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Our latest survey of global CEOs shows that the talent crunch is one of the major issues that keep them awake at night.

Talent on the CEO's mind

Written by

Michael Rendell is Partner and Global Head of Human Resource Services at PwC. You can read our *15th Annual CEO Survey* at www.pwc.com/ceosurvey

For the past 15 years we've been running our annual survey to ask CEOs around the world what's top of their agenda – what issues are they tackling, what do they need to do to stay ahead of the game, what opportunities do they see in the short and long-term future, and how do they prepare to make the most of those?

For this year's CEO survey we carried out 1,258 interviews with CEOs in 60 countries between September and December last year. And on top of that, 38 CEOs from 25 countries surveys were interviewed in depth.

The survey always creates debate and highlights a range of insights and ideas on how CEOs approach today's challenges and prepare for the future. This year, talent comes out as a top survey theme and it seems the 'talent crunch' – attracting and retaining the right people to deliver on future growth strategies – is one of the major issues keeping CEOs awake at night. This means a shift in talent management strategies for business around the world.

Right now there's an interesting juxtaposition – finding and keeping the right talent is difficult even though there are more educated people than ever before and an enormous worldwide talent pool. Despite this, there's evidence that talent shortages and the inability to match skills to business needs is hitting the bottom line – one in four CEOs said they weren't able to pursue a market opportunity or have had to cancel or delay a strategic initiative because of a lack of the right talent. And one in three CEOs are concerned that skills shortages have had an impact on their company's ability to innovate.

CEOs across all industries tell us it's become more difficult to find the skills they need – even industries that have reduced costs and spending – and they're looking at the gap that exists to replace the baby boomer generation over the next ten years and how best to prepare the next generation for that transition. Only 30% of CEOs are 'very confident' that they will have access to the talent they need over the next three years.

"CEOs across all industries tell us it's become more difficult to find the skills they need – even industries that have reduced costs and spending – and they're looking at the gap that exists to replace the baby boomer generation over the next ten years and how best to prepare the next generation for that transition."

It's clearly a challenge that CEOs have to get to grips with, and in this issue we'll explore the search for talent in more detail and look at what HR can do about it.

The survey also told us CEOs are looking outside their sector for talent and deeper into their own organisations to pinpoint their future leaders and invest in their development now. This early investment could be seen as a way to instil future loyalty among these high-value future leaders, alongside the obvious benefits of recruiting internally and 'growing their own' – a better option than replacing from outside where we know the talent crisis will really bite.

Around the world there are more employer-led universities and more businesses partnering with their governments and foundations to invest in workforce development. The role that business is taking in upgrading and fostering skills outside their own companies shows how the business world is realising the need to take the long view, and a local view, when it comes to talent. Despite more global mobility, CEOs ideally want local leadership in local markets. One of the ways businesses are developing this is by sending their people on secondments to non-competing sectors and in this issue we'll look at the 'talent swap shop' and the benefits it can bring to your business and your clients.

Significantly, the talent challenge is a boost for HR's seat at the table; 79% of CEOs say that the chief HR officer or equivalent reports directly to them. It means that businesses are taking a closer look at their long-term talent needs: the right move if they want to close the resourcing gap and map how their needs will change.

There's a big opportunity for HR in metrics. Only a minority of CEOs are getting comprehensive HR management information for the measures they say are important. CEOs want to know about their talent investments beyond productivity and labour costs. Employee engagement, team performance and isolating skills gaps are difficult measurements to make, but they are critical to see where investments and innovation are working. In this issue we look at the latest in talent-finding software and ask whether technology is the right way to find your people.

CEOs are clearly frustrated with the issue of talent. But the topic is clearly firmly on their minds. This is reassuring, and if CEOs can work with HR to align the business plan with the talent strategy then the benefits will be clear. If, together, they can face the future and get their talent pipeline in place, pay attention to pivotal roles, and focus on the benchmarks and analytics that matter then next year's survey results and beyond will tell a very different story.

Increasing globalisation means that HR needs to find a centralised model that works effectively at a local level and can withstand diverse cultural differences.

In search of a global model

Written by
Nick Martindale

Our latest *Annual Global CEO Survey* painted something of a mixed picture. Conducted at the back end of 2011 it found, perhaps unsurprisingly, that just 15% of CEOs were expecting to see macroeconomic growth this year. Yet, at the same time, some 40% said they were very confident about their own company's growth potential, and much of this seems to stem from targeting developing economies as new markets, in addition to manufacturing or offshoring centres. Half the CEOs from developed countries thought emerging markets were now more important to their business than in the past, and 68% of CEOs in these up-and-coming territories also shared this view.

Peter Reilly is Director of HR Research and Consultancy at the Institute for Employment Studies, and co-author of *Global HR*. His research suggests there is still a trend for HR to centralise operations and reduce local resources, despite the changing macro-economic landscape.

"The argument is that 90% of what you do around the world in HR terms is exactly the same," he says. "The only things you need to have done locally are to do with local employee relations or legal compliance. Everything else – talent management, reward, performance management – can be done centrally, on a central template which allows for some limited adaptation to suit local circumstances."

"Operating in an increasingly globalised – and far more egalitarian – environment brings with it a number of fundamental issues for HR, both in how the function itself is structured and in its role in helping to set up and run operations on the ground."

But viewing such countries as areas for sales growth rather than simply as sources of cheap labour presents a challenge for organisations; not least the need to design new products specifically for those markets and to open – or expand – operations in such countries.

Nor is this the only motivation behind this new wave of globalisation, says Clinton Wingrove, Principal Consultant at Pilat HR Solutions. "It's not just companies wanting to get bigger; it's mergers and acquisitions and companies moving manufacturing service centres offshore," he says. "We're not just opening up operations abroad, which was the concept of globalisation a few years ago. We're now fragmenting companies globally, with parts of them abroad and parts not."

The picture is further complicated by the wider shift in economic power from the West to the East, which has been accelerated by the downturn of the past four years, says Jon Andrews, Partner at PwC. "The power has completely shifted," he says. "Organisations like Tata are buying Western organisations and running them outside of countries in the western environment. The challenge for them is how they deal with situations like running Jaguar Land Rover in the UK in a much more regulated, compliance-oriented environment than they're used to."

Operating in an increasingly globalised – and far more egalitarian – environment brings with it a number of fundamental issues for HR, both in how the function itself is structured and in its role in helping to set up and run operations on the ground.

This model is based around a belief that employees all buy into the same corporate identity, he says, regardless of their different cultural backgrounds. But there's an emerging model known as 'glocalisation', he adds, which provides a form of hybrid between imposing a centralised model and creating one that operates largely at local levels.

"It's trying to get the benefits of both," he says, "acknowledging being global where that makes sense in terms of efficiencies, economies of scale and the more transactional end of the HR spectrum, but also the needs of a particular population that companies need to keep locally aligned."

There are, though, plenty of examples of where imposing a top-down approach on local cultures simply doesn't work, whatever the cost efficiencies or advantages in terms of creating a distinct employer brand or protecting against practices that could be perceived as damaging by Western stock markets.

Cris Beswick, a leadership consultant and author of *The Road to Innovation*, points to the social and cultural hierarchy that exists within India, which makes it difficult for people to accept younger workers managing older ones. "There's a huge amount of tension in that part of the world because of the way men, predominantly, socially interact in terms of hierarchy," he says. "As companies now are global, we have to look at what the local cultural differences and nuances are that potentially can cause conflict."

Wingrove, meanwhile, points out that asking someone for feedback or running an appraisal can be a very different scenario in countries such as Japan or the Islamic culture than it would in the US. "The respect for authority and the different view of ambiguity and uncertainty means that how they approach it is completely different," he says.

"You do that in China and they'll do everything possible to avoid completing the questionnaire because it's not seen as something that you should do.

"There's an emerging model known as 'glocalisation' which provides a form of hybrid between imposing a centralised model and creating one that operates largely at local levels."

In an Islamic culture there's only one person who can do an assessment and that's Allah. That doesn't mean to say you can't do appraisals but you do have to describe them differently." Nor are such issues confined to individual HR practices; entire company mergers have fundamentally failed because it's proved impossible to impose one way of working on another organisation, he adds.

Andrews, too, warns of legal and regulatory issues that can also drive what is expected by employees in terms of benefits or other employer provisions. "If you come from an environment such as the US where they don't typically provide defined benefit pension schemes, or even defined contribution schemes, and you try to apply that globally you end up with a less attractive proposition for the local talent," he warns. Even applying a global learning initiative needs to factor in local nuances, as different delivery methods can fail spectacularly in the wrong environment.

The realities of the increasingly globalised environment have considerable implications for HR. Sue Brooks, Managing Director of Ochre House, says the push for growth into new markets is challenging the Ulrich model, which has seen many functions push for greater centralisation.

"Some of the global HR models that exist have developed very well for strategic HR at the top, with centres of excellence, and created very good bottom-centralised operations. But they've been too quick to remove that HR business partner generalist layer that was sitting in-country which understood local business and local relationships," she says. There's now a gap which is being filled by outsourced providers.

Yet while organisations in general have learned the benefit of building up local management teams on the operational side, Wingrove argues the opposite should apply in HR; at least initially. "HR has to bridge the gap between the corporate strategy and making things work on the ground and if you're attempting to drive a global culture you clearly need coal-face HR people," he says. "You need global thinking at a higher level in HR and local thinking at a higher level in the operational unit. You've got the global perspective coming through in the policies and procedures, but you've got the local reflection of them in practice through operational managers who will have the local respect."

Pip Clarke is Principal Consultant at A&DC and argues that senior HR professionals need to become more mobile in a bid to better understand local cultures. "They also need to be much better at stakeholder management than they've ever had to in the past," she warns. "They need to be able to not only go and visit local cultures but also to get their input and buy-in to whatever centralised HR or the centralised business is doing."

One client of hers even designed a global competency framework for his organisation and then undertook a series of roadshows around the world to secure buy-in from regional heads of HR, she says. "If he tried to impose it from a centralised perspective, particularly in places like France and Italy, they would just ignore it and do their own thing," she says.

The ramifications of the battle for growth in new markets also challenge HR from an operational perspective. Clarke highlights a growing trend for companies to insist senior leaders move countries every two years in a bid to develop a greater understanding of the global enterprise. "That's built into succession planning, performance management and talent management pipelines, so you've got a very global workforce moving around and we need centralised and global ways of managing that," she says. "But when you get further down in the organisation, those cultural differences are still very significant and important, and the leadership that goes into those countries has to learn how to operate in those local environments."

50%

Of chief executives in developed countries think emerging markets are more important to their business than in the past.

Learning the hard way

Simon Brown has worked in senior HR positions with a global remit for the past two decades, including posts with Duracell, GlaxoSmithKline and Coca-Cola, as well as his current role as HR Shared Services Director for EMEA at NCR Corporation.

Over this time there has been a gradual shift towards acknowledging the need to "think global but act local", he says, particularly in China and other emerging markets where the legislative and cultural surroundings are very different to those with which Western organisations are familiar.

"A big challenge, particularly for a US-led organisation, is to recognise that one size doesn't fit all and while you can achieve your global objectives with global policies you need to recognise that the procedures that sit underneath that need to be built up from the ground," he says.

A good example of where local understanding is vital is around the team-based culture of the Far East, which contrasts with the individual nature of US and Western European companies, he says.

"Other issues are around decision-making," he adds. "In some parts of Scandinavia it's more around consensus than an aggressive yes-or-no culture, which tends to be the Anglo-Saxon or North American approach. For a global manager, certainly from an HR perspective, you have to go with the culture that you're in."

Targeting markets where there may be no company history at all also creates challenges, especially in some of the newer emerging economies. Reilly, for instance, points out the need for even greater input from local staff on new projects, and highlights a trend to identify individuals who have both that local knowledge and understanding along with experience of working in the organisation's home territory, if not for the individual company. "They look at people who have got a foot in both camps; who speak the language and understand the culture of the target country and yet have been socialised in some way or another in the host country," he says.

Ultimately, against the backdrop of the rapid emergence of the East as the world's economic powerhouse, HR and the wider organisational structures in global businesses will have to place a far greater emphasis on local cultures and ways of working if they wish to see the full benefits of targeting territories as both drivers of growth and sources of supply.

"Companies are now realising that you've got to have that local cultural overlay," says Wingrove. "The concept of trying to drive globalisation will continue but we'll actually be much smarter at it and organisations will adopt a more planned approach. Only six or seven years ago companies were still sending out emails saying 'here is our new set of values' or 'here is our new competency model'. I think we'll stop that sort of nonsense."

Talent exchanges help to transfer knowledge more quickly and bring about new, enhanced practices to boost business performance.

Talent swap shop

Written by
Sarah Perrin

Could your organisation develop the future leaders it needs through talent exchanges with other companies? Though often occurring under the public radar and without fanfare, such arrangements can help your people gain new insights and capabilities that they can then put to good effect back in your own organisation. They can also help to maintain the loyalty of ambitious individuals who feel that their immediate internal development opportunities may be limited.

One known example of a talent exchange involves Google and Procter & Gamble – two companies in very different fields, but with a shared goal of developing their internal talent and improving corporate performance. A few years ago the two organisations agreed to run a project to systematically exchange marketing and engineering talent for limited periods.

"This gives each direct access to the skills and capabilities of the other organisation," says Charles Donkor, Partner in Human Capital Consulting at PwC Switzerland. "The talents bring their knowledge to the other company, where they themselves experience a steep learning curve before bringing their newly acquired knowledge back to their own employer." As Donkor highlights, the benefits go beyond pure talent development. "Sharing talents isn't just about sharing knowledge: it's a catalyst for accelerating change processes within your own organisation," he says.

Such talent exchanges could provide at least part of the answer for CEOs seeking to develop leadership skills throughout their organisations to help them succeed in the global marketplace. This emerged as a key concern in our latest *Annual Global CEO Survey*, in which one in four CEOs said they were unable to pursue a market opportunity or had had to cancel or delay a strategic initiative because of talent challenges. One in three was concerned that skills shortages would affect their company's ability to innovate effectively. Strategies for managing talent were seen as most likely to change over the next 12 months, ahead of any other business issue. With all sectors facing huge challenges in recruiting and retaining the individuals they need, increasing emphasis continues to be placed on developing existing talent and helping individuals move up the leadership ladder.

While Google and Procter & Gamble's agreement was developed just between themselves, talent swaps can also take place among a grouping of organisations perhaps brought together through a research project and/or by the desire to address a common challenge. "Organisations from different sectors – perhaps six to ten of them – can get together in a consortium for talent development purposes," says Neil Roden, a Partner with PwC in the UK. "They may set up project teams to address particular issues, but they may also organise secondments for their staff in order for them to gain insights into how other entities do things and develop their capabilities. Ultimately, they're hoping to fill their talent pipelines to meet their future requirements."

"Arranging a talent swap with an external organisation can be challenging, but internal swaps deliver benefits too."

One example of a group talent exchange mechanism comes from Switzerland, where a Swiss-based recruitment company has set up leadersgate.ch as a platform for half a dozen global industrial companies to form a community of interest. "At regular intervals they talk about whether there's a specific need to 'borrow' talented employees with special technical or organisational knowhow or place them in another company to help them develop their careers," Donkor says. "These exchanges are uncomplicated and based on mutual trust."

Such arrangements do need to be developed carefully to foster that mutual trust. So they may be particularly likely to arise where organisations belong to open innovation networks and are collaborating on particular development projects. Joint ventures set up for the same reasons also provide opportunities to exchange talent for mutual benefit.

There are signs of growing interest among organisation in exploring new ways to develop talent for mutual benefit. For example, Donkor recently learned of a group of four companies in Germany which have agreed to participate in a programme for graduates. "The graduates go from one company to another over a period of two years, and at the end they decide where they want to work," Donkor says. "I am seeing more examples of this kind of innovative approach to talent development."

There are, of course, some risks attached to exchanging talent with other organisations. For example, the incoming individuals may not meet the host entity's expectations in terms of the skills and capabilities they bring with them.

How to exchange talent successfully

- Identify complementary organisations, those you already have a successful business relationship with, or consultancies/business schools which run research projects in the talent development sphere.
- Make sure that other participating organisations have a similar talent development goal and a similar definition of talent.
- Establish a clearly defined talent exchange mechanism.
- Try to establish a common understanding of how shared talents are to be deployed.
- Make sure there's agreement on the duration of each exchange – perhaps six, 12 or 18 months.
- Discuss how individuals returning from an exchange will be reintegrated back into their own organisations.
- Establish rules for special cases – such as the resignation of an individual during an exchange period, or the desire of the host organisation to hire a visiting individual on a permanent basis.

They may perhaps struggle to adapt to their new environment. Other employees may feel unsettled or find it difficult to accept a new, temporary manager or business leader who may have a different working style. But clear communication of the goals of the project and the potential benefits for all concerned can help to allay such fears.

"You have to go into these arrangements with the right attitude and mind-set around sharing," says Roden. "With that goes an element of trust. That's why talent exchanges are often facilitated by an independent third party, such as a consultancy or business school. That's also why competitors don't get together in the same talent exchange or project group. You need a few essential ground rules like that to make the mechanism work."

"There are risks, but if you don't take any risks you won't get the potential benefits," agrees Rebecca Clake, Adviser at the Chartered Institute of Personnel and Development. "We know from our *2011 Resourcing and talent planning survey* that talent is still a major issue for organisations. But we also know that budgets are under pressure, so organisations need to look for different ways of doing things like developing their talent."

As Clake notes, the challenges for small and medium-sized entities (SMEs) in setting up talent exchanges are typically greatest, simply because of the lesser resources they have at their disposal. But they do happen, sometimes between a series of organisations. Clake has recent anecdotal evidence of staff from different SMEs going on secondment to another entity – perhaps overseas, or locally – where there is an existing business relationship. "Smaller organisations, whose budgets may be particularly under pressure, could look at their existing contacts to see if there are innovative solutions – such as talent exchanges – that they could operate together," she says. "If you can build a trusting partnership with another organisation, both of you could benefit."

The CIPD's publication *Fighting back through talent innovation* highlights the experience of the London Borough of Tower Hamlets, which has been working creatively with external organisations to develop and manage its talent. For example, it built a relationship with the London Organising Committee for the Olympic Games(LOCOG), knowing that there would be lots of jobs at the time of the Games and good opportunities to share learning and practice. The relationship resulted, for example, in the secondment of a member of the borough's recruitment team to LOCOG.

Clake highlights that helping staff learn and develop through an exchange with another employer can be particularly effective. "The feedback we get from employees is that they learn well on the job," Clake says. "Evidence shows that going on a training course is not necessarily the best way to gain new skills. So learning through a talent exchange could be a particularly valuable alternative way for individuals to develop their abilities."

33%

Of CEOs are worried that the skills shortage will affect their company's ability to innovate effectively.

Benefits of a successful talent exchange

- Enhanced training and development opportunities are created for talented individuals who may not be able to develop their capabilities so rapidly within their own organisation.
- Individuals can improve their softer skills through operating in a new environment, as well as gaining technical or business knowledge.
- Learning on-the-job in this way is often more effective than taking part in (potentially expensive) formal or classroom training.
- HR directors achieve training and development and resourcing goals in a cost-effective manner.
- A talent exchange offers a new way to motivate and retain the loyalty of your talented people.
- Knowledge transfer of enhanced or best practice within another organisation can be achieved.
- Relationships with other organisations are strengthened, improving potential for innovation and development projects which benefit you both.
- Better business performance and competitiveness.

Arranging a talent swap with an external organisation can be challenging, but internal swaps deliver benefits too. Leatham Green, Assistant Director of Personnel and Training for the department which deals with governance and community services at East Sussex County Council, encourages swaps among HR personnel and among other functions.

For example, he encourages his HR managers to swap into the role of managing the payroll processing team. “This enables my up-and-coming stars to cut their teeth on managing people,” Green says. “Then if they want to go on to advisory roles dealing with managing and motivating large numbers of low paid staff, they have done it. They don’t have to do the role for years to gain the necessary experience – perhaps three or six months.”

There are always business drivers behind any swaps, he adds, such as the need to support succession planning or career development. Another driver could be to reduce the risk of staff burnout and so increase the organisation’s resilience. For example, social workers managing multiple child protection cases could be at particular risk. One solution is to arrange a swap with a colleague in a less stressful job, “who might not be making life or death decisions”, Green explains. “We have roles which involve inducting social workers, running training programmes for them, writing policy, dealing with complaints or quality checking. If we can swap people for maybe six or 12 months, in the longer term that leads to better decision making and overall sustainability.”

Internal swaps also enable organisations to reward individuals when pay rises are out of the question – a key issue for public sector entities at present. “I might not be able to reward an individual financially, but I could potentially reward them from a career point of view,” Green says. “If a swap enables them to gain more experience and knowledge, it helps them sustain long-term employability. So we can use swaps to keep people engaged and show we are taking an interest in them.”

Ignoring flawed CVs and recruiting people without relevant experience are just two of the ways HR can make sure they have top flight employees

Innovative recruitment

Written by
Beth Holmes

Back in the seventeenth century the British Royal Navy had a novel approach to recruitment. Pressing money into the hands of fit young men (thus coining the phrase 'press gang') before coshing them over the head and spiriting them away so they woke up on a ship could hardly be described as best practice. Since then, thankfully, employment law has put paid to recruiting with violence and fostered a variety of different selection methods generally aimed at filling positions with the right people. People are vastly more educated in the world today than in decades gone by and technology allows people to be recruited more efficiently than ever before. So it should, in theory, be easier than ever to guarantee that you can find and hire the right people. But our *15th Annual Global CEO Survey* paints a different picture.

Shortages are apparent everywhere. More CEOs are changing talent management strategies than are adjusting approaches to risk. The survey shows that 23% expect 'major change' to the way they manage their talent. Skills shortages are seen as a top threat to growth. And talent shortages are having an impact on profitability now; One in four CEOs said they were unable to pursue a market opportunity or have had to cancel or delay a strategic initiative because of talent. And one in three is concerned that skills shortages will constrain their company's innovation.

The problem is not confined to one industry or sector or indeed geographical area. CEOs across industries say it's become more difficult to hire. The survey shows that the problems are acute in both knowledge industries such as pharmaceuticals and life sciences, and technology, and heavy industries such as industrial manufacturing and automotive. Even industries that have retrenched workers in large numbers like banking are still struggling to get the right people. Developed market banks are in competition with one another but also with increasingly ambitious and well-capitalised local competitors in faster-growing economies.

The key to getting the right people, believe the CEOs, is to make important strategic decisions regarding talent management and, believe some, to turn things upside-down and instead of thinking along the lines of getting the right people in order to facilitate innovation (a subject explored by Philip Smith on p16), to use innovative ways to get those right people. But how can this be achieved in practice and what does it mean for the HR managers tasked with helping?

Pulitzer prize-winning author George Anders explores how companies can find and recruit candidates with breakthrough potential in his latest book *The Rare Find:* Spotting exceptional talent before everyone else. He spoke to *Hourglass* about the problems of traditional recruitment methods.

"Companies tend to go off-track in three ways as they approach hiring," he says. "They can fall victim to using a talent-assessment system that's too narrow or superficial, so they consistently pick the wrong people. That most commonly leads to selecting people on the basis of showy traits such as charisma or boardroom presence without paying enough attention to core skills and motivation necessary to succeed at the task at hand. Alternatively, quests can become so hazy that there's no clear sense of priorities. Searches drag on too long. Companies end up overpaying for general talent, rather than finding people who are best suited for their own organisations. Loyalty and high turnover can become big issues. Finally, companies can blunder by letting their hiring standards become frozen in time, so that their business needs evolve, but their banks of human capital don't."

Further complicating matters is the fact that many companies are unaware that they have been going wrong. "It's alarming how slow companies can be to identify chronic mistakes," says Anders, who adds that in his book he builds on Jim Collins' analysis in *How the Mighty Fall* where he observed that accountability tends to evaporate in companies that have lost their way. "Leaders don't seek out new information. Data loses its power to persuade. Subordinates shield those in command from the grim facts. Power concentrates in the hands of self-promoters, who aren't really interested in fixing anything."

At the heart of the issue is the need for organisations to understand their own needs in terms of human capital. As Anders says, "Everyone needs top-flight performance. Sloppy or listless work will translate into deteriorating market share, eroding profitability and eventually an unsustainable set of problems.

"Inability to move with the times will eventually take its toll. Eastman Kodak went from being a world-beater in the 1970s to bankruptcy proceedings in 2011 – a 40 year decline. For smaller businesses, the penalties of not keeping up are felt faster."

23%

Of CEOs expect major changes in the way they manage their talent.

"Companies can blunder by letting their hiring standards become frozen in time, so that their business needs evolve, but their banks of human capital don't."

One of the points Anders makes in his book is the existence of what he calls 'jagged resumés'; essentially, he explains, these are CVs that include both fascinating strengths and some sorts of flaws. "These tend to come from candidates with remarkable drive, ingenuity or personal backgrounds. They are tempered by gaps in their credentials, so these applicants don't arrive with smooth, fully rounded credentials in all respects. For example, candidates might have been erratic students at university, or might have switched careers in an uncommon way, or might have limited direct experience in the relevant industry (offset by deep experience in a field where much knowledge is transferable.)"

The idea of knowledge being transferable is also a theme reflected in the CEO survey and itself throws up some interesting and offbeat views on recruitment strategies. The survey found that across all industries, more CEOs would rather local leadership run local business units. Currently 29% of senior managers are transferred from their headquarters country to newer markets but in a perfect world only 18% of CEOs said they would continue to move their senior leaders from headquarters.

This is becoming increasingly hard to do in fast-growing economies. Foreign multinationals remain desirable employers, but top talent in India and China, among other economies, have many more options with domestic multinationals today, which can offer opportunities to run growing, global businesses and increasingly, can match Western compensation packages.

While the CEO survey looks at knowledge transfer within organisations, there's a growing argument for spreading this transfer through one company's human capital membrane and sharing with another. Charles Donkor, Partner in Human Capital Consulting at PwC Switzerland, has explored this idea by introducing the concept of an 'open innovation network' which allows organisations to boost their own innovation potential by opening up the innovation process to strategically and actively harness the outside world.

"Studies show that organisations see finding enough talented people as the biggest challenge in innovation," says Donkor. "The closer the organisations within the network come together, the more sense it makes to also exchange top talents temporarily on a systematic basis. Top talents embody the technical and organisational skills that, like synapses in the nervous system, connect the individual cells and enable knowledge to be shared. In a tightly knit, successful network, individual business units have to assume these skills themselves to a certain extent. This makes collaboration both more efficient and more effective. Systematic talent sharing can facilitate and accelerate this transfer of skills and capabilities." This theme is analysed further by Sarah Perrin on p08.

Although open innovation networks have so far been somewhat dominated by large organisations such as Philips, Osram, Beiersdorf, 3M and BMW the theory has as much resonance for small and medium-sized businesses who are most likely to suffer a shortage of talented resources. But, as Donkor says, "These same businesses potentially have the most to gain from open innovation."

It's a message that seems to be permeating the minds of the world's business leaders. As Tom Albanese, CEO of Rio Tinto, says: "People of my generation will be retiring over the next ten years, leaving a pretty shallow pool of people; then everyone will be struggling and competing for a limited group of experienced mining professionals. But we do find that we can go outside our sector, for example, for mechanical engineers who are good with industrial enterprises."

Indeed some private banks in Switzerland are specifically targeting graduates and others with hospitality training and experience because of their superior people and communication skills, on the basis that the financial skills they need can be provided in-house.

So, as a start, if you're faced with a candidate who looks, on paper, like someone who you may have dismissed as not having the right skills or coming from the right industry or having 'enough' experience, think again. As Anders says: "I do advocate widening the hiring company's gaze, so that candidates...can get full consideration for their strengths. Often, people who go on to great success in a field didn't look like perfect candidates when they got started."

There are many ways to build a workforce culture of innovation, but HR teams need to be creative if they're going to get it right.

Creating the creative

Written by
Philip Smith

The death of Steve Jobs, Apple's founder and chief innovator, at the age of 56, left many fearing the company that revolutionised the way we use technology in our lives might lose its drive for innovation. Only time will tell, but certainly Jobs left the company with a legacy that will stretch some way into the future – for instance, it's widely tipped that Apple is set to take on television innovation in a way that could radically alter the way we watch the box in the corner of the sitting room.

And yet, for all of its innovative, ground-breaking products and services, Apple's working culture seems to be at odds with a company so closely aligned to the leading edge of hi-tech creativity. Famed for its intense secrecy, where one development team has no idea what a neighbouring team is working on, Apple's culture doesn't appear to fit any management book theories on innovation, based on openness and collaboration.

And yet it works, showing that one size doesn't fit all, a conclusion that will make it even harder for those in the HR team as they try to create a culture that inspires innovation in their businesses.

"It's possible to engineer an innovative culture based around a dominant person or, conversely, to enable a culture based around a team where outsiders might not even know the name of the boss."

But first, let's take a step back and look at exactly what innovation means. "We tend to use innovation to cover a number of things; the simple one that most people think of is new products or new services," says David Percival, a consultant with PRTM Management Consulting, part of PwC. "But quite a few people are now beginning to understand innovation to mean new business models, and a third one is new ways of working, new structures and the like."

As the participants in our *15th Annual Global CEO Survey* points out, each aspect of a business is fair game for reinvention. And it's high on the agenda – the survey reports that three out of four CEOs plan to change research and development and innovation capacity in 2012, of which nearly a quarter expect 'major change'.

And the survey also reveals that being innovative is increasingly seen as a major differentiator for many businesses. As Luiza Helena Trajano Inácio Rodriguez, CEO of retailer Magazine Luiza in Brazil, told us: "Today, everything's a commodity. Service quality is a commodity, price is a commodity. But there are two things that will make a difference for your company or your professional profile: customer service and relations and innovation."

Culturally, there are different dimensions at play here. It's possible to engineer an innovative culture based around a dominant person, or conversely enable a culture based around a team where outsiders might not even know the name of the boss. Percival cites Apple as an example of the former, and 3M as an example of the latter. "There are different types of culture, all of which can be successful," Percival says. "In fact, the trouble with innovation is that there is not one linear answer. Things that you think are bad are not always bad."

As a result, there can be many different ways in which the HR team can motivate and encourage innovation. "If you're trying to move to open innovation, you need to acknowledge that you can't know everything, and therefore the sum of the world will always be bigger than the sum of me," says Percival. He points to the modern technique of 'crowd-sourcing' where a number of collaborators will come together to work on a project. In business terms, he calls this 'open innovation'. An innovative organisation like this becomes, in effect, a channel through which ideas can pass, drawing on the inspiration of outside influences.

Sir Christopher Evans, one of the UK's most successful biotech entrepreneurs, is tapping into the demand for these kinds of methods through his latest venture, NCPharma. He approached large pharmaceutical companies to ask for the rights to test drugs that may have reached the development stage, but have been held back while companies develop other drugs or medical treatments in their portfolio. These schemes recognise that companies have finite resources and so can only develop a finite number of products – many more could be left on the shelf, labeled as a great idea but nothing more.

CEOs planning to innovate

Our *15th Annual CEO Global Survey* serves to underline the importance that corporate bosses place on innovation. They see it as a vital part of their growth strategies, accepting that without innovation, their companies won't thrive. But they also acknowledge that one size won't fit all their markets.

According to the survey, CEOs are developing new capabilities in their important markets, and tailoring approaches to make sure that the best of their global expertise supports rather than imposes operational structures on the local business. One in five plans to innovate locally in their important markets.

When it comes to innovating in and for local markets, delivering on the value that customers in those markets expect is paramount. Between a fifth and a third of all CEOs say they are creating products specifically for their important markets. It will be increasingly important to get segmentation right – at the regional, country, city or even neighbourhood level – and to design operating models around serving those segments. That means looking beyond product design to include factors such as production, distribution and marketing. And even in the same location, there are age-related aspects that need to be considered.

As Roger Ferguson, CEO of TIAA-GREF, the pensions provider, says: "Certainly we've seen generational differences, particularly around social networking and the use of technology. So there are many ways in which we're listening to clients and adapting our practices to respond to the unique needs of different groups."

James White, former Technical Director at 3M, recently spoke about the key role that HR can play in fostering a culture of innovation. Speaking on HRM TV, he said: "One of the things that I've seen 3M HR do well is to go through a process with managers and directors to identify the key innovators within the organisation, because maybe fewer than 10% of the people in an organisation are truly the drivers and innovators. Our HR team has helped a lot to facilitate the discussion about those individuals down to a very detailed level, identifying who they are, where they are in their career, what sorts of activities or moves they could make, even down to the level of personal issues." White acknowledged that the company needed to do its homework during the recruitment process as well to make sure they took on individuals that would be able to carry out the role of innovator.

3M has implemented a programme called Discovery, which allows groups and individuals to use 15% of their time to explore new ideas and technologies. "A young engineer or a team can apply for a Discover grant that gives them some seed money, in the range of £25,000 to £50,000, to develop the idea. It's a good way for engineers to define the programmes and really think about how they want to lay out the progress and get the seed funding," White explained.

So where can HR play a role in promoting innovation? Internally, there are a number of important factors. There's leadership – providing help to select the right leaders and nurturing the right leadership can power innovation. "Then there's how you encourage and use those leaders to either be brilliant or to open up and create innovation-offering opportunities within their organisation, teaching the leaders to empower their organisation," says Percival.

20%

Of CEOs plan to innovate locally in their most important markets.

"So HR needs to understand the direction of flow for innovation, it needs to understand that there is no single answer, and that innovation doesn't reside in just one part of its organisation."

The HR team needs to have a set of performance metrics and motivators in place that can capture, measure and reward success – you may not be measuring how inventive and innovative an individual is, but how that person allows innovation to succeed, guided by outside as well as inside creativity.

Once that's in place, there's the need to enable innovation, such as open team working, allowing time off for innovative work, allowing the organisation to open up to outsiders. Employees must be confident that their positions are secure, that they won't be marked down for taking the time to think, to innovate.

"HR can have a massive impact on innovation, but it must realise there isn't a good or bad answer," explains Percival, adding that it has to understand the diversity of its workforce – young and old, male and female, Western or from West or East.

As Brian Duperreault, CEO of Marsh & McLennan, says: "Classically, innovation resided in the developed world. We took ideas and moved them into the emerging world. There's now an equal chance, and maybe a greater chance, that innovative ideas will come out of the developing world, where the action is, where the need to deliver more for less is even more heightened. Today we're getting as many ideas out of, say, China and India as we were before out of the US and Europe."

So HR needs to understand the direction of flow for innovation, it needs to understand that there is no single answer, and that innovation doesn't reside in just one part of its organisation. But above all, says Percival, "HR has to believe in innovation."

Top tips for a truly innovative culture

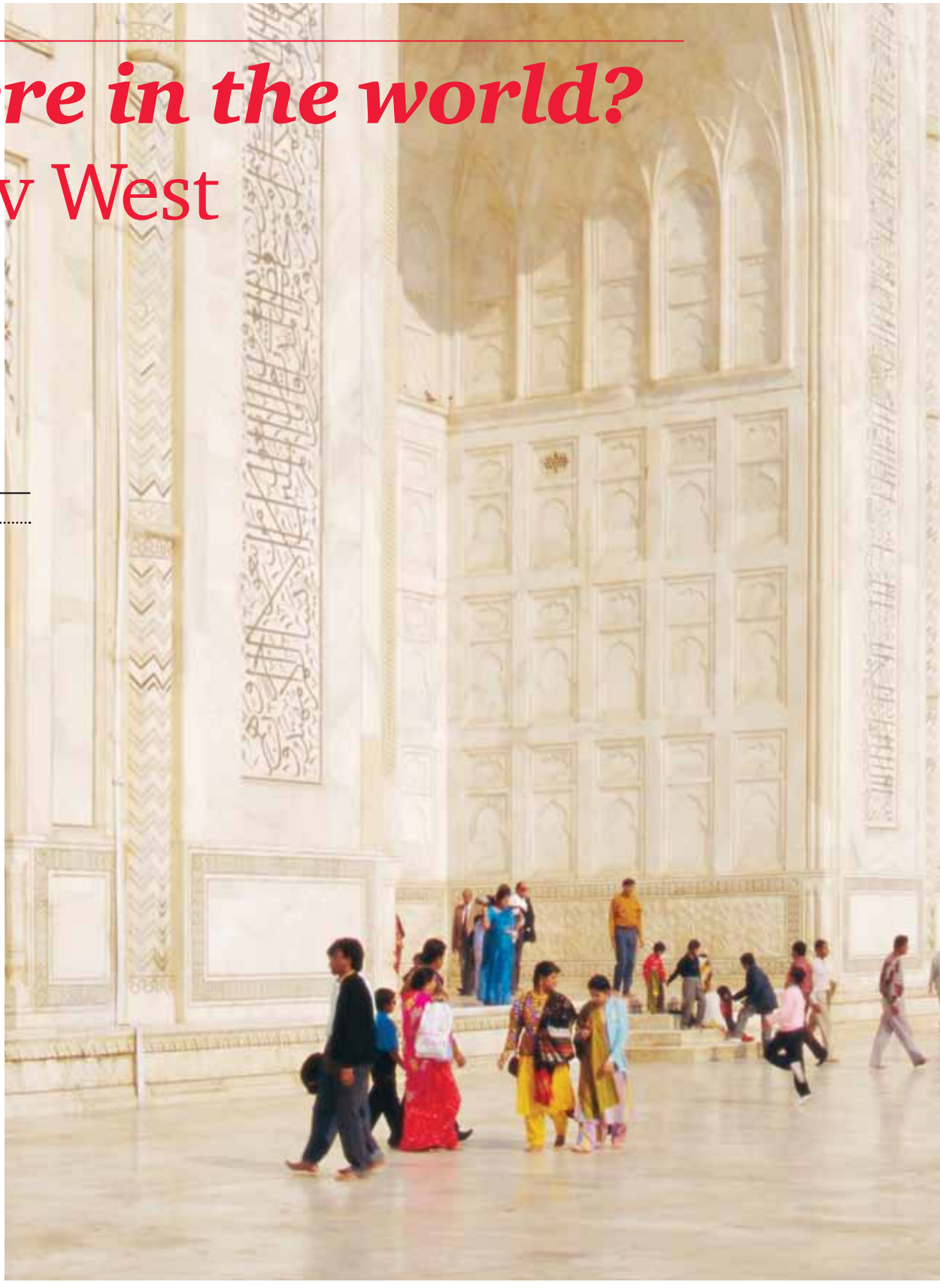
- ***Tone at the top:*** leadership is crucial; a conservative leader will not create an innovative culture.
- ***Trust:*** leaders and their HR teams must trust individuals, and allow them the freedom to innovate.
- ***Time:*** set aside a period where individuals can escape the pressures of day-to-day work.
- ***Team:*** accept you cannot do it alone, find the brightest and best, either within the organisation or outside.
- ***Trial and error:*** failure must be embraced, not chastised.
- ***Tools:*** put technology in place to share, build and develop ideas.
- ***Talk:*** secrecy can work, but sharing could work better.
- ***Think:*** allow the space and opportunity to think through solutions and innovation.
- ***Transform:*** treat innovation as a core competency, support workers to develop their innovation skills, and remember that anyone can be innovative with support and guidance.

How much longer can the regulatory differences between East and West dictate where companies choose to do business?

Where in the world? East v West

Written by

Brian Hanney



Over the past 20 years or so, the steady rumble of businesses marching from West to East has grown louder. Financial services firms were some of the first to take advantages of lower wages and increasing skills in the developing economies of India and China, creating a burgeoning services and outsourcing sector in the East. Since then, an increasing number of hi-tech and manufacturing companies from the West have set up operations in the East.

The reasons behind the trend are many and complicated but a major factor is the fact that most developed countries have an ageing and declining population, while many developing countries have a young and growing population. In such a demographic environment the march towards the East for companies, or the march towards the West for skilled workers, or some combination of both, seems inevitable.

"There are a number of reasons why companies move out East," says Iain McCluskey, Senior Manager, Human Resources Services at PwC. "One reason is to be near the source of supply." He cites Dyson's move to Malaysia in 2002 because components for the company's vacuum cleaners are made in the region "and they didn't have to shift parts out to the East"

"Also access to markets is a compelling reason, and they are growing fastest in the East. Markets in those countries are very different to 15 years ago. For the last two or three years the West has been in recession. The economy has been driven by growing markets." He adds: "Those two things are as strong a consideration as cost and wages."

According to our *15th Annual Global CEO Survey*, over 70% of CEOs are planning to grow domestic customer bases in their important markets. The demands from Asian households will be eight times that from US households. In 2008, China and India accounted for 35% of demand worldwide for the top 100 traded goods and services. This figure will rise to about 50% by 2015. This is likely to have a huge effect on how Western companies do business over time.

These trends are essentially leading to a slow globalisation of the workforce. In theory, as Western companies move east and as skilled young workers flood out of universities in developing economies, the result, eventually, should be a levelling of the employment playing field, in terms of pay, regulation and accepted conditions. At least, that's the theory. Real-life is more complicated.

"The computer giant, Apple, made it clear that when it moved its manufacturing from the US to Asia in the 1990s that it was partly because the employment regulations were more favourable in Asia than the US."

The generally accepted argument, for instance, is that lower labour costs in the East are attracting Western companies now, but that can't last. "In China, wages increased by 69% between 2005 and 2010. They'll soon catch up with the West," says McCluskey.

But at a local level, the debate is far more complicated. A pared-down version of the current East-West debate can be seen in Germany, where 23 years after the Berlin Wall fell, workers in the former East Germany still earn as much as 33% less than their counterparts in West Germany, with only hairdressers earning more in Eastern Germany. Collective bargaining is being blamed for the westward migration of skilled workers – half of employees in Eastern Germany are paid based on a collective agreement, compared with 63% elsewhere – combined with the fact that the higher-paying industries, such as electronics and chemicals, are concentrated in the west of the country. As a result, employers in the east of the country have less incentive to increase pay as there is less local competition.

The regulatory environment is also a factor. The computer giant, Apple, made it clear that when it moved its manufacturing from the US to Asia in the 1990s that it was partly because the employment regulations were more favourable in Asia than the US, and in particular employees were able to work longer hours.

According to a survey from the British Chambers of Commerce (BCC), businesses in the UK are still held back by tough employment legislation. It says that 82% of firms found regulations around sickness absence burdensome. And 54% thought dismissal rules were either extremely or fairly burdensome. The BCC argues that relaxing rules around dismissal would encourage companies to create jobs. This ties in with our CEO survey, which points out that CEOs around the world constantly report over-regulation as a threat to their growth.

The question this raises is whether Western governments will be tempted, or forced, to relax employment legislation in order to persuade their companies to remain at home. McCluskey says this is already happening to an extent in the UK which has, for example, reduced to one year the time in which workers can claim unfair dismissal. "The Prime Minister has been looking into the removal of red tape, including a reduction in rights for UK workers. The noise from the Government is that that's the direction of travel," he says.

This doesn't mean there will be any reduction in trade union rights in the West, which is "in our DNA and culture", says McCluskey. And in countries like China, as the workforce becomes more educated, a similar process is likely to take place "if they make enough noise to get protection".

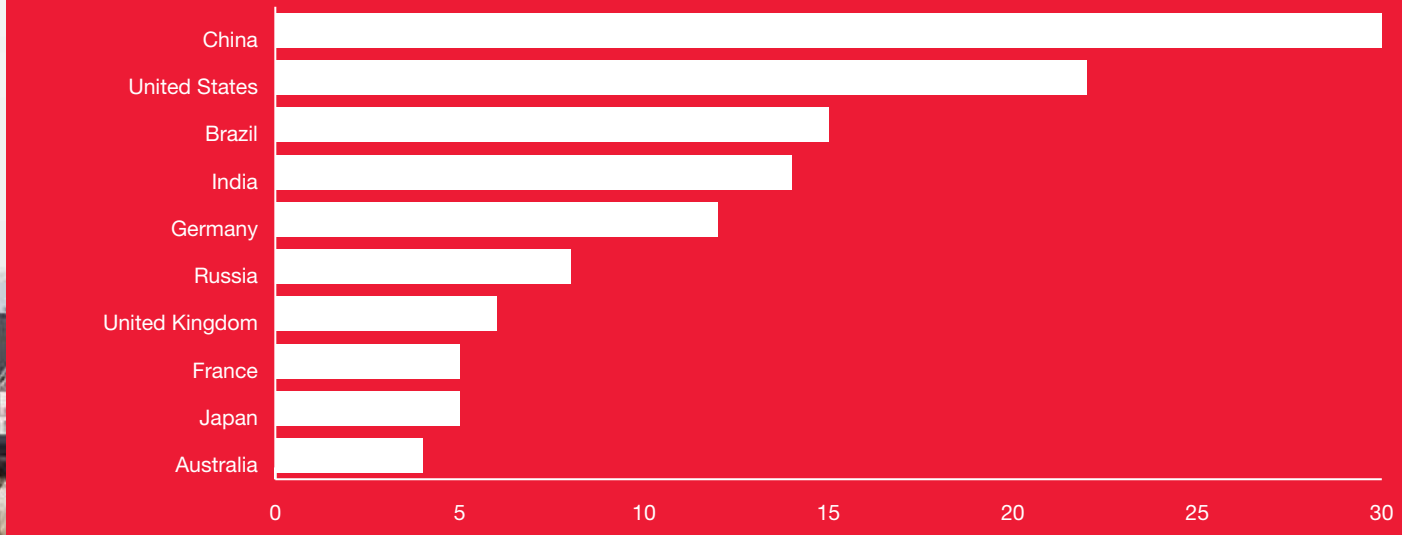
It's this ability to make a collective noise that worries some. The anti-globalisation movement that is so vocal at G20 meetings has argued that international globalisation is fuelling a 'race to the bottom' in which developed nations will reduce worker protections in order to retain a competitive advantage, while developing nations will have no incentive to improve employment standards, as doing so would increase the cost of labour. The movement also targets multinationals as lowering employment standards because they're not regulated by a single nation.

Public pressure and the risk of brand damage are doing much to prevent the worst excesses but any global convergence on employment legislation is far off, if achievable at all. The UN-backed International Labour Organisation has developed global standards through its Declaration on Fundamental Principles and Rights at Work, but enforceable global regulation is little more than a pipedream.

Over 60 countries were named among the most important for growth prospects.

Q. Which countries, excluding the one you're based in, do you consider the most important for your overall growth prospects over the year?

Base: All respondents 1,258



An interesting parallel to the debate in many developed countries, particularly within the European Union (EU), is the flood of skilled and determined migrant workers into countries such as the UK. The BCC's survey argued that many UK companies are becoming reliant on foreign workers because many firms are unable to find the skilled workers they need in the UK. And less than a third of businesses believe that the UK workforce is more skilled than other EU countries. "Business needs a stable visa system which allows firms to recruit from outside the EU if they can't find the skills they need from the domestic labour market," said the BCC.

The debate hit the headlines in the UK at the end of last year, when the sandwich chain Prêt A Manger was forced to defend itself from charges of employing predominantly foreign workers in the UK at a time when unemployment in the UK was high. Andrea Wareham, the company's HR director, said jobs were open to anyone legally able to work in the UK and added: "Our Prêt teams are hard working, determined and are offered wonderful opportunities for promotion within the company."

There's no suggestion that the company had actively sought out foreign workers. While workers in the East and elsewhere are becoming more educated and skilful, there's no reason to think Western employers would prefer to hire them. Vanessa Robinson, Head of HR Practice Development at the Chartered Institute of Personnel and Development, said that the demographics of applicants for vacancies was very relevant: "It would be interesting to see if [foreign workers] are prepared to work harder or if the company just receives a lot more applicants from migrant workers.'

It's clear that this is a PR minefield for organisations and HR will find itself at the centre of an enormously complicated debate that embraces talent supply, corporate culture, reward and brand management.

Technology is changing the way in which HR professionals find talent – and not always in the ways you might expect.

Brave new world

Written by
Lesley Meall

Some job titles can be so opaque that they are meaningless, particularly in the occasionally obscure world of information technology. So although Nike's official title for its employee Ward Cunningham is 'Code for a Better World Fellow', he likes to refer to himself as Nike's Open Data Fellow and others variously refer to him as La Nike Sugli Open Data, Nike's Open Data for Sustainability Fellow, and the Nike Open Data Tsar.

If none of these job titles has any meaning for you, perhaps a peek at the job description (as advertised online) will help. Among other things, the Code for a Better World Fellow works with Nike's data managers 'to landscape current data and craft a desired future state', where the 'creation of products isn't tied to scarce natural resources like water and oil; where manufacturing is lean, green, equitable and empowered; and where everyone, everywhere has access to sport.'

Nike's flirtation with 'open data' (see p27) merits consideration, because it's part of a trend that could shape the organisation of the future and create some thorny challenges for HR.

When most HR people think about using technology to source talent it's because they want to use computer-based systems and services to find the best employees and then get the most from them. Nike's approach to talent sourcing is a little more all-encompassing, because it includes everybody in the world. As the ad for its Code for a Better World Fellow noted, Nike demands: 'disruptive, radical, jaw-dropping innovation' of the kind that 'is not going to come only from within.'

This is about tapping into the talents and enthusiasm of unpaid volunteers – an approach that's already led to innovations ranging from Wikipedia to the operating system Linux. While the former is struggling to find a way of making money from its success (and asking Wikipedia users for donations), the latter has been a springboard for all sorts of successful enterprises. This brings us back to Nike, which is making 400 of its patents openly available online as part of the GreenXchange initiative.

"The best way to stimulate sustainable innovation is through open innovation," says Mark Parker, Nike President and CEO. "Our hope is that this will unleash new innovation to help solve current obstacles to sustainability issues." As Professor Patrick Reinmoeller, from Cranfield School of Management observes: "Organisations don't own and can't employ all the bright minds, and tapping into them is a challenge." According to our latest CEO survey, skills shortages are having an impact on their ability to innovate. So can initiatives such as Nike's help to overcome this?

"Open innovation can support the development of breakthrough products and services," says Reinmoeller, by harnessing the vast reservoir of assets available in the wider world. But as he acknowledges: "With this upside, comes the increasing complexity involved in managing external resources as well as internal resources." If its collaborations with volunteers lead to new Nike products and services, it remains to be seen what the intellectual copyright complexities will be; then there are the potential implied obligations of the 'non-employer' and its 'non-employees' too.

It can be difficult for employers to exploit the latest and greatest developments in software, services and social media, without creating all sorts of privacy, security and governance challenges.

Technology hasn't already blessed HR professionals with more than enough talent sourcing double-edged swords. For every benefit offered by Facebook and Twitter and various other social media there's usually an additional challenge. So it can be difficult for employers to exploit the latest and greatest developments in software, services and social media, without creating all sorts of privacy, security and governance challenges. But they do provide opportunities that few employers can afford to ignore.

"Every business has to build its employer brand, and social media should be integral to this," suggests Phil Roebuck, CEO of WebRecruit. "It's all about building engaged communities," he says. "Content is king and people will vote with their feet," he adds, so don't just broadcast information, offer your target audience something they want or need, and use this to get them where you want them to be. "As an employer, the hub of all social media should be a blog," says Roebuck, and tweets and other corporate uses of social media should signpost people back to this and the businesses website.

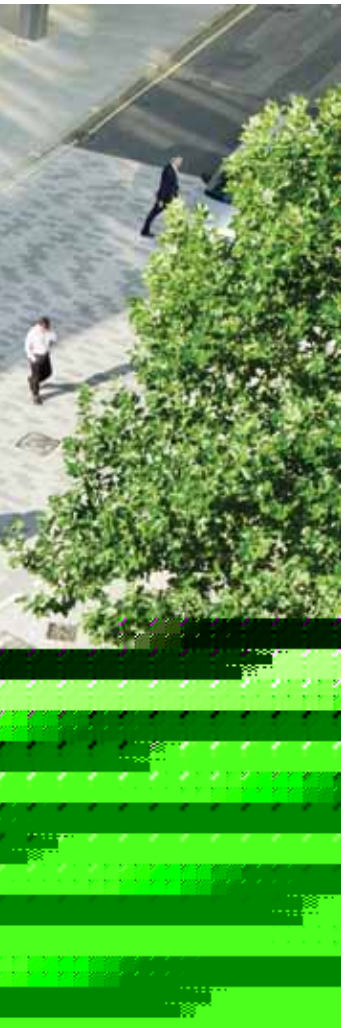
"Using social media effectively is a great way for an employer to demonstrate that it offers a great place to work and that it is part of today's world," says Roebuck. But what's in and out when it comes to social media is changing fast. Take Google Plus – which is often abbreviated to G+. "This is the hottest topic at the moment," reports Roebuck,

who sees it increasingly displacing other social media as the place to be. "If you don't already have a presence there then you should," he urges employers, "because it's going to be a game changer."

Google is already the first point of call for many job hunters, before they go anywhere near job boards or corporate websites – and being a search giant gives Google some great strengths that smart employers would do well to quickly exploit. "You really want to add a Google +1 button to your website because the more people who use it to plus one your company, and your blogs and your people, the more Google will feed traffic in your direction when it comes to searches," says Roebuck.

A Google +1 button is similar to a Facebook 'Like' button – but it's potentially more powerful. As each Google user clicks on the Google +1 button for your company (either via a search or via any of your company's web pages), the number inside the button increases by one, and the page gains in popularity. Perhaps more importantly, your web pages also climb up the rankings of the Google search engine, so if you want to maintain your online profile (or boost it), you'll need to embrace G+ as soon as possible.

Of course, innovations such as these are not the only way in which HR can exploit technology to help it source talent. Baljit Rai, Recruitment Manager for Kier Construction Ltd, has put a specialist applicant tracking system (from Eploy) to good use, helping the business to process thousands of CVs and recruit between 50 and 100 staff each month. "The system enables us to accurately pre-sort applications before email distribution to line managers across the UK and abroad," he says, and because it has reduced the admin and time taken to hire people, it's allowed the business to take on more jobs.



But can technology make smarter decisions about candidates than people can? ADM Promotions, an international marketing and advertising group tried to find out, by using the automated candidate matching services of HireMatch.me, internally, on ADM workers, and getting their feedback. “We used it as an internal assessment tool for 35 employees based in our Shanghai office,” says Sunita Jethwa, Global Head of HR at ADM. “With one or two exceptions, employees rated the work behaviour assessment as a true and accurate reflection of their strengths and areas of development,” she reports, “and we’re now planning to roll out the system globally.”

Employers don’t get more advanced than CERN, the European laboratory for particle physics in Switzerland, so you probably won’t be surprised to find it at the cutting edge where recruitment technology is concerned. CERN is using Sonru, a system that enables employers (or recruitment consultants) to automate part of the interview stage of recruitment by using video. Since 2011, it has used this to accelerate the shortlisting of candidates for more than 80 roles. “Sonru is almost a recognised verb in the CERN in-house vocabulary,” jokes James Purvis, Head of Recruitment at CERN.

Shortlisted candidates are asked to complete a video interview of pre-recorded questions. Candidates get a few opportunities to practice their answers and see them played back on screen before recording the interview, which can be a big help to them and to their potential employers. “Watching someone speak about their project management experience will tell you a lot more than reading about it on their CV,” says John Osborne, Senior Civil Engineer at CERN. “Being able to see them, and see their personality coming across enabled me to connect with them much more than phone interviewing,” he adds.

Although technology can clearly do a lot to simplify, speed-up and reduce the cost of talent sourcing, and can do at least as well as a human being can (in some scenarios), it doesn’t always offer the best route to finding your perfect employee – particularly if they are not aware of all of the latest and greatest developments in software and social media. “Less tech-savvy candidates can find themselves at a disadvantage,” observes Roebuck, and if employers don’t want to suffer a similar fate, they need to factor this into their talent sourcing. Not every business can exploit Nike’s open innovation approach, and not all potential sources of talent will respond to it.

Open data and open standards

A lot of data is currently kept behind closed doors, locked in by copyrights, patents, incompatible formats and other constraints. The open data movement aims to make this data and content available so that it can easily be used, reused and re-distributed by anyone, without restriction and without needing legal advice.

Today, most open data is not provided by commercial organisations but by volunteer groups and public sector bodies. Open data sets include Geonames, Wikipedia and Wikibooks, and there are ‘open government’ initiatives in Australia, Kenya, Moldova, the United States and the United Kingdom.

Making the most of open data calls for common formats and data standards, which would make it easier for software to exchange and process. Related initiatives include HR-XML.org, which will make it easier for users of various types of HR technology to move electronic data between systems and up and down the supply chain.

If Greece defaults on its debts and leaves the euro, the implications for companies operating in the country, and in particular for HR, will be enormous. What can be done to mitigate the risk?

Crisis management

Written by

Mick James

While the tensions surrounding the European debt crisis appear to have eased since Christmas, the situation is still capable of changing on a daily basis. The remainder of the 2012 calendar is still packed with potential trigger events (see p30), both political and financial, which could threaten the economies of the eurozone and its trading partners and even the euro itself.

Although the crisis has been rumbling on throughout 2011, the financial optimism that characterised the start of the year meant that very few organisations had done much planning for some of the worst case scenarios that could come out of the crisis. It was only when the mood darkened as the year wore on that people began to think the previously unthinkable.

"It was as if people's consciences were pricked over Christmas," says Richard Boxshall, a consultant specialising in macroeconomics at PwC. "They came back almost with a new year's resolution to start thinking about the consequences of Greece defaulting, or the eurozone folding."

Although no-one can predict with any certainty how the crisis will play out, Boxshall has grouped the likely outcomes into four main scenarios (see p30). "We've been using these scenarios as a way of opening up the discussion," he says. "How it might play out, what the touch points are for your business. It helps you think in a more structured way."

One of the more dramatic scenarios is a Greek exit from the euro – this possibility seems to be receding at the moment but, says Boxshall, is still disturbingly highly probable. If this were to happen, it would happen in a very short time frame – the Greek government can't announce it was thinking of leaving the euro without triggering a run on the banks and making exit inevitable. An announcement would most probably occur on a Friday night, with the following week being declared a bank holiday.

"Based on historical precedent of how companies have left pegged currencies, the second thing that would happen would be capital controls," says Boxshall. "There would be a period of several months when countries couldn't get cash or capital out of Greece."

Bank accounts would be redenominated in 'new drachma' (or whatever name Greece selected), a currency which would not only immediately devalue but probably (based on the Argentinean experience) be subject to quite violent swings thereafter. "There won't be many drachma printed, so while all transactions will need to have a drachma value, they could also have a euro value as well. You could end up with a dual currency system," says Boxshall.

"A lot of companies are contacting their payroll providers and asking what mitigating plans they've got. There's a tendency in the finance function to be complacent about this, they are too easily reassured that all is in hand. You need to ask more searching and challenging questions."

This feeds into some key decisions for corporations: Do you pay continue to pay employees in euros or drachma? "Whether you translate pay into the new currency depends on the firm," says Boxshall. "If you were hiring predominantly local labour which was not highly skilled or mobile, you would expect that not to be redenominated. It's only really the multinational companies where this question gets a bit more tricky."

A more pressing question for HR might be whether people get paid at all, in any currency. "If all the banks are closed, or you are dealing with a third party contractor then they might freeze pay cheques," he says. "A lot of companies are now contacting their payroll providers and asking what mitigating plans they've got. There's a tendency in the finance function to be complacent about this, they are too easily reassured that all is in hand. You need to ask more searching and challenging questions."

HR should take the opportunity to force the thinking on these issues as it's already the frontline when it comes to communicating with employees. "There will be an element of making it up as you go along, and there won't be a lot of time to plan for it," says Boxshall. "So you need a communications strategy pre-crisis: let's communicate to our employees that we understand the risk, that we are on top of the issues and preparing mitigating actions."

Although HR will itself be affected by these scenarios, it also needs to be aware of the stress they will place on the rest of the business. Gerard Newman, a partner in PwC's advisory business, has identified a number of operational areas that need to be considered.

The first is the purely financial implications on profitability and revenue. More complex issues face the treasury department and the need to ensure liquidity and protect banking arrangements. Procurement and the supply chain will be deeply affected, particularly as the eurozone has encouraged the development of complex, distributed supply chains. IT departments may have to migrate huge amounts of data. There will be widespread impacts on budgeting and reporting and complex tax issues.

"The legal area is one of the biggest areas," says Newman. "Usually in a contract the currency is a fundamental term of that contract. If the currency changes, does that invalidate the contract and cause it to be void?"

While not advising companies to necessarily take any action now, Newman advises that they should look at the extent of their existing contracts and at least work out the time and effort that will be required to renegotiate them. Employment contracts will pose particular difficulties. "Individual expat packages may need to be renegotiated, and there may be more general issues around cross-border working and relocation packages," he says. "Lots of terms and conditions are also tied to European indices, so there may be pressure to renegotiate those."

A more important role will be dealing with what Newman describes as the community sense of well-being. "There will be an understandable and natural disquiet and uncertainty amid the change and a need for HR to manage that," he says. "That's easy to say from the outside, but it's something they will have to allocate resources and divert management attention to."

He points out that while for the other areas of the business these are contingency issues, for HR the impact is in many cases being felt now: "We did a workshop for a Greek business unit and the guys were in shell-shock. They did not know what was going to happen next. That's an HR problem: there's a cohort of employees HR has to deal with now, for whom the uncertainty is already there."

Four scenarios for the eurozone

Scenario 1: Monetary expansion

This is where the European Central bank agrees to follow an expansionary monetary policy through bond purchases. The immediate consequence is higher inflation, but the upside is that long-term interest rates on sovereign debt are kept low. This could cause a run on the euro and the currency to depreciate against the dollar. Austerity measures would mean the debt-and-deficit ridden, weaker economies in Europe would continue to contract, while surplus economies, such as Germany, would take advantage of low interest rates and a weak euro to continue to expand.

Scenario 2: Orderly defaults

In this scenario debtor nations agree to restructure their debts by a series of voluntary agreements with creditors. In addition to the cuts already agreed by Greece there could be writedowns of up to 50% on Portuguese, Irish and Italian sovereign debt. The effect of this would be a prolonged recession, with demand falling 4-6% in eurozone countries whose economies are for the most part still smaller than in 2009.

A downward spiral of debt and deflation would follow as credit contraction, slower growth and asset price falls fed off each other. Even surplus countries experience three years of negative growth in this scenario, despite the euro depreciating 20% against the dollar as investors look for safe havens.

Scenario 3: Greek exit

Recent policy initiatives have made this less likely, but it's still possible that domestic pressures, or a loss of patience by Greece's partners in the eurozone, could lead to Greece leaving the euro. The inevitable devaluation of the 'new drachma' and resulting inflation of up to 30% in Greece would make life harder for both individuals and businesses. Experience of previous devaluations suggests this would provoke a deep recession in Greece, during which it would need to rebuild its central bank and restructure the economy. If successful this would lead to an export-led rebound within four years. The impact on the rest of the eurozone would be mainly limited to the measures taken by other countries to avoid a similar fate to Greece: the remaining 'PIIGS' countries (Portugal, Italy Ireland and Spain) would all experience short-lived recessions.

Scenario 4: New currency bloc

Possibly the least likely of the new scenarios, this looks at the possibility that France and Germany decide that the eurozone is, in fact, unsustainable and opt to build a new zone consisting of themselves and the stronger euro countries: the remaining countries would have little reason to remain in a currency union, and would follow a similar path to a Greek solo exit, with rapid devaluations and the difficult task of rebuilding their financial institutions and the credibility of their currencies. Under this scenario the 'New euro' appreciates considerably, but the downward pressure on exports is compensated for by an influx of cheap capital and imports.

The important dates for the future of the euro

May
- *€15bn Italian bond redemption*
- *Completion of IMF first review of new Greek programme*

June
- *G20 Summit (18-19 June)*
- *EU Council meeting (28-29 June)*

August
- *Completion of IMF second review of new Greek programme*

September
- *G20 finance ministers meeting (13-14 September)*

October
- *€24.6bn Spanish bond redemption*
- *EU Council meeting (18-19 October)*
- *IMF/World Bank annual meeting*

November
- *US presidential elections*
- *Completion of IMF third review of new Greek programme*

Sources: National debt management offices, European Commission, IMF

Letter from India

India's rapid growth has created huge demand for talent in a highly competitive market. In this environment, HR directors are proving their worth.

The HR function has been transformed in India over the past ten years, from a purely administrative and compliance-based discipline to one that is seen as vital to an organisation's growth. The HR director is now seen as a vital and influential figure in a company's management structure. That's not to say that all HR directors find a seat on the board – although inevitably this will happen in more and more companies over time – but in any serious organisation that is focused on future growth, the HR director is a valuable and valued figure.

Anyone looking for a reason why HR has come to such strategic prominence in recent years need look no further than India's talent supply problems. The Indian economy has grown at a dramatic pace over the past 20 years – although growth rates slowed briefly after 2008, when it was the world's fastest-growing economy. Growth is predicted at around 9% for the 2011/12 fiscal year. The services sector provides employment to 23% of the working population and accounts for 57% of GDP. While the global slowdown has had an impact on the services sector, as it is largely dependent on markets in the US and Europe, it's still growing at a rate of 7% a year.

India's growth has been extraordinary, but its education system has struggled to keep pace and the country is suffering a shortage of skills in core industries, with doctors, engineers and lawyers in particularly short supply. The newer industries that have developed at a rapid pace since 1991's economic reforms that created an even stronger demand for skills. The level of talent required by these new industries means that firms have invested heavily in training in the hope that they'll be able to compete on the world stage.

India's demographic make-up works in its favour. The proportion of the population of working age (between the ages of 15 to 59) is increasing steadily and new workers from the numerous millennial generation will flood into the market in the next few years. There's still some work to do in the field of education and training, though, before India can take full advantage of this demographic dividend.

The Indian government is actively addressing the nation's educational shortcomings, bringing in experts from the private sector to help find new ways of building the much-needed skills. The National Skills Development Council, a public-private partnership tasked with funding training programmes, was established in January 2011 with the former CEO of Tata Consulting acting as special advisor. The council's remit is to contribute about 30% towards the overall target of training and improving the skills of India's 500m workers by 2022.

India's chronic talent shortage means that its companies are at the forefront of best practice in recruitment, particularly large-scale recruitment. Indian companies approach the recruitment challenge in the same way that they approach the task of attracting customers – they woo potential new workers.

Large employers in India adopt a wide range of techniques in order to source previously untapped or neglected sources. They use online portals and other technology-based techniques, but also invest a great deal of time and energy visiting towns and villages, holding walk-in interview sessions, recruitment talks and exhibitions.

Most companies look for talent from within their own ranks. But employers in some sectors, most notably retail, have begun to look overseas for new sources of talent and experience.

Unsurprisingly, salaries and wages have increased significantly over recent years, and this has had an impact on financial margins. HR directors have had to balance the need to meet restrictions on reward budgets and the pressing need to find good workers in a highly competitive market. The solution for many organisations has been an exploration of total reward, as well as the development of attractive training packages that are designed to appeal to ambitious young workers. Referral and joining bonuses are also becoming more common.

The challenges for India's businesses are considerable but the HR function is playing a vital strategic role in ensuring that the talent supply chain is fit for the future.

Sankar Ramamurthy heads up PwC's People and Change Consulting business in India.

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References and further reading

Looking forward, page 2

Our 15th Annual CEO Survey can be viewed at www.pwc.com/ceosurvey

HR in a global marketplace, page 4

Global HR, by Peter Reilly and Tony Williams, can be found at http://www.ashgate.com/default.aspx?page=641&calctitle=1&pageSubject=2161&title_id=9537&edition_id=12942

The Road to Innovation, by Cris Beswick, can be found at http://www.crisbeswick.com/resources/books

Talent sharing, page 8

You can access the community for global companies at www.leadersgate.ch

The CIPD' 2011 Resource and talent planning survey can be found at http://www.cipd.co.uk/hr-resources/survey-reports/resourcing-talent-planning-2011.aspx

The CIPD' publication, Fighting back through talent innovation, can be found at http://www.cipd.co.uk/hrresources/research/talent-management-innovation-uncertain-times.aspx

The search for talent, page 12

How the Mighty Fall, by Jim Collins, can be found at http://www.jimcollins.com/books.html

The Rare Find, by George Anders, can be found at http://georgeandersbooks.com/

Globalisation, page 20

You can read more about the International Labour Organisation' Declaration on Fundamental Principles and Rights at Work at http://www.ilo.org/declaration/lang--en/index.htm

Talent and software, page 24

You can find out more about the global exchange of HR data at www.hr-xml.org

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Being a CEO in 2012

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