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Aligning Talent for Global Advantage

How Top Companies Develop
the Right Talent in the Right Places



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How Top Companies Develop the Right Talent in the Right Places

What keeps you awake at night? If you are Bimal Rath, you are concerned about harnessing global talent effectively. “As companies continue to operate in more and more complex environments, it is the quality of talent that they have that makes the difference,” says Rath, the regional head of HR for Nokia for the Asia-Pacific region. “Nokia recognizes this fact and the fact that the competition to acquire and develop the best talent is getting hotter and hotter.”

On the one hand, talent is a catalyst that can help a company reach its strategic objectives. On the other hand, the absence of talent, the wrong kinds of talent, or poorly trained talent can lay waste to the best-laid plans of strategists and executives. Companies need to actively manage how they attract and nurture talent, and they need to do it both globally and locally.

Do you doubt that a new order—a union of talent and strategy—has taken hold? Consider the following “postcards from the edge”:

- Infosys Technology, an Indian outsourcing and consulting firm, wants to hire 6,000 Chinese employees over the next five years
- IBM expects to more than double its Indian operations by 2010, adding more than 50,000 employees

- L.G. Philips is investing \$1.1 billion in Poland and filling 12,000 jobs there
- Deloitte Touche Tohmatsu plans to double its staff and triple its revenue in China by 2009
- Cisco Systems plans to move 20 percent of its leaders to India by 2010

The moves by Infosys, IBM, L.G. Philips, Deloitte, and Cisco highlight the need for companies to understand the dramatically different environment in which they now operate. Before aligning their talent strategy with their business strategy, companies should have a firm understanding of the new order. First, the global demand for talent is growing more intense. Second, the supply of Western talent is shrinking. Third, although rapidly developing economies (RDEs) have bountiful supplies of talent, the challenges of operating in those markets are numerous and complex. To confront those challenges, companies need to have a deep and long-term understanding of the talent they need in order to execute their strategies, and a well-articulated plan to acquire, develop, and retain that talent.

The Talent Market Today, the Outlook Tomorrow

Before plotting their talent-management activities, companies should make themselves intimately

familiar with both the global talent marketplace and the market for talent in RDEs. Like all other markets, the market for talent in RDEs is subject to demand and supply pressures. But like all *new* markets, that market can be quirky and operate in unfamiliar ways, especially on the supply side.

The demand for talent in RDEs is driven by two straightforward forces: rapid market growth and what is called *best shoring*.

Rapid Market Growth. RDEs have become attractive markets for global companies. As a result, global companies have had to bolster sales and marketing operations and staff, as well as locate key executives overseas, in order to manage growth. In The Boston Consulting Group's 2007 Aligning Talent for Global Advantage Survey, a follow-up to our 2005 Organizing for Global Advantage Survey, we found that 93 percent of executives at global companies said that they expected to increase their revenue from RDEs in the next five years, whereas 78 percent expected to increase their R&D activities. In addition, our survey indicates that 73 percent of

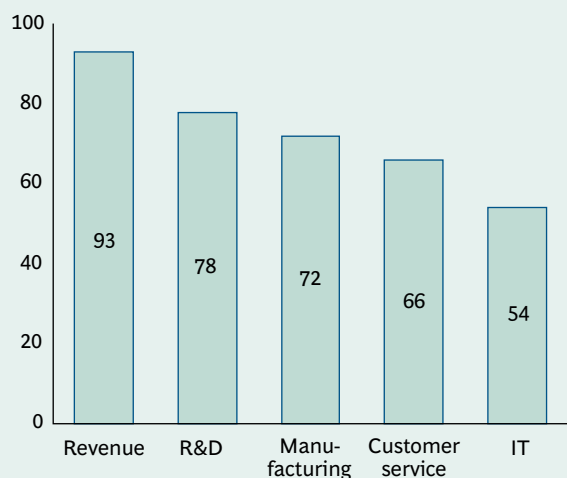
global companies plan to increase the number of executives working in RDEs and 85 percent plan to boost the number of managers working there. (See Exhibit 1.) These expectations reflect the torrid growth of those economies. The weighted nominal GDP growth rate of the 22 most significant RDEs over the past four years was 10 percent, compared with 5 percent for the G7 nations.¹

Best Shoring. Value chains have gone global, so corporations are seeking the best locations for their operations, making their decisions on the basis of cost, talent, and proximity to markets. In many industries, the center of gravity for innovation has shifted to India or China. Japan and South Korea now provide the creative spark for the mobile-telecommunications industry, whereas India and China are rapidly becoming full-fledged

1. The 22 RDE countries are Argentina, Brazil, Bulgaria, Chile, China, Colombia, the Czech Republic, Ecuador, Hungary, India, Indonesia, Mexico, Peru, the Philippines, Poland, Romania, Russia, Slovakia, Thailand, Ukraine, Venezuela, and Vietnam. The G7 nations are Canada, France, Germany, Great Britain, Italy, Japan, and the United States.

Exhibit 1. As Revenues Increase, Companies Expect to Increase Resource Deployment in RDEs

Percentage of companies that plan to increase sales or operations in RDEs in the next five years



Percentage of companies that plan to increase HR deployment in RDEs in the next five years



Source: BCG 2007 Aligning Talent for Global Advantage Survey.

Note: Percentages include all respondents indicating plans to slightly or significantly increase activity in RDEs.

hubs in the global R&D networks of leading pharmaceutical companies. Dell, for example, is investing \$1.3 billion in testing plants in China. But companies are not limiting their best-shoring activities to China and India. Boeing has hired more than 1,000 Russian aerospace engineers for the Boeing Design Center in Moscow.

The supply side of the talent marketplace is where market inefficiencies emerge. In particular, companies must understand and overcome two supply-side realities: supply constraints and a challenging talent environment.

Supply Constraints. Few companies have adequately prepared for the looming talent shortages that will be created by the retirement of the baby boom generation. In the United States, 75 million baby boomers are approaching retirement, and only 30 million members of Generation X are available as successors. In the European Union, the working-age population is forecast to fall by 48 million, or 16 percent, by 2050.

Countries such as India, China, Brazil, and Russia that have highly educated workers can help fill the gap. In China, there will be 375 million students enrolled in higher education between 2007 and 2015, more than double the number in the United States.

A Challenging Talent Environment. Although the supply of talent may draw global companies to RDEs, those companies will find a complex and challenging global HR environment when they arrive there. In India, salaries in IT, insurance, and finance are rising by about 17 percent per year, while annual attrition rates in hot industries range from 15 to 30 percent. The most desirable recruits have many options among familiar local challengers: companies with global aspirations that are competing against Western multinationals, global companies with trusted brand names, and less well-known foreign players.

Significant wage pressure is rampant in other markets, too. “I have 28-year-olds coming into my office telling me they are resigning because they’ve been offered a \$1 million job,” says an investment-banking executive in Hong Kong.

Except among the most desirable recruits, however, the quality of talent is all over the map. Infosys reports that of 1.3 million recent applicants, only 2 percent were employable, a reflection of the variable quality of education in India. There are approximately 1,200 M.B.A. programs in India, but some observers argue that only 50 are comparable to strong Western schools, and those produce just 10,000 graduates each year. Although China is producing 20 million graduates each year, 85 percent of candidates for senior positions have fewer than five years of experience.

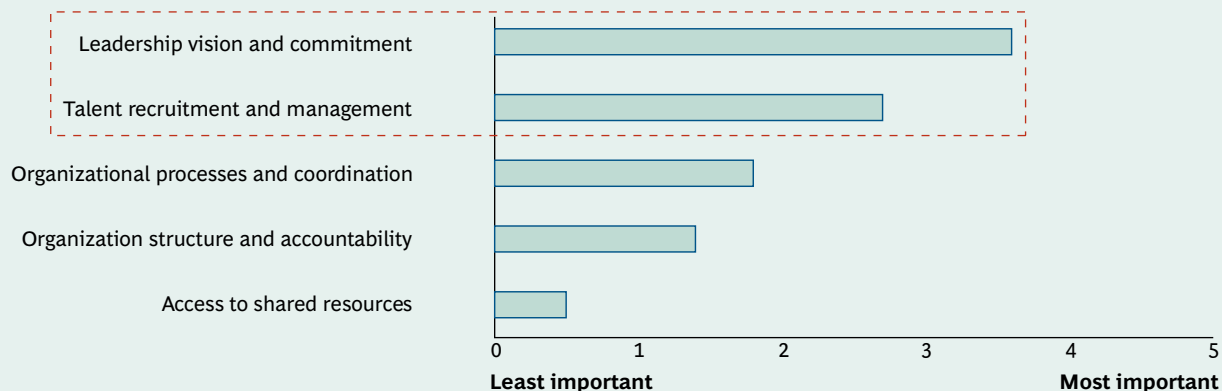
Addressing these demand-and-supply pressures for talent will be near the top of the CEO agenda for the next several years. In our survey, we asked companies which organizational practices were most important in their bid for global expansion. Leadership vision and talent management came out as top priorities. (See Exhibit 2, page 4.) Recruiting, retaining, and developing talent emerged as top day-to-day challenges. (See Exhibit 3, page 4.) Companies that understand how to manage their talent globally will improve leadership and innovation by accessing new talent pools, increase their top line by capturing new markets, and fatten their bottom line by lowering labor costs.

Aligning talent with strategy requires companies to change their mindset and processes. Talent management needs to become a core activity on a par with corporate finance and strategic planning. Talent must be managed rigorously and globally—across languages, cultures, and time zones. But at the same time, the systems and processes involved in managing talent must be sufficiently flexible to permit customization to local conditions and markets. That is easier said than done, but the price for all companies that fail to act will be costly and, for some companies, fatal.

The Best Approaches

Through our global survey of executives, research at 30 companies, and work with many companies operating in RDEs, we sought to identify the best practices of the global players that have achieved success in talent management. The inquiry uncov-

Exhibit 2. Leadership Vision and Talent Management Are the Top Priorities for Managing Complexity in Global Expansion



Source: BCG 2007 Aligning Talent for Global Advantage Survey.

Note: Executives were asked to weigh the relative importance of several organizational practices to the success of their company's global expansion.

Exhibit 3. Recruiting, Retaining, and Developing Talent in RDEs Are Top Challenges for Global Companies



Source: BCG 2007 Aligning Talent for Global Advantage Survey.

Note: The scale ranges from 1 (not challenging) to 5 (very challenging).

ered five levers, comprising 15 best practices, for creating global advantage. (See Exhibit 4.)

Embrace a new global talent mindset. Global companies need to reorient their organizations, operations, and processes to reflect the new order of talent management. Recruiting, leadership development, and training need to be constructed in a way that allows talent to develop in RDEs. This change in orientation has four key elements.

Shift from a West-centered to a multicentered operating model. If companies expect to successfully create businesses and hire in RDEs, they need to develop strong leaders in their key markets and trust those leaders to make decisions. Companies must be willing to rely on their RDE businesses to develop the optimal approach for the local market—and then export those successful approaches to other, similar markets.

As companies distribute their operations globally, they will also need to figure out how to distribute decision rights and reorient decision processes to reflect the new order. As people—and power—move away from a single center, companies need to revisit fundamental organization-design principles involving the role of the center, the sizing and staffing of functions, and the coordination of needs across the enterprise.

Schlumberger uses its distribution of sales as a benchmark for the distribution of managers. If, for instance, 20 percent of sales originate in Asia, the company aims to have 20 percent of its managers be from Asia. In Indonesia, one-third of recruiting is for the local market, one-third is for the broader Asian market, and one-third is for the global market. Schlumberger's Indonesian country head told us, "If other markets are short of people, my boss can ask me to recruit for them as well. For example,

Exhibit 4. Five Levers and 15 Best Practices Help Create Global Advantage

Levers	Best practices
Embrace a new global talent mindset	<ol style="list-style-type: none"> 1. Shift from a West-centered to a multicentered operating model 2. Balance global and local programs to win the talent battle 3. Overinvest in talent to capture growth 4. Locate operations to capture global talent pools
Elevate global talent planning to an item on the CEO's agenda	<ol style="list-style-type: none"> 5. Understand the type and location of talent required over the next five years 6. Organize as if the company's survival depended on talent management: it does
Expand the hiring horizon	<ol style="list-style-type: none"> 7. Uncover hidden talent at second- and third-tier schools by allying with schools and tapping into nontraditional pools 8. Tailor employment offers to local conditions 9. Create talent through locally tailored training and development
Accelerate careers and create global leaders	<ol style="list-style-type: none"> 10. Identify, cultivate, and retain high-potential employees 11. Accelerate paths to leadership 12. Build a leadership team through global succession planning and cross-cultural rotations 13. Eliminate the glass ceiling for local recruits and use expatriates strategically
Embed the new global mindset in all leaders	<ol style="list-style-type: none"> 14. Make global values locally relevant 15. Ignite in all leaders a lasting passion for globalization

Source: BCG analysis.

I am currently recruiting Indonesian engineers to work in Qatar.”

Encouraging companies to locate leadership and activities away from the center can have far-reaching effects. Honeywell International’s China operation, which has achieved much more autonomy in recent years, sets its own strategy and conducts development for products targeted to the local market. The company then applies its experience in China to improve operations in other RDEs.

Balance global and local programs to win the talent battle. Leading companies carefully leverage global policies and programs while allowing local markets the freedom and flexibility to tailor employment offers and job packages to local conditions and needs. They tend to rely on global standards for such activities as performance management, succession planning, and training in corporate capabilities. They give local operations the freedom to oversee recruiting and many aspects of training that require local customization. Without global standards for performance management and succession planning, top executives are unlikely to have confidence in rising executives from RDE markets. Without local customization, however, business units will be unable to hire and retain the talent they need.

Clark Kinlin, the chief executive of Corning China, uses recruiting as an example to describe this balance. The corporate center sets guidelines regarding competitive compensation within a particular market. The regional organization helps the individual country businesses fine-tune their recruiting strategy by targeting schools, setting specific experience requirements, managing the recruitment brand, and seeking the right mix of local and expatriate employees. The local business units, meanwhile, develop local training initiatives and set specific compensation practices within ranges that preserve internal equity.

Overinvest in talent to capture growth. In new markets and developing businesses, the development of employees tends to lag behind growth in sales. Although sales may start to skyrocket, individual employees generally make incremental improve-

ments through coaching, training, and development. Successful companies are those that hire both more employees than they need in the short term and overqualified employees who will be there to meet the challenges presented by rapid growth. Although these measures may be inefficient in the short run, they will allow the global talent engine to run more smoothly over long distances. For example, Air Liquide, an industrial goods company headquartered in France, anticipates that its China operations will grow from 1,000 to 5,000 employees by 2015. In order to spur the development of talent, the country head has created a separate hiring budget that does not hurt the profits of the business units.

Locate operations to capture global talent pools. Just as companies should resist not-invented-here thinking, they also need to avoid not-located-here hiring practices. Companies should situate their operations in regions that have the best labor pools for their business. German software giant SAP conducts R&D at eight global hubs chosen on the basis of the quality and availability of talent. WebEx Communications, an online conferencing vendor based in the United States, has six times as many engineers located in China as in the United States. High-potential Chinese engineers are rewarded with three-to-four-month rotations in the United States to broaden their experience.

Elevate global talent planning to an item on the CEO’s agenda. Talent management is too important to be just another checklist on the HR agenda. It needs to be at the front and center of the strategic-planning process and separate from routine HR activities. Two activities, in particular, will help.

Understand the type and location of talent required over the next five years. Companies such as Nokia and Unilever develop a global people strategy as part of the annual strategic-planning process. At Nokia, the strategy cascades from the center to the regions, functions, and individual business units, which are also responsible for sending input upward about the availability of local talent and their skills and training needs. At Unilever, the organiza-

tion segments its business on the basis of categories and geographies. Of about 1,000 “cells” in this segmentation, the leadership focuses on the 10 percent with the best performance records and greatest potential. They become a top short-term priority for talent strategy. In general, best-practice companies create three-to-five-year road maps that address talent requirements by head count, competency, function, level, and geography.

Organize as if the company’s survival depended on talent management: it does. HR strategy and talent management issues are too important to commingle with everyday HR tasks. Philips, for example, relies on a shared service center to handle routine tasks, freeing HR to focus on such issues as strategic HR planning, performance evaluation, succession planning, and leadership development. Unilever, by contrast, has outsourced back-end processes for recruitment, payroll, and training. The HR department is then liberated to focus on two key activities: managing “centers of expertise” that specialize in such activities as management development and collaborating with business units to develop a talent strategy and succession-planning processes.

Within RDEs, companies need strong HR and leadership capabilities in order to ensure that HR practices are properly developed and executed. When a well-known global retail group with a long record of international expansion enters a new market, its first step is to hire a strong HR director to build local connections, tap into local talent pools, and hire the local executive team.

Expand the hiring horizon. Companies should recognize that, within RDEs, they will not win many of the battles for the best and the brightest unless they have developed a strong local brand. Just as companies introducing products to a new market need to develop a marketing campaign to build awareness and trust, companies entering new talent markets must establish their identities in order to attract capable candidates. Even when they have a strong local reputation, companies do not win every recruiting battle. Frequently, it makes sense for companies to seek talented but raw recruits and train them.

Uncover hidden talent at second- and third-tier schools by allying with schools and tapping into nontraditional pools. Employers understandably desire recruits from brand-name schools, but many top students in China and India simply cannot afford to attend such schools. These students are nonetheless desirable and loyal. Local challengers have already tapped into this market, ahead of their Western competitors. Global companies should start to build connections and their brand awareness at these schools, as Tata Consultancy Services has done in India. Tata provides feedback on the curriculum at several schools, helps train faculty, and provides guest lecturers. The firm also has created joint ventures with universities to provide supplemental IT skills in such areas as Java programming and communication and presentation skills.

When companies explore nontraditional and untapped labor pools, they need to create standardized assessments to evaluate candidates objectively. They also must be willing to hire recruits based not only on their current skills but also on how quickly they will be able to acquire new skills. Finally, companies need to be willing to take an innovative approach to hiring—for example, by bringing in science graduates for engineering jobs.

Tailor employment offers to local conditions. An M.B.A. in India does not view compensation, promotional opportunities, global rotations, and career tracks as would his or her counterpart in Russia, China, or Brazil. Companies must understand local job markets and design their packages accordingly, while abiding by broad global standards. A first step in this effort is local marketing.

Years before it anticipates hiring in a local market, a well-known global consumer-goods company invests in its brand. The campaign is not limited to advertising but encompasses developing connections with governments and universities, disseminating product samples to target recruits at universities, and distributing product information. Once the company starts to hire, it tailors employment packages to the market. In Russia, for example, a company car and company-sponsored mortgage are attractive benefits for candidates.

Create talent through locally tailored training and development. Companies that are thriving in RDEs view employee training as a strategic activity. Wipro Technologies, a global service provider based in India, hires about 25,000 new employees per year. To make sure that they are properly trained, a faculty of 135 is on staff at an in-house university. The university has multiple training tracks for the various types of recruits. Top recruits generally go through 10 to 12 weeks of training, and nonengineering majors receive six months of supplemental training. Even companies with more modest talent needs are developing similar regimes. Adidas, for example, offers an 18-month management-trainee program for top local graduates from top universities in China. In its first year, the program accepted 7 of 12,000 applicants. As high-potential employees move up the management ranks, they attend part-time leadership-training programs at top business schools in China and around the world.

Accelerate careers and create global leaders. To capture growth in RDEs, global companies must build high-performing management and leadership teams in a fraction of the time it takes to put them together in developed economies. To construct these local teams, companies must demonstrate that they will offer meaningful leadership positions and promotion opportunities to recruits from RDEs.

Identify, cultivate, and retain high-potential employees. Leading companies make hard choices early about the next generation of leaders and managers and put them through accelerated training. On the basis of objective rankings in ten core competencies, ICICI Bank in India has identified 2,000 high-potential employees from a pool of 30,000. These employees have been given attractive compensation, stock options, and increased job responsibilities. They have also been encouraged to take risks and adapt to rapidly changing circumstances.

Once the chosen few have been hired, companies must do whatever they can to keep these employees. While compensation and benefits are important, work responsibility, training, and development opportunities also matter. Leading companies also try to engage their best employees through such

avenues as social and family events and community service. The SAP operation in India aims to keep the attrition rate close to 0 percent among the top employees it wants to retain.

Accelerate paths to leadership. In developed economies, companies often take 15 years to develop a leader. In RDEs, many companies are targeting a five-year path. One global retail group has a structured process to develop local leaders quickly. It starts by hiring an experienced HR director who knows the local market and can bridge the differences between expatriates and local executives. The company aims to hire locally for marketing and purchasing positions, heads of security, and store managers. Next, it hires a mix of young high-potential recruits and experienced local retail candidates to build a local leadership team. The lateral hires act as mentors, working to accelerate the development of company-grown talent. As a final step, the global retail group hires more local junior executives than it needs immediately, in order to fill the pipeline of potential senior-leadership candidates and ensure smooth succession planning.

Build a leadership team through global succession planning and cross-cultural rotations. Companies should be trying to create leaders who can step into global roles, not just fill local positions. Avery Dennison, a United States-based leader in pressure-sensitive labeling materials and office products, has a standardized global performance-review process at each level of the organization. The overall results of this process are sent up the organization until they reach the global talent-review committee. This committee—which consists of the president, chief executive, head of HR, and vice president of leadership, organization, and development—establishes detailed succession plans for key positions.

Global rotations play a key role in developing globally minded leaders. These opportunities increase cultural awareness while helping to instill global standards in local markets. Mahindra & Mahindra, a \$4.5 billion industrial-goods company based in India, evaluates its senior leaders on how frequently they rotate staff across functions, business units, and geographies in order to stimulate new thinking and fresh perspectives and build competencies.

Eliminate the glass ceiling for local recruits and use expatriates strategically. Local recruits need to believe that they can rise in the organization. Successful companies, such as Philips, demonstrate their commitment by training local recruits to succeed in local leadership positions and by ensuring that talented local recruits land in global career tracks.

Nonetheless, expatriates are invaluable in helping to build a local office or presence, transfer knowledge and skills, and offer ongoing guidance and support—especially to local middle managers. A global consumer-goods company brings U.S. and European expatriates to Latin America only to fill specific competency gaps and build targeted organizational capabilities. Another well-known consumer-goods company was able to rely on a cadre of “global expatriates” to rescue a country operation in Europe. Virtually overnight, the company replaced local leaders with this SWAT team, which remained in place until a new team of trusted locals could be hired or promoted. Indeed, if companies expect to develop local leaders, the use of expatriate employees should diminish over time. Eventually, the goal of most multinationals should be for few expatriates to be in leadership roles in mature businesses.

Embed the new global mindset in all leaders.

If companies are to grow quickly in local markets, they need strong local leaders with an entrepreneurial bent and a belief in the global values of the organization. This commitment needs to start at the top. The top 200 leaders of global companies should have spent considerable time in RDEs, preferably through a tour of duty. Leadership development courses should feature content on working and managing businesses in RDEs, and some of these programs should be conducted in those markets.

Make global values locally relevant. Managing the tension between the creation of a global culture and the need for local autonomy is a grand paradox that plays itself out in subtle ways. Entrepreneurship, for example, has many shades of meaning, among them creating a local skunkworks and currying favor with local officials. Companies need

to balance the need for a unified global culture with local strategic and cultural differences and make core global values locally relevant and understandable.

Ignite in all leaders a lasting passion for globalization.

Leaders must act in a way that demonstrates commitment and passion to global talent management. At the top, executives need to exhibit a true desire to develop talent in RDEs. This commitment reveals itself differently depending on the company. Schlumberger established tactical talent-planning teams for all eight lines of business and established 12-month forecasts of talent requirements by skill, organizational level, and geography. Senior executives discuss talent strategy in all routine business reviews and in conferences with securities analysts.

At Air Liquide, two of the top five key performance indicators for the local leadership team in China pertain to talent. Every year, the senior leaders in China develop talent strategies and project talent needs into 2015. Because of these decisions, the company is overinvesting in talent today in order to be prepared for tomorrow. In 2004 it committed \$685 million to China. That was 10 percent of its capital spending that year, when the country represented just 1 percent of sales. This investment helped attract Chinese recruits, who are drawn to a demonstrated commitment to growth.

When Talent and Strategy Align

For too long, companies have treated talent and strategy as separate spheres. Traditionally, top executives took care of strategy and delegated talent to the HR staff or to junior staff far down the organization. That approach no longer works. Talent and strategy need to fit like a hand in a glove. BCG has developed a systematic, three-step process that creates a well-understood vision and sustainable program linking the center, business units, and geographic regions. In the first step, an audit sets the talent base line and establishes the vision. The second step is the development of a self-sustaining program. The third step is implementation.

A 110,000-employee industrial-goods company adopted this process after it developed a strategy to increase its presence in RDEs and the size of its services business. Upon completing the first step of the talent management exercise, the company discovered that it lacked the quantity of talent and the right skills to refine and execute the strategy. The analysis revealed that the company would have to increase by a factor of eight the number of its executives originating in Brazil, Russia, India, and China. To address this looming gap, the company took the second step and developed a talent management program to fill the gaps it discovered in the first step.

Once content to recruit only from top universities, the company began to look more broadly. For example, it now explicitly assesses talent as a part of any plan for a postmerger integration (PMI) so that it understands the HR assets—as well as the hard assets—it is acquiring. This may be the norm in pharmaceutical and technology PMIs, but not in industrial goods PMIs. The company has also started to develop initiatives and marketing campaigns to tap into new talent pools it had not accessed in the past, such as women and recruits from Asia. Finally, the company has set in place a series of HR tools and support organizations that cover, for example, assessment, recruitment, talent management, and HR goals established by business and by region.

Aligning talent with strategy is tough work, which explains why few companies do it successfully. Companies first need to recognize that strategy without talent is merely a good idea, and they need to develop the skills to oversee global talent as rigorously as they manage corporate finance and other core corporate activities. Lasting advantage will flow to those who have the wisdom and discipline to align talent for global advantage.



About the Authors

Daniel Friedman is a partner and managing director in the Los Angeles office of The Boston Consulting Group. You may contact him by e-mail at friedman.daniel@bcg.com.

Jim Hemerling is a senior partner and managing director in the firm's Shanghai office. You may contact him by e-mail at hemerling.jim@bcg.com.

Jacqueline Chapman is a project leader in BCG's Los Angeles office. You may contact her by e-mail at chapman.jacqueline@bcg.com.

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For Further Contact

BCG's Organization practice and Global Advantage initiative sponsored this report.

For inquiries about the issues presented in this report, please contact the authors or the following officers, who are active in the practice or initiative:

The Americas

Chuck Scullion, Partner
and Managing Director, Dallas
E-mail: scullion.chuck@bcg.com

Europe

Yves Morieux, Senior Partner and
Managing Director, Paris
E-mail: moreux.yves@bcg.com

Rainer Strack, Partner
and Managing Director, Düsseldorf
E-mail: strack.rainer@bcg.com

Asia-Pacific

Andrew Dyer, Senior Partner and
Managing Director, Sydney
E-mail: dyer.andrew@bcg.com

David Michael, Senior Partner and
Managing Director, Beijing
E-mail: michael.david@bcg.com



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