

Workforce 2020

The Looming Talent Crisis



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Introduction

The importance of people management is not reflected in the C-suite and boardroom. Many companies lack the culture and tools they need to engage employees, track their performance, and measure the effectiveness of HR initiatives.

Few things matter more to business success than human capital. The right mix of people, skills, and culture can create competitive advantage for companies, reshape industries, and drive prosperity across regions. As a new generation joins the labor market and employment options evolve in an increasingly global and knowledge-based economy, effective workforce management is a strategic imperative. Opportunities abound in this new environment, for both employers and employees—but so do risks.

Crafting strategies for the 2020 workforce is no small task. As a recent article by INSEAD professor Günter Stahl and colleagues in the *MIT Sloan Management Review* puts it, “Not only do businesses need to adjust to shifting demographics and workforce preferences, but they must also build new capabilities and revitalize their organizations—all while investing in new technologies, globalizing their operations, and contending with new competitors.”

To better understand this complex scenario, Oxford Economics and SAP fielded a pair of global surveys in 27 countries during the second quarter of 2014—one of more than 2,700 executives and the other of over 2,700 employees. We also conducted live interviews with executives in each of the countries surveyed. This research illuminates the experiences and preferences of non-executive workers and the degree to which their points of view match up with management perspectives.

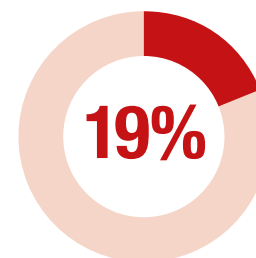
The results show that the 2020 workforce will be different in significant ways from its predecessors. Businesses are aware that big changes are under way and are attempting to transform themselves accordingly. But several factors constrain this transformation. All too often, the importance of people management to corporate strategy is not reflected by its role in the C-suite and boardroom. And many companies lack the culture and tools they need to engage employees,

track their performance, and measure the effectiveness of human resource initiatives.

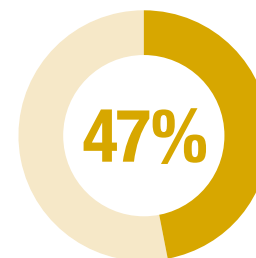
The impact of these shortcomings is severe; because HR lacks the information, insights, and status to be truly strategic, companies are not making progress toward meeting their workforce goals. And when HR is out of touch with workers and out of the loop with business leaders, overall business performance suffers as well.

Progress toward goals of building a workforce to meet future business objectives

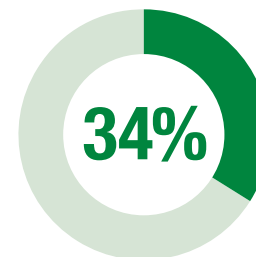
To what extent have you made progress toward your goals of building a workforce to meet future business objectives?



have made slight progress.



have made moderate progress.



have made good or significant progress.

Ultimately, the research results serve as a call to action. While there are variances by region and country (see sidebar on regional differences), the global story is clear. In order to succeed, companies must move decisively on several fronts. They need to:

- Prepare for increasing diversity, changing employee demographics, and evolving definitions of work.
- Gain a better understanding of incoming Millennial employees.
- Enhance employee engagement by providing the incentives and benefits that people actually want.
- Improve executive leadership skills and cultivation.
- Foster a culture of continuous learning that develops talent and empowers workers while capturing and retaining vital knowledge.

For those companies that get the 2020 workforce right, the rewards will be ample. Alessandra Ginante, vice president of human resources at Avon Brazil, says that preparing now to reap the benefits of future growth is essential: “We have to ready the organization to surf on this growth wave—to be sure that we have the systems, the people, the infrastructure, and the processes in place to grab a big share of this growth.”

About the research

Oxford Economics, working with SAP, fielded two major surveys in the second quarter of 2014, reaching out to more than 2,700 executives and more than 2,700 employees at companies in the following 27 countries: Australia, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, France, Germany, India, Japan, Kenya, Malaysia, Mexico, Netherlands, Poland, Russia, Saudi Arabia, South Africa, Spain, Sweden, Switzerland, Turkey, the United Arab Emirates, the United Kingdom, and the United States.

Industries represented are professional services (18% of the executive survey, 17% of the employee survey); retail (17%, 18%); healthcare (16%, 17%); public sector (16%, 15%); consumer goods (15%, 14%); insurance (9%, 10%); and banking (8%, 9%). Executive respondents are C-level and direct reports, with more than half having responsibility for HR. Employee respondents are front-line employees (39%), mid-level managers (42%), and line-of-business managers (18%).

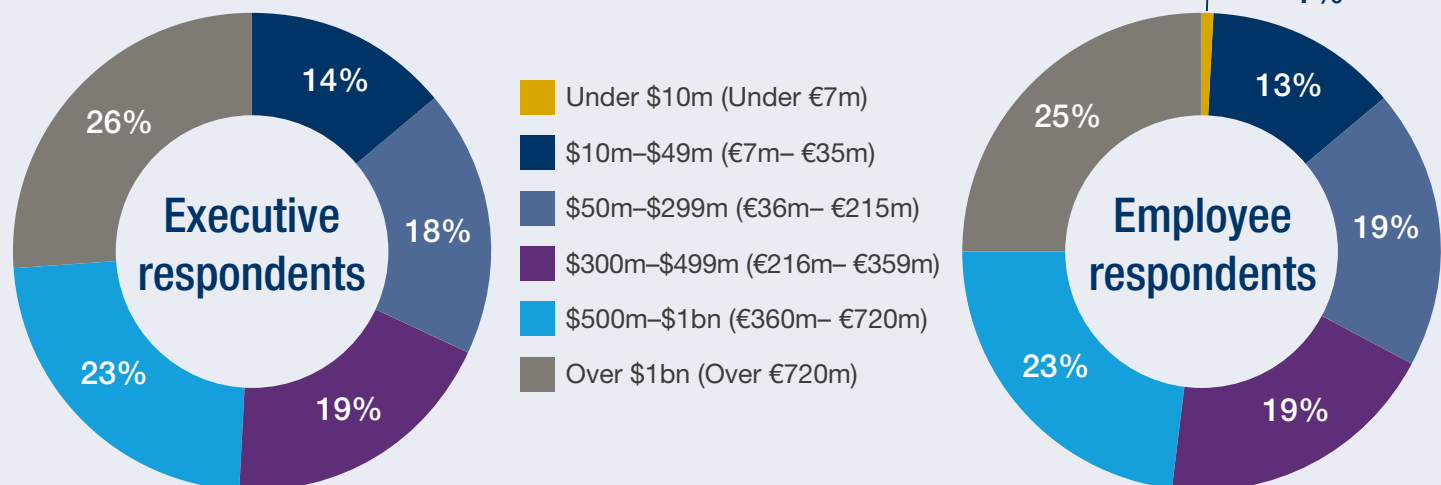


Revenue at respondent firms ranges from \$10 million to more than \$1 billion, with half having under \$500 million in annual revenue. Half of the employee respondents are Millennials (ages 18–35.)

Interviews were conducted with executives from each country surveyed, providing critical qualitative support to our survey findings.

Company revenue

What is your firm's annual revenue in US dollars or euros for the most recently completed fiscal year?



The new face of work

“The national labor code is not very friendly for modern requirements and the expectations of the Generation Y workforce.”

Alexey Mekhonoshin, vice president of HR at Sberbank in Russia

Big changes are coming to the workplace. The nature of employment itself is undergoing a transformation. So is the composition of the labor pool, as the entrance of the Millennial generation, along with globalization and social change, increases employee diversity. Understanding and accommodating these changes is critical to managing the 2020 workforce, but doing so will require companies to take a more strategic approach to HR—and to equip themselves with the right tools to manage the new workplace.

The changing nature of work

Which of the following statements about employment are true at your company? Select all that apply.



Impact of changing nature of work

What impact is the changing nature of employment having on your company?



One key trend revealed by our research: The 2020 workforce will be increasingly flexible, as alternatives to the traditional relationships between employer and employee grow in popularity. A hefty 83% of executives say they are increasingly using consultants, intermittent employees, or contingent workers. These new relationships require companies to manage workers in new ways. Our survey shows that the rise of non-payroll positions is forcing change on companies, with 42% saying it is affecting their workforce strategy.

In some places, local laws make these adjustments even more challenging. “The national labor code is not very friendly for modern requirements and the expectations of the Generation Y workforce,” says Alexey Mekhonoshin, vice president of HR at Sberbank, Russia’s largest banking company. But change seems inevitable, and Sberbank is moving ahead on more than one front. “Apart from running a set of pilots, we are working to change the regulations to allow for more flexible working relationships,” Mr. Mekhonoshin says.

Diversity is another pressing issue. The 2020 workforce will be made up of a wider group of ages and nationalities than ever before, so companies will need to have a broader understanding of their people and the markets in which they operate. These changes are very much on the minds of executives, who cite globalization and Millennials entering the workforce as their top business concerns; over half of respondents say these two labor-market shifts have a great impact on their workforce strategies. Respondents from Asia Pacific (64%) and Middle East/Africa (57%) are more concerned with Millennials entering the workforce than other respondents, as are companies that report higher-than-average profit margins than other firms in their industry (56%).

Labor-market shifts and workforce strategy

Please rate the impact the following labor-market shifts are having on your workforce strategy. Rate on scale of 1–5, where 1 = Little or no impact and 5 = Great impact. “Significant” and “Great impact” responses shown below.



*Independent contractors, part-timers, or temporary or leased employees

The insight gap

“The board will not provide us with funds for something that’s not clear. And I don’t think our HR strategy has been fully enunciated to allow for a very strong commitment from the board.”

Shani Naidoo, HR director at The Foschini Group in South Africa

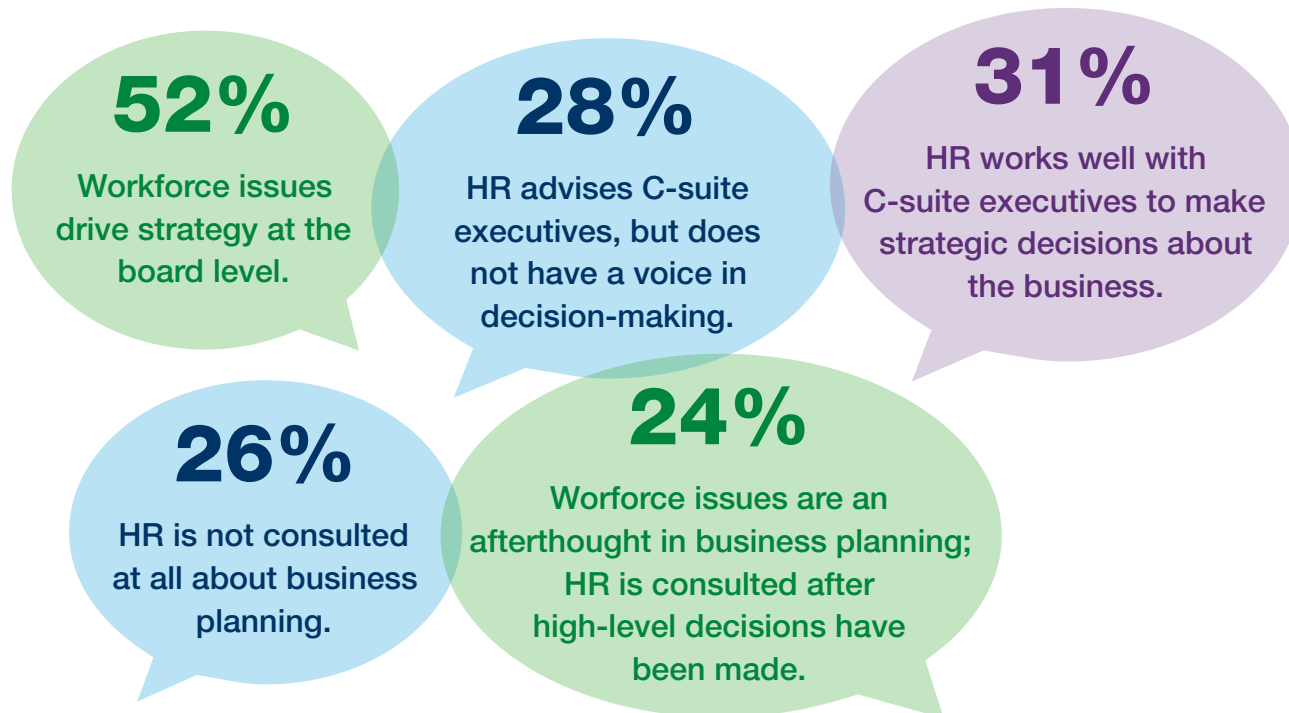
People management will need to become more strategic and evidence-based to accommodate the increasingly flexible and diverse workforce of the future. But as things stand today, HR lacks both the clout and the tools to get the job done.

The problems start at the top—or, more accurately, with lack of access to the top. While HR frequently works with C-suite executives, barely half of executive respondents say it drives strategy at the board level, and nearly one-quarter say that workforce issues are an afterthought in business planning. Getting top brass to buy into the urgency of workforce issues can be difficult—especially when HR is still refining its own message.

“It’s always tough to motivate for HR money in any business,” says Shani Naidoo, HR director at The Foschini Group, a large South African retail company. And when direct returns on something like improved training are hard to quantify, the purse-strings are drawn even tighter. “The board will not provide us with funds for something that’s not clear,” she says. “And I don’t think our HR strategy has been fully enunciated to allow for a very strong commitment from the board.”

HR’s seat at the table

To what extent do you agree with the following statements about workforce development’s role in business planning? “Agree” and “Strongly agree” responses shown below.



Even when data is available, many companies have difficulty turning it into information: only 42% say they know how to extract meaningful insights from the data available to them.

The inability to translate the value of workforce excellence into the language of growth and profitability is a big problem for HR, and for businesses at large. Yet the survey shows just such a correlation between people and performance: Firms with better bottom-line results are more likely to say that workforce issues drive strategy at the board level (61%, vs. 47% of less profitable firms)—and these leaders plan to increase their focus on workforce issues over the next three years. Overall, companies do a so-so job of planning for the future—just over half of respondents have a defined execution plan for achieving their vision of workforce management—but they do even less well in terms of having a strategic, enterprise-wide vision for the workforce they want to build.

Why has people management failed to cement its status as a core element of business success? One big problem is a lack of metrics and tools, which holds HR back from developing strategies for building the workforce of the future. While more than half of executives say workforce development is a key differentiator for their firms, they do not have the technology and organization to back it up. Just 38% say they have ample data about the workforce to understand their strengths and potential vulnerabilities from a skills perspective, and 39% say they use quantifiable metrics and benchmarking as part of their workforce development strategy.

And even when data is available, many companies have difficulty turning it into information: Only 42% say they know how to extract meaningful insights from the data available to them.

C-suite executives, meanwhile, seem out of touch with these problems and assume that HR is making its way into the information economy—they are more likely than HR executives to say their firms use quantifiable metrics and benchmarking as part of workforce development strategy.

Execution and vision are out of balance

To what extent do you agree with the following statements? “Agree” and “Strongly agree” responses shown below.

We have a defined execution plan for achieving our vision of workforce management.

52%

We have a strong vision for the workforce we want to build in three years.

32%

53%

Workforce development is a key differentiator for our firm in terms of growth and bottom-line results

HR is still playing catch-up in the information economy

To what extent do you agree with the following statements? “Agree” and “Strongly agree” responses shown below.

42%

We know how to extract meaningful insights from the data available to us.

39%

We use quantifiable metrics and benchmarking as part of our workforce development strategy.

38%

We have ample data about the workforce to understand our strengths and potential vulnerabilities from a skills perspective.

Running in place

For all the talk of change, more than half of respondents say they will have made only slight or moderate progress toward meeting strategic workforce goals in five years.

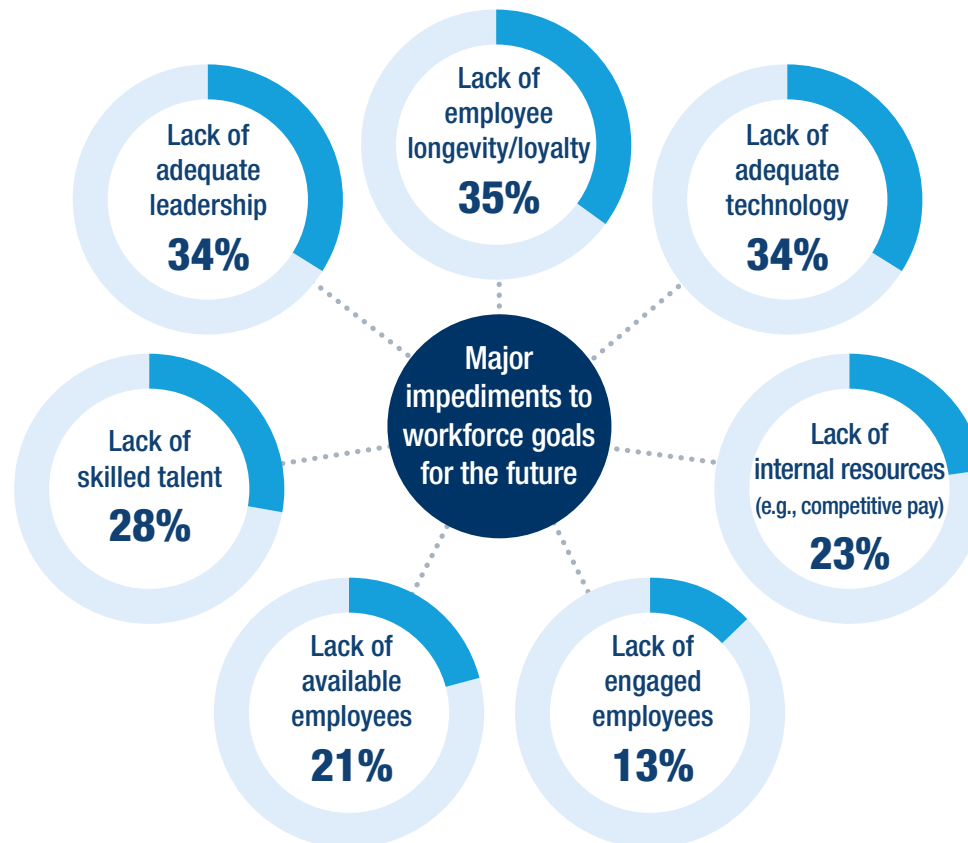
Many factors hinder companies as they seek to build a workforce capable of helping them meet future business objectives. Yet a glance at the list of obstacles charted below shows that almost all of them are problems that could be mitigated, if not erased, by better—and better-supported—people management.

Even as the calendar turns relentlessly toward 2020, HR has far to go in meeting the heavy demands placed upon it.

Two-thirds of companies have made only slight or moderate progress toward meeting strategic workplace goals. And for all the talk of change, more than half of our executive respondents say they will have made only slight or moderate progress toward these goals in five years. For these companies, a talent crisis looms, even as their more adept competitors look ahead with growing confidence toward capitalizing on the workforce of the future.

Obstacles to meeting workforce goals

What are the major impediments to achieving your goals of building a workforce to meet future business objectives? Choose the top two.



Key regional differences

While the story told by the global results of our survey is clear, there are important differences at the regional and country levels. The regional variances follow a pattern: Asia Pacific and North America often lie at opposite ends of the spectrum from each other; Latin America tends to be similar to North America, and Middle East/Africa to Asia Pacific. Europe often lies between these two groupings.

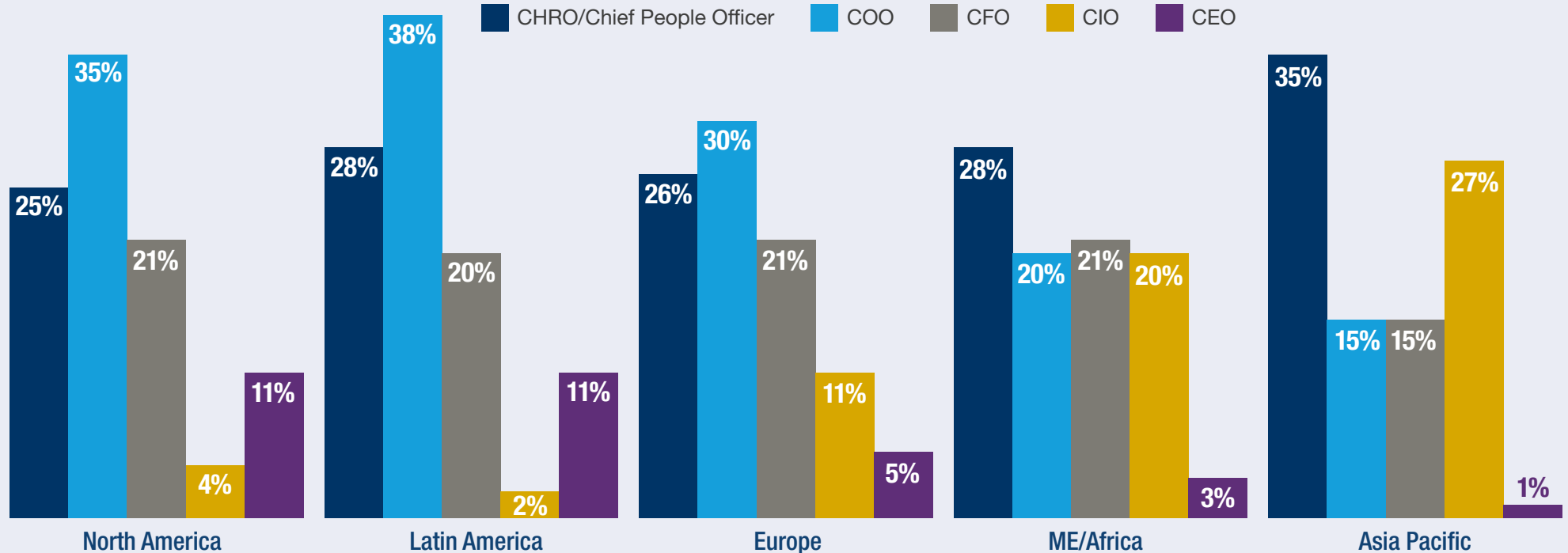
One key area of difference is in the high-level visibility of people planning. Workforce issues drive strategy at the board level in 70% of firms in Asia Pacific, but only 35% of North American firms. As shown below, responsibility for workforce strategy also varies by region: In North America and Latin America, the COO or CHRO is most likely to have primary responsibility for driving workforce strategy; in Middle East/Africa and Asia Pacific, the CIO is also likely to have this responsibility.

Millennials entering the workforce are a top concern for 57% of Asia Pacific executives, but only 36% in North America. Perceptions of Millennials also vary greatly by country. For example, 70% of Japanese executives say Millennials are interested in quality of life over career path, while just 28% of Mexican executives say this is true.

North American firms are more likely to say they are learning organizations—65% say their company is capable of retaining, updating, and sharing institutional knowledge, compared with 44% in Middle East/Africa and 37% in Asia Pacific. But despite their learning prowess, North American firms report more problems recruiting and developing talent, and North American employees report that supplemental training programs and mentoring are lacking at their companies.

Who drives strategy?

Who has primary responsibility for driving the workforce strategy at your firm?



Conclusion

Building the 2020 workforce requires companies to focus on the many changes, opportunities, and risks at hand. In a series of upcoming papers, we will examine several key areas where businesses must take action in order to thrive in the future—and overcome their current struggles:

■ The Millennial Misunderstanding

There is widespread agreement that the generation entering the workforce is different in key ways—but our research shows that executives do not really understand what those differences are.

■ What Matters Most at Work

Engagement and loyalty are vital to a successful workforce, yet there is a meaningful gap between the incentives and amenities companies offer and those that employees really want.

■ The Leadership Cliff

Our research shows that companies are ill-prepared for the leadership challenges of workforce 2020, and are not doing enough to meet future demands.

■ Bridging the Skills Gap: The Learning Mandate

Successful companies will create a learning culture that captures and perpetuates knowledge while empowering employees—but most have far to go.





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