power of Middle Managers

Armed with new roles, responsibilities, and skills, middle managers can lead organizational transformations. They are at the right place in the company hierarchy to turn vision and strategy into concrete actions and to make changes stick. They are embedded in the organization and have more “street cred” with their teams than top leaders have.

Banking on Engagement

BNL, a leading Italian bank, recently held a two-day Managerial Academy for 1,500 middle and frontline managers to discuss and identify specific ways to improve entrepreneurship, coaching skills, and collaboration across functional and cultural boundaries. These skills had become especially important since the bank’s acquisition by BNP Paribas in 2006.

“The challenge now is to have all managers and employees on board with a clear view of where we want to go and how we want to get there,” said Gianfillipo Pandolfini, BNL’s HR director. “They need to understand the importance of individual behaviors and recognize the commitment to achieving the expected results.”

In 2009, BNL commenced a large-scale engagement initiative that included its first broad survey of employees. Based on the results of the survey, BNL created an engagement action plan, and the academy was the cornerstone of that campaign.

Groups of 150 middle and frontline managers with a broad range of skills, seniority, and job functions attended each of the two-day workshops. Prior to attending these workshops, the managers received comprehensive feedback, or 360-degree reports, on their behavior as managers. During the workshops, the managers worked through real-life business scenarios and used innovative training methodologies, such as mind mapping. The participants also discussed the 360-degree reports. The managers were

encouraged to coach one another, offer suggestions, and provide support.

The bank decided to run these exercises with external and internal coaches in order to develop facilitation skills in the HR professionals. The sessions were “mostly unguided in order to let problems emerge and allow people and teams to develop action plans to improve the six managerial behaviors we want to encourage,” Pandolfini said.

In the coming months, the managers who attended the training are expected to return to their operations and run similar exercises with the remaining 14,000 employees. To help keep their knowledge from the academy alive, the bank has created an online portal, through which employees can access coaching tools and documents and participate in discussion groups. By the end of the year, the 1,500 managers will have gone through a second round of training to ensure follow-up and continuity. They will have been exposed to 360-degree feedback in order to verify changes and improvements in their managerial behaviors.

The bank has also rolled out a second academy, called Energy Lab, aimed at young and promising employees. As part of this program, employees spend two days visiting best-in-class companies in several industries to learn how such companies operate and manage.

Middle managers are also closer to the market. They generally can detect opportunities to make operational improvements and develop innovative approaches more quickly than senior leaders. They can also recognize when the strategy may need adaptation.

Middle managers need to have the confidence and authority to test, experiment with, and influence strategy. In order to encourage middle managers to play this vital role, senior leaders should involve them in discussions about corporate objectives, vision, and values.

By bringing senior and middle managers together, a company is symbolically and actually recognizing the value of middle managers and helping to create ambassadors who will communicate its vision and values broadly and deeply. Middle managers can help bring alive otherwise abstract concepts during their everyday interactions with their employees.

It is worth repeating the importance of recognition programs. Senior leaders need to celebrate the significance of middle managers. Top leaders get plenty of recognition, as they should. But paradoxically, many companies bestow recognition on the frontline more readily than on the middle. Great customer service and sales performance should be recognized, but so, too, should excellence in middle management. “When thinking about middle managers we follow the ‘Bs’: build, bind, and bound, as in where they are bound to land at the company,” said Nic Lim, senior vice president for corporate HR at JG Summit Holdings, a diversified conglomerate based in the Philippines.

BMW, the German car maker, brings together 350 senior executives and 5,500 middle managers for workshops on innovation and new-product development and for discussions on leadership, customers, profitability, and growth. “The exercise helped to demonstrate trust and confidence in middle managers by their senior leaders,” said Harald Krüger, chief HR officer and member of BMW’s management board.

Although the challenges of individual companies will undoubtedly vary, the new DEAL provides a comprehensive set of initiatives to address the global engagement problems identified in the survey conducted by BCG and WFPMA. (See Exhibit 4.)

Exhibit 4. New DEAL Interventions

<p>Delay the organization and create larger, exciting roles for middle managers</p>	<ul style="list-style-type: none"> ◊ Increase average spans of control and significantly reduce the number of microteams¹ ◊ Design new role mandates, defining accountabilities, key performance indicators, decision rights, and desired leadership behavior ◊ Redesign vertical and horizontal career paths, and performance management and incentive systems
<p>Empower managers to act</p>	<ul style="list-style-type: none"> ◊ Give middle managers the authority and levers to manage ◊ Make middle managers accountable for organizing the work of their team ◊ Provide middle managers with a rigorous system for setting team objectives and evaluating results ◊ Give middle managers leeway to reward and recognize their employees ◊ Grant middle managers the responsibility and the means to develop team members
<p>Accelerate leadership skills</p>	<ul style="list-style-type: none"> ◊ Train middle managers on managerial skills—especially goal setting, performance evaluation, and employee coaching and development ◊ Develop leadership behaviors in middle managers consistent with company strategy through 360-degree feedback, development workshops, performance management, and coaching ◊ Establish training modules to address specific leadership challenges
<p>Leverage the power of middle managers</p>	<ul style="list-style-type: none"> ◊ Involve middle managers in strategy development, continuous-improvement processes, and innovation ◊ Establish recognition programs to celebrate success in the middle

Source: BCG and WFPMA analysis.
¹Microteams have fewer than six employees.

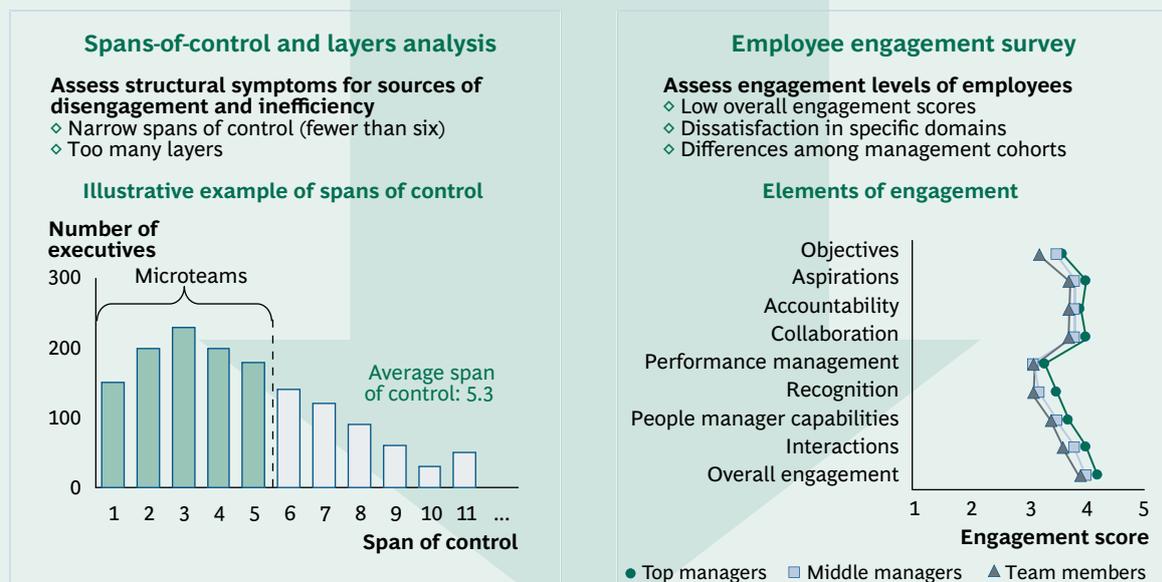
Leading from the Middle

Improving employee engagement, creating new roles, building skills, and empowering employees—none of these goals is easy to achieve. Before starting to work on them, companies should have a firm understanding of their relative strengths and weaknesses. Many companies do not know how many middle managers they employ or their spans of control. Few organizations have a strong sense of middle managers' levels of engagement, values, and beliefs. These qualities can all be measured. As a first step, companies should develop a firm quantitative view of their organization. (See Exhibit 5.)

Next, senior executives need to create a plan to improve the weaknesses they have uncovered, making sure to involve middle managers in the design of programs. Employees will be more committed to a set of programs if they have had a hand in crafting them.

The new DEAL can help provide confidence to middle managers and give them the tools and skills to make a difference.

Exhibit 5. Due Diligence Can Help Pinpoint Specific Problem Spots



Sources: 2009 data from BCG's Engaging for Results database; BCG and WFPMA analysis.

Appendix: Both Sides Now

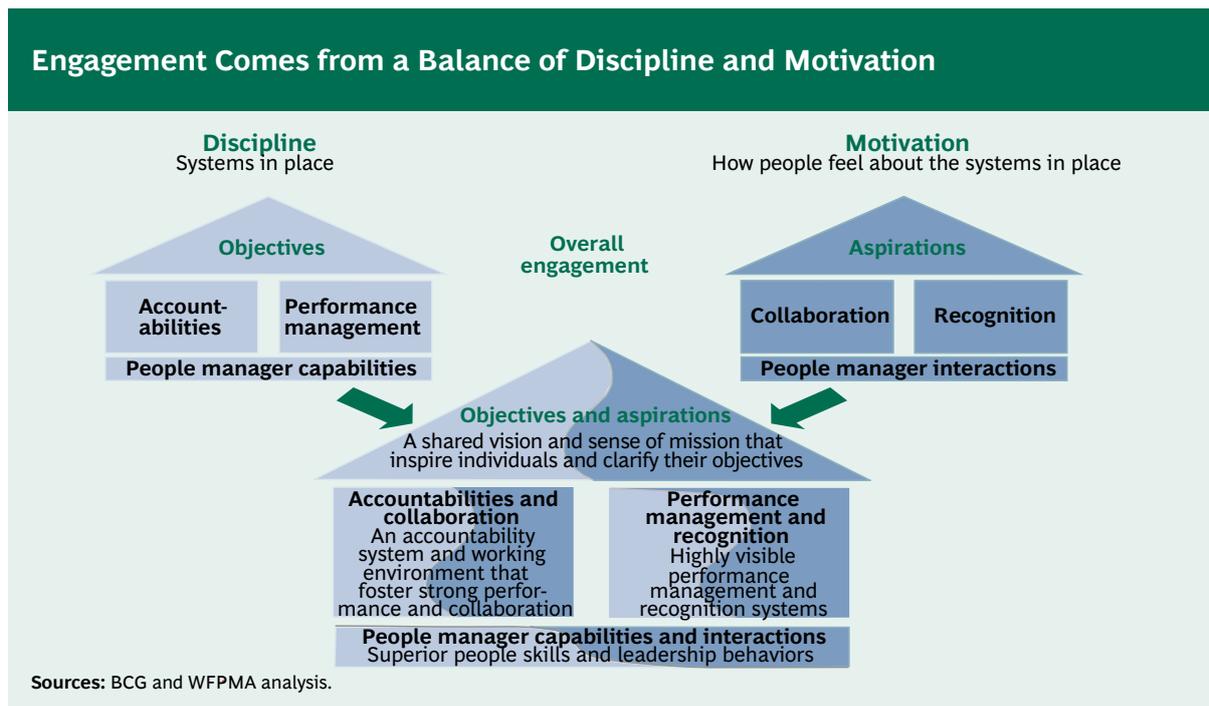
Employee engagement is commonly described as the willingness of employees to give their discretionary time in service of corporate goals. One way to assess and improve engagement is through the Engaging for Results framework. This approach consists of a 35-question employee survey that pinpoints engagement issues and 14 possible interventions.

The premise of the approach is that engagement rests on the careful balance of motivation and discipline. Employees are most engaged in their jobs—and do their best work—when they want to make a difference in their environment—not out of obligation but because their job matters to them, both professionally and personally. That’s *motivation*. On the other hand, *discipline* comprises systems, policies, and practices that raise accountability. When motivation and discipline unite, employees are excited about, accountable for, and rewarded for their work.

More specifically, there are four discrete elements of engagement—each with a discipline and a motivation side. (See the exhibit, “Engagement Comes from a Balance of Discipline and Motivation.”)

- ◇ *Objectives and Aspirations.* Employees need to understand corporate and personal goals, and they must understand and believe in the corporate vision and values. There also needs to be some connection between the hard objectives and the softer, but critical, aspirations.
- ◇ *Accountabilities and Collaboration.* Employees need clear guideposts that indicate their responsibilities and provide a sense that their workplace is cooperative and receptive to their input.
- ◇ *Performance Management and Recognition.* Employees need to be guided by performance management systems that have real targets and visible feedback mechanisms, as well as recognition programs that encourage performance, good behavior, and career advancement.
- ◇ *People Manager Capabilities and Interactions.* Employees need to work for a boss who provides feedback and development opportunities, and who is honest, encouraging, and open to feedback.

Once a company has identified the specific areas of low engagement, it can get to work, intervening strategically and selectively. Used in this way, Engaging for Results can be a powerful framework that allows senior executives to view, discuss, and act on a key lever of corporate performance.



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Acknowledgments

The authors would like to thank all the executives who were interviewed for their time and insights. The complete list of interviewees will be published in the full report, which is scheduled for release in September 2010. At BCG, the authors thank Markus Benicke, Rolf Hülsenbeck, Torsten Kordon, Thomas Krüger, Svend Lassen, In-Hae Lee, Michael Leicht, Stefanie Michor, Frauke Uekermann, and Angelika Witt for coordinating and supporting the process of writing this paper.

Moreover, the authors thank Jens Baier, Vikram Bhalla, Lamberto Biscarini, Rolf Bixner, Guido Crespi, Robert Davies, David Dean, Andrew Dyer, Grant Freeland, Christopher Freese, Fiona McIntosh, Mathieu Ménégau, John Miller, Anthony Oundjian, Benjamin Pinney, J. Puckett, Steve Richardson, Roselinde Torres, Paul Tranter, Jan Dirk Waiboer, and many other BCG colleagues for their expert advice and assistance in conducting interviews around the world. The authors express appreciation to Fernando Ariceta, Stephanie Bird, Carolyn Gould, Elijah Lithoko, P.O. Mak, Jorge Jauregui Morales, Horacio Quiros, and Peter Wilson of WFPMA for their contributions. Finally, the authors thank Mark Voorhees for his editorial guidance during the preparation of this paper and Katherine Andrews, Oliver Dost, Federico Fregni, Elyse Friedman, Kim Friedman, Chris George, Trudy Neuhaus, Sara Strassenreiter, and Simon Targett.

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