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**STUDY
GLOBAL TALENT 2021**

“How the new geography of talent will transform human resources strategies”

Executive summary

Tectonic market shifts are transforming the global business landscape. Economic realignment, advances in technology, the globalization of markets, changing demographic trends, new customer needs and increased competition are radically altering how companies operate in virtually every industry and region of the world. Evidence of this new world order can be seen in the trade numbers. In 1990, the total of the world's exports and imports accounted for only 30% of the world's GDP—today, they make up more than half.

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These structural shifts are reshaping both the supply and demand for talent across the globe. To cope with a changing business environment, employers are demanding new skills from their employees, yet often find they are in short supply. The paradox is profound: On the one hand, 40 million workers in the industrialized world are unemployed, according to recent estimates by the International Labor Organization. Yet executives and managers tasked with hiring new workers often say they are unable to find the right people with the proper skills to fill their vacancies.

Meanwhile, the sources from which talent might be recruited are also realigning. More talent is being “home grown” in the developing world, and as a result, our forecast shows that over the next decade, new and sometimes unlikely regions of the world will generate a surplus of talent. By contrast, other regions—like the US and much of Europe—will confront the need to undertake a critical “reskilling” of labor to meet the new demands of a highly digitized and interconnected world where higher skill sets will be required.

To make their organizations more effective in the face of sweeping business change, HR leaders will need to rethink their techniques for managing talent and ensure they are aligned with the new strategic objectives of their organization. Increasingly they will need to develop more evidence-based approaches to manage global talent—drawing on improved analytics to identify talent segments and gaps, optimize resource allocation, integrate workforce plans and manage unavoidable risk.

Whether the issue is opening a new plant in a distant market, identifying the firm's next set of corporate leaders, or preparing for a new customer strategy, the HR executive is emerging as a key strategic player proficient at using evidence-based analysis to influence corporate decisions. As Samira Kaderali, Director of Strategic Workforce Planning at American Express puts it, “The notion of HR being much more analytic and data-driven provides a foundation for HR to be a strategic partner to the business, to help drive business results—this is the conversation that all the business and HR leaders want to have.”

To help explore how market transformation will affect senior HR executives and the companies they serve, Oxford Economics undertook an extensive, two-pronged research program. We conducted a global survey of 352 HR professionals in the first quarter of 2012, to examine how rapid globalization and the transformation of the business environment will affect workforce needs in the future, and the implications of these shifts for senior business and HR executives. We also undertook an extensive modeling exercise of 46 countries and 21 industry sectors to understand where the

shifts in the supply of talent will occur over the next decade. To supplement the results of our quantitative research, we conducted a series of in-depth interviews with HR executives across the globe and drew on the expertise of our HR steering committee.

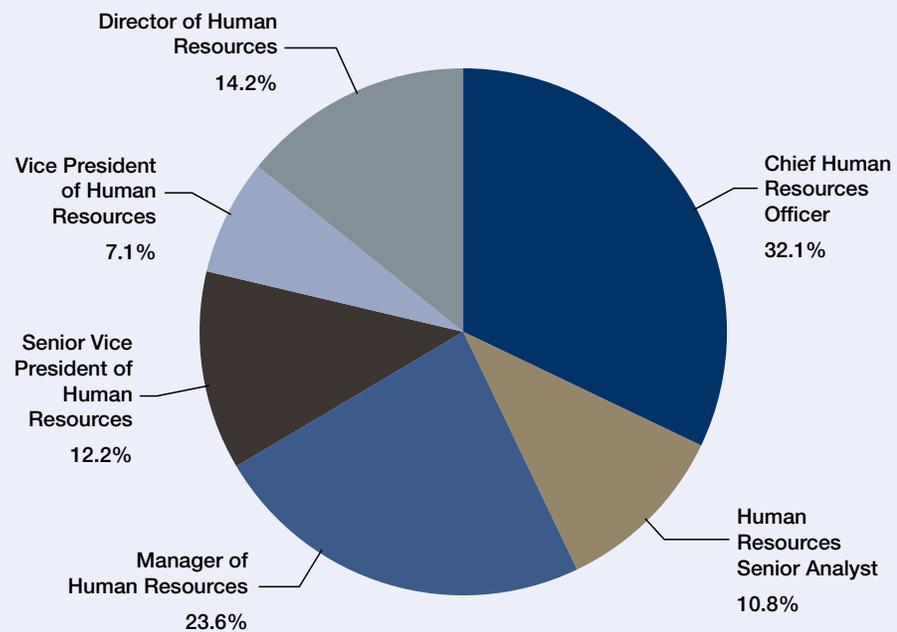
Our research reveals not only that tomorrow’s landscape for global talent will be dramatically different than that of today, but that some countries and industries will need to adapt more quickly to accommodate these rapid shifts. This report offers the highlights of our analysis.

Who took the survey?

This survey was conducted in the first quarter of 2012, reaching a total of 352 human resources professionals around the world. Of them, roughly one-third were CHROs (Chief Human Resource Officers); another third were senior vice presidents, vice presidents or directors of HR; and the rest were HR managers and analysts. About 22% came from companies with between \$25 m and \$250 m in annual revenue; 31% between \$250 m and \$1 bn; 23% between \$1 bn and \$5 bn; 18% between \$5 bn and \$50 bn; and 5% over \$50 bn. The survey reached executives in all regions around the world and represents a wide range of industry sectors.

Figure 1: Survey respondent titles

What best describes your role in your firm?



Source: Oxford Economics

Market transformation is redefining the supply and demand for talent

Everywhere across the globe, wrenching business changes are touching every firm and industry. Profound shifts in the global marketplace are ushering in a new era of complexity, uncertainty and change for companies. The rise of the internet and related technology has accelerated these market shifts, up-ending business strategies, models and processes along the way.

“Our transformation has really shifted the way we think about our business strategically.”

Libby Wanamaker, Global Director, Program Development for Coca-Cola

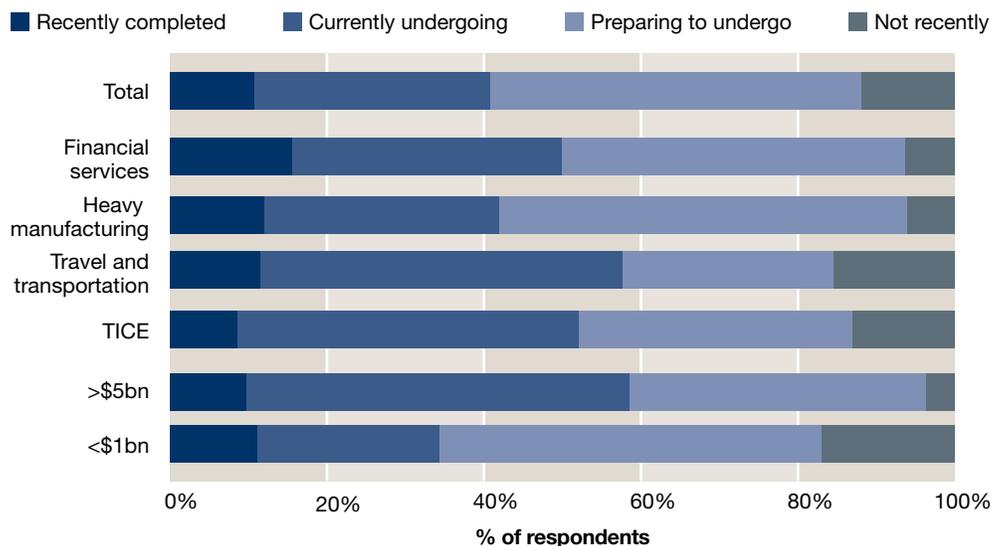
Survey participants identify advances in technology (42%) and globalization (41%) as well as shifts in labor demographics (38%), customer needs (38%) and competition (38%) as underlying forces that will have the biggest impact on their organization’s talent requirements in the years ahead. Even for firms that have operated across the globe for decades, the issues are substantial and ever more complex. “Ultimately our company has come to terms with the fact that we are truly a global entity that needs to operate at both the global and local level,” explains Libby Wanamaker, Global Director, Program Development, Coca-Cola. “Our transformation has really shifted the way we think about our business strategically.”

Business transformation requires new skills

As a result of these rapid shifts in the market, the vast majority of companies are engaging in transformation initiatives to rethink their global strategies, business models and organizational approaches. Indeed, according to our survey, 41% have recently completed a significant transformation initiative or are currently undergoing one. And another 47% of those surveyed are preparing to do so. For certain industries, such as financial services and heavy manufacturing, the total of those that have or plan to go through business transformation is even higher (more than nine out of 10).

Figure 2: Transformation is pervasive across industries

Please select the statement that best applies to your firm’s business transformation efforts.



*TICE refers to the Technology, Information, Communications and Entertainment industries

Source: Oxford Economics

This transformation also requires a repositioning of employee skill sets, across all levels of employment. Our study identified four broad areas where skills will be in greatest demand. These include:

1. Digital skills. The fast-growing digital economy is increasing the demand for highly skilled technical workers. In particular, the emergence of social media is putting a premium on developing new forms of digital expression and marketing literacy. According to our survey, of all technical capabilities, digital business skills are seen as most critical—particularly in Asia-Pacific, where e-commerce is mushrooming because of the early adoption of new digital technology as way to “leapfrog” an inefficient legacy infrastructure. In Europe, where economic conditions are weaker, the use of business software and systems to build internal efficiencies will continue to be a high priority.

2. Agile thinking. In a period of sustained uncertainty, where economic, political and market conditions can change suddenly, agile thinking and the ability to prepare for multiple scenarios is vital. In industries that face significant regulatory and environmental cross-currents, such as life sciences, and energy and mining, the ability to prepare for multiple scenarios is especially important—72% and 71% respectively, compared with 55% for the overall pool of respondents. To succeed in the changing marketplace of the future, HR executives also put a high premium on innovative thinking, dealing with complexity and managing paradoxes.

Figure 3: Skills in high demand over the next five to 10 years

Digital skills				
Digital business skills	Ability to work virtually	Understanding of corporate IT software and systems	Digital design skills	Ability to use social media and “Web 2.0”
50.6%	44.9%	40.1%	35.2%	29.3%
Agile thinking skills				
Ability to consider and prepare for multiple scenarios	Innovation	Dealing with complexity and ambiguity	Managing paradoxes, balancing opposing views	Ability to see the “big picture”
54.8%	46.0%	42.9%	40.9%	15.3%
Interpersonal and communication skills				
Co-creativity and brainstorming	Relationship building (with customers)	Teaming (including virtual teaming)	Collaboration	Oral and written communication
48.3%	47.4%	44.9%	30.4%	29.0%
Global operating skills				
Ability to manage diverse employees	Understanding international markets	Ability to work in multiple overseas locations	Foreign language skills	Cultural sensitivity
49.1%	45.7%	37.5%	36.1%	31.5%

Source: Oxford Economics

3. Interpersonal and communication skills. Overall, HR executives believe that co-creativity and brainstorming skills will be greatly in demand, as will relationship building and teaming skills. This reflects the continued corporate shift from a command-and-control organization to a more fluid and collaborative style. As enterprises of the future respond to the development of a “networked” corporate world, where relationships with suppliers, outsourcing partners and even customers become more dispersed and nuanced, the capacity to align strategic goals, build consensus and encourage collaboration will become paramount. The challenge is made all the greater because of the vast variety of geographies and cultures that will be encompassed by tomorrow’s extended global enterprise.

4. Global operating skills. Reflecting the impetus of firms to expand in markets around the world, the facility to manage diverse employees is seen as the most important global operating skill over the next five to 10 years. In the US, where companies are embracing globalization and seeking to penetrate new markets, understanding international business was identified as the top global operating skill required. These operating skills will become even more important as globalization enters its next phase. Indeed, according to Jeff Immelt, Chairman and CEO of GE, firms will increasingly move from “glocalization,” where home market products and services are tailored to the tastes of overseas customers, to reverse innovation, under which innovation is led from emerging markets and then brought back home to mature markets. Such global operating trends, which are already evidenced in both life sciences and engineering firms, will require a global redistribution of key skill sets.

The most dramatic jump in demand, according to survey respondents, will be in emerging Asia, where the need for new employees will rise 22%.

Permanent shifts in the business demand for talent

As firms contend with the transformation of their businesses, and the “reskilling” of their workforces, they must also prepare for long-term, permanent structural shifts in demand for labor. Indeed, a new geography of talent will come to define workplace recruitment.

The demand for workers is already more pronounced in emerging markets thanks to continued brisk growth in most of these economies. The most dramatic jump in demand, according to survey respondents, will be in emerging Asia, where the need for new employees will rise 22%. Other emerging markets that will see above average growth in demand are Latin America (13%), Middle East/Africa (13%) and Eastern Europe (10%).

Demand for talent in Western Europe, by contrast, is projected to grow a rather modest 3.5%, according to our survey. In some industries like business services, energy, travel and transport, and life sciences, staffing demand will actually decline as Europe copes with its ongoing debt crisis and austerity-driven recession. Somewhat stronger job demand is expected in North America, where surveyed executives expect overall employment requirements to rise 6.1% over the next five to 10 years as a result of more resilient economic conditions.

Figure 4: The future demand for talent

How will the landscape for talent change over the next five to 10 years?

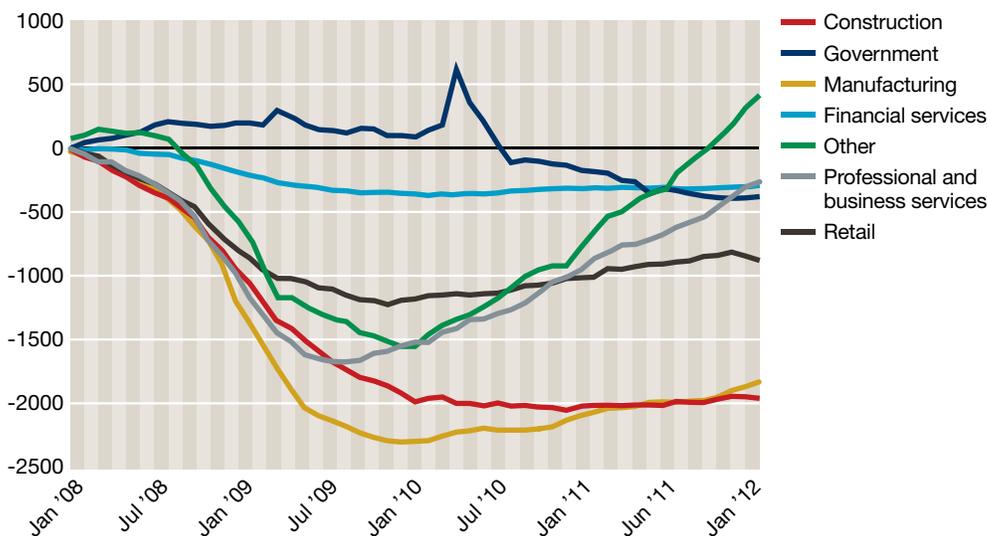
	Western Europe	North America	Developed Asia	Eastern Europe	MENA	Latin America	Emerging Asia
Total (% change)	3.5%	6.1%	10.0%	10.0%	12.7%	13.0%	22.2%
Industrial	-0.5%	-2.4%	11.4%	2.4%	28.7%	17.1%	37.7%
Emerging	26.1%	38.3%	8.4%	19.8%	6.3%	10.2%	13.3%
Heavy manufact.	24.6%	1.7%	1.7%	33.2%	10.3%	17.8%	60.3%
Business services	-4.4%	0.3%	51.4%	6.8%	30.1%	-0.6%	40.0%
Financial services	13.2%	-8.1%	4.9%	-9.9%	31.6%	48.6%	20.9%
Energy	-11.3%	22.7%	8.0%	8.7%	12.2%	-11.9%	33.0%
Travel and transport	-9.3%	-1.4%	36.5%	5.0%	14.1%	32.9%	32.6%
Life sciences	-4.1%	4.2%	8.2%	19.7%	8.6%	20.4%	16.6%

Source: Oxford Economics

The outsourcing of manufacturing jobs from the developed to the emerging world and the long-term effects of the financial crisis of 2008 means employment in certain industries is likely to shrink permanently in mature economies. In the US alone, Bureau of Labor Statistics data clearly illustrates that the sharp decline in construction and manufacturing that resulted from the financial crisis was not followed by a rapid “snap back” after the crisis passed, as was typical of previous recessions. In part, this reflects the rising competitiveness of emerging markets in low skilled manufacturing. Similarly, demand for industrial workers in emerging Asia is expected to rise 37.7% and in Latin America by 17.1%, while in North America demand is forecast to decline by 2.4%.

Figure 5: US employment by sector

Change in employment by sector (in 000s)



Source: Bureau of Labor Statistics

The talent pool moves from industrial to emerging markets

In the last decade, rapidly growing nations like India and China siphoned off many low-wage and relatively unskilled manufacturing jobs from the developed world, causing dramatic dislocations. In the coming decade, these nations will move up the skills ladder as they improve access to high-quality education. A demographic bulge, accelerating economic growth and technology-enabled training will also contribute to the dramatic rise in the number of college-trained talent developing markets are expected to produce. Of the major emerging markets, the fastest annual talent pool growth will be in India (7.3%), followed by Brazil (5.6%), Indonesia (4.9%), Turkey (4.7%) and China (4.6%).

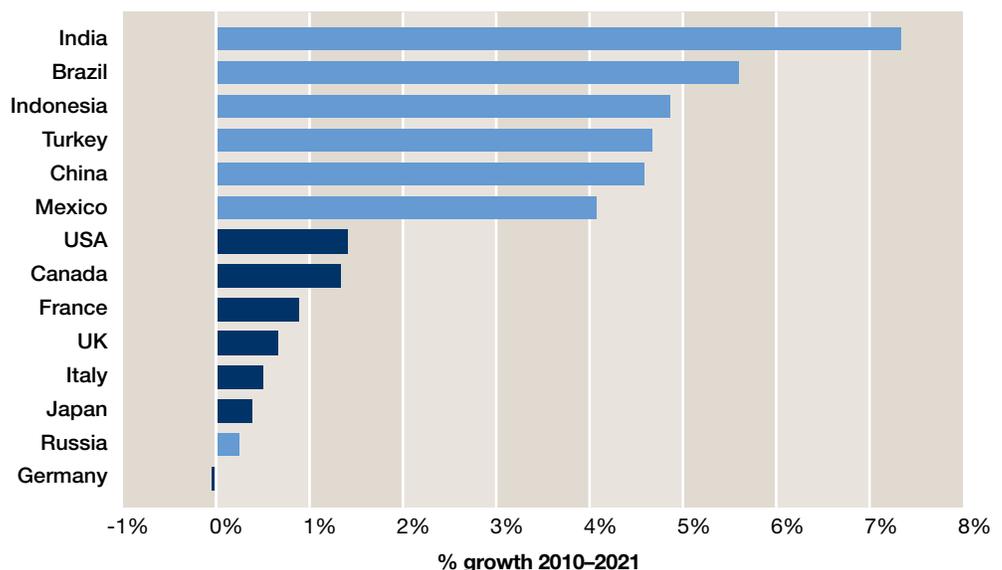
Over the next decade, the percentage of college-educated talent will rise to 60% in the E7—some 217 million workers, as opposed to 143 million in the developed world.

But for many developed countries, particularly in Europe, the next decade will see a further slowdown in population growth and continued aging of the workforce. Paradoxically, the biggest losers may be economies that have made the greatest strides in tapping potential talent by increasing access to education and raising labor market participation, since they will have less scope to boost talent supply. At 1.4% and 1.3% a year, respectively, the US and Canada will lead the G7 in annual talent growth, while France (0.9%), UK (0.7%), Italy (0.5%), Japan (0.4%) and Germany (0%) will lag.

The impact of the global distribution of talent will be dramatic. Already, over half of the world’s college graduates (54%) come from the top emerging markets (the E7: Brazil, China, India, Indonesia, Mexico, Russia and Turkey), compared with 46% from the industrialized world (the G7: Canada, France, Germany, Italy, Japan, UK and US). Over the next decade, the percentage of college graduates will rise to 60% in the E7—some 217 million workers, as opposed to 143 million in the developed world. Perhaps most tellingly, China will overtake the US as the country with the largest single pool of educated talent.

Figure 6. Growth in the college-educated talent pool

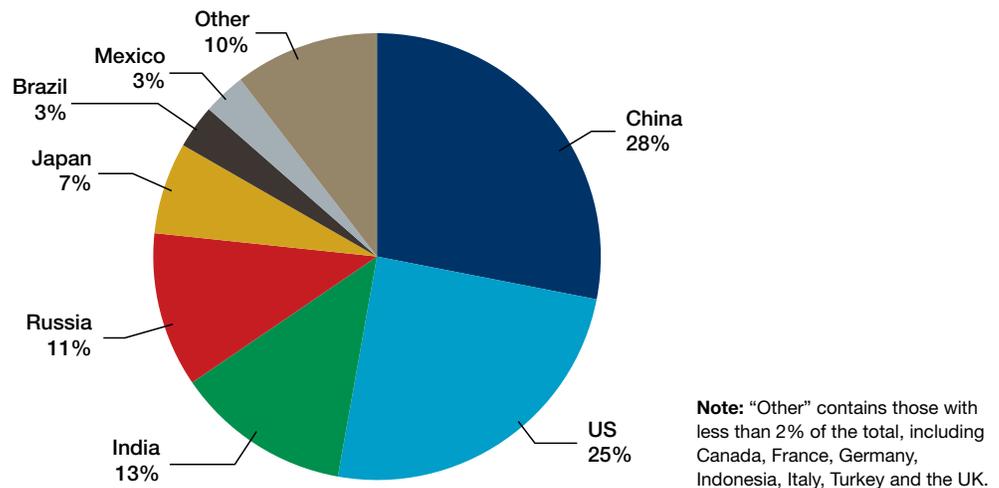
Tertiary educated (“talent”): E7 and G7 countries



Source: Oxford Economics

Figure 7. Size of college-educated talent pool

Tertiary educated (“talent”): E7 and G7 countries—2021



Source: Oxford Economics

Will supply meet demand?

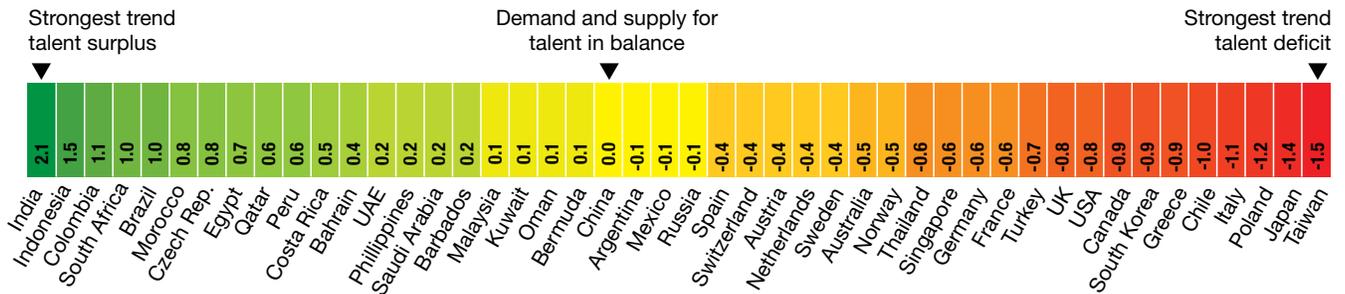
Developing nations understand that as technology changes rapidly and diffuses readily, sustained investments in education and training can pay off by helping young workers in their countries become critical players in future waves of innovation. There is no ironclad rule mandating that areas like the Silicon Valley in the US will be the only home of future innovation and job creation, as nations like China and India invest in industries ranging from life sciences to renewable energy and space exploration. In fact, eight of the top 10 countries likely to boast the largest talent surpluses a decade from now will be in the developing world, led by India, Indonesia, Colombia and South Africa. Even though these countries are expected to experience robust economic growth, more skilled workers will be produced than job opportunities will appear.

With the digital divide now operating in reverse, the South, rather than the North, could become the major source of technical talent a decade from now. Moreover, as the flow of capital and technology becomes increasingly frictionless across the world, centers of innovation and product development are likely to spring up in previously unheralded regions.

Cummins Inc. has experienced this shift firsthand. An engine manufacturer with operations in 52 countries, Cummins now generates over 60% of its revenue from its foreign operations, yet until recently ran its lone engineering center from its headquarters, in Columbus, Indiana. As new plants open in fast-growing markets like Brazil and Turkey, HR executives like Paul Wright, the company’s Global Diversity Special Projects Manager, will need to recruit the right talent to fill those newly created jobs, and standardize job categories that exist in different geographies. “HR is at the center of planning now,” says Mr. Wright. “We’re trying to make it easier to identify and move talent around the world as we need it and to help offer people development opportunities.”

Meanwhile, labor shortages are projected to appear in many mature markets, including the US, Germany, Canada and Italy, in part because of their aging populations and because much of their population is already relatively well-educated, offering less room for meaningful improvement. Faced with recession and budget constraints in the wake of the 2008 economic crisis, many of these countries will fall further behind in the race between education and technology.

Figure 8: The mismatch between supply and demand for talent in 2021



Source: Oxford Economics

Notes

1. The table ranks countries according to how their talent gaps are expected to evolve over the next decade.
2. Talent deficits are shown as red (negative numbers), talent surpluses as green (positive numbers), and broad balance as yellow.
3. Numbers report the average annual % change of the deficit/surplus.

A closer examination of two major economies, India and China, help illustrate the dynamic forces at work in this new landscape for talent. On our “heat map” outlining the projected balance of supply and demand for skilled labor, China is shown in balance: Its heavy investment in education will enable it to meet its talent needs and sustain its rapid economic development, even as its population growth levels off and its population begins to age. Its projected 4.6% annual increase in college-educated talent will roughly match its economic growth.

“In China we don’t encounter a problem in terms of ‘supply.’ The issue for us and many multinationals is how to foster their loyalty and engagement longer-term.”

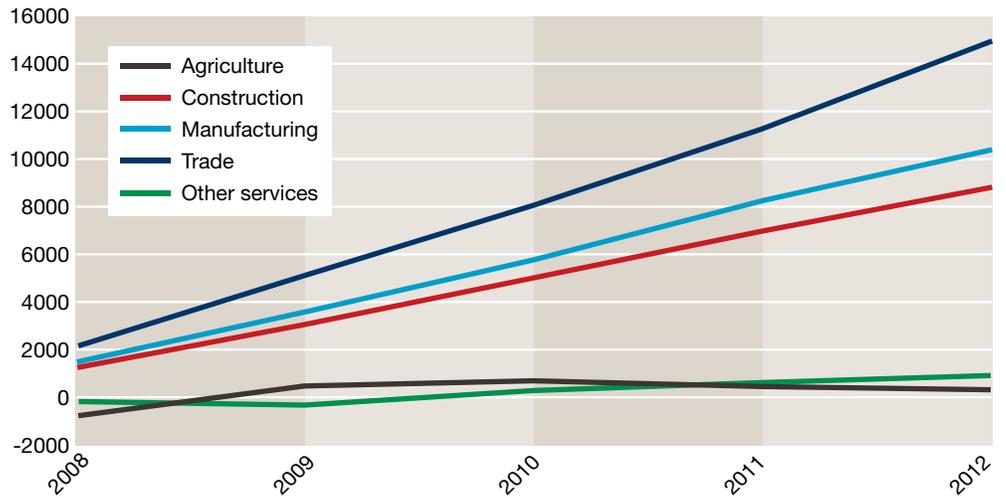
Randall Bradford, International Vice President for Human Resources, Medtronic

For Medtronic, the world’s largest medical technology company and maker of pacemakers, defibrillators, stents and other medical devices, China is expected to someday become the firm’s largest single market. Randall Bradford, International Vice President for Human Resources, says the firm has found the market for qualified workers very rich: “In China we don’t encounter a problem in terms of ‘supply.’ There is plenty of well-educated talent there. The issue for us and many multinationals is how to foster their loyalty and engagement longer-term.”

India, by contrast, is projected to top the country rankings in terms of its surplus of educated talent. This surplus results from its young and rapidly growing pool of workers and some educational improvements (although much less dramatic than in neighboring China). While India’s pool of college-educated talent is expected to rise more than 45 million in 10 years, it will exceed that which can be absorbed by the Indian economy. This will compress the wage premium for talent, allowing for investment in new technologies and business models that will fuel growth well beyond 2021.

Figure 9: Employment growth in India

Change in employment by sector since 2008 (in 000s)

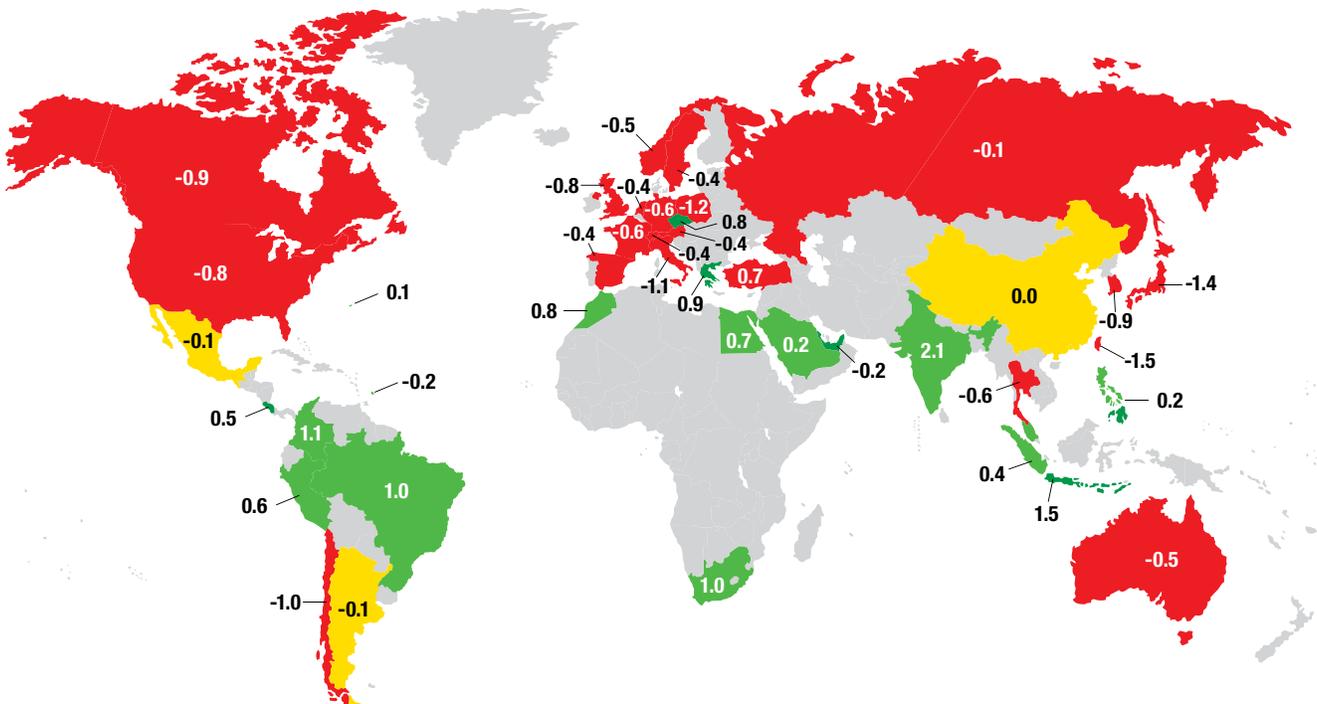


Japan is already experiencing a decline in overall population, while its demand for talent will increase modestly. Its supply of educated talent will expand by only 0.4% over the decade. Since Japan’s economy is largely closed to immigration of large numbers of skilled managers and technicians, the net result is that Japan’s talent deficit is expected to be second largest in 2021 among the nations studied. Indeed, nine of the 10 countries projected to experience the most pronounced talent deficits will be industrialized nations.

Figure 10: Global Heat Map

The gap between the growth in demand and the growth in supply of talent, 2011 to 2021

(Red indicates a trend deficit, green a trend surplus, yellow a broad balance. Numbers show trend growth as annual percentages.)



Managing the talent mismatch

The talent mismatch—between where talent is most needed and where it will be most available—is not likely to evaporate soon. Managing this skills gap in the developed world and recruiting appropriate talent in the emerging economies will become a critical task for global firms in the future. In the developed world, where talent shortages in a number of managerial and technical fields are expected to persist, companies will be forced to think more explicitly about the trade-offs between outsourcing work, off-shoring staff and retraining workers. Likewise, decisions about where to locate new centers of innovation, product design or advanced engineering may become focused on geographies not previously considered by the C-suite. Firms will also need to become more proactive about partnering with relevant government and educational institutions to develop and train workers, as they come to anticipate more accurately their turnover and retention rates and their future workforce demands.

An example of one forward-looking firm is Lenovo, the China-based computer maker. To support its global growth, Lenovo is partnering with top-ranked Chinese universities to identify top talent that may have gone abroad to study, but might be interested in returning to work in the motherland. “We’re looking to build that talent pipeline three or four years down the road,” explains Robert Gama, the firm’s Vice President of Human Resources. “If we continue to outpace the market and become the leading PC+ vendor in the world, we will need to double the number of our leaders across the company. We are always looking to attract the best talent around the world.”

Rethinking HR strategies for the new global marketplace

A more analytical, evidence-based approach will not only lead to better HR results, but will generate greater support from senior management who require sound business cases for making decisions.

Business transformation and the new geography of talent will call for a fresh HR approach and mindset. To manage the enormous change process, HR executives will need to use new analytical tools to understand and plan for the future, assess the impact of decisions, optimize performance, prepare for different scenarios and align talent management with larger corporate strategies. A more analytical, evidence-based approach will not only lead to better HR results, but will generate greater support from senior management who require sound business cases for making decisions.

“For the last 15 to 20 years we’ve focused HR leaders on efficient delivery of services,” says Ravin Jesuthasan, Talent Management Practice Leader for the consulting firm Towers Watson and co-author, with Dr. John Boudreau of the Center for Effective Organizations at the University of Southern California, of *Transformative HR: How Great Companies Use Evidence-Based Change for Sustainable Advantage*. “Today the opportunity is for HR to transform how firms manage talent, enabling business leaders to make better decisions about human capital.” Integrating these new HR tools can help firms optimize their talent and boost employee performance.

Building on the transformative principles outlined in this book, our research reveals five important steps firms should take to retool HR for the changes ahead.

1. Use more sophisticated analytical tools for making global decisions.

Over the next three years, companies will increasingly rely on **logic-driven analytics** to make better decisions about the supply and demand of talent. According to Dr. Boudreau, “under a logic-driven approach, firms should identify the most pivotal organizational issues and use robust analytics to describe the issues and assess the likely outcomes.” Best practice will entail the consistent use of analytics to generate insights, test alternatives, monitor progress and measure business impact.

As firms globalize, they will also need globally integrated HR data systems. Our survey shows that the use of data from globally integrated HR information systems (HRIS) will rise from 39% to 47%, and from regional or divisional HRIS from 40% to 46%. While less than half of our survey respondents say their HRIS are integrated today, 63% say they will make this transition in the next three years. And while only 52% of firms today say they possess a “strong understanding” of the HR metrics that matter to each business unit, 65% of respondents expect this to be true in three years.

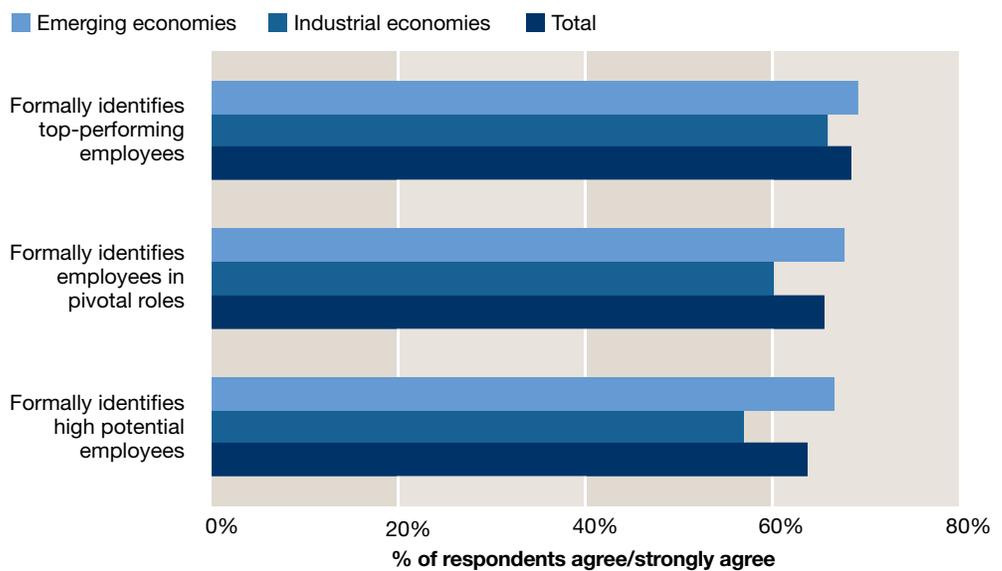
More rigorous data analysis offers firms many benefits. For ATK, a global defense, aerospace and commercial products company headquartered in the US, analytical tools are crucial for workforce planning. “Our data analysis allows us to be proactive and forward-looking in recruiting,” says Carl Willis, Vice President for Human Resources in ATK’s sporting group. Such analysis lets him see “where the business is going and what kind of talent we’re going to need in the future.”

2. Use segmentation to understand talent categories, differences and gaps.

Having obtained a deeper and more nuanced understanding of their employees' skills, HR executives can better determine where business transformation might affect talent demands, and anticipate where skill gaps might emerge. **Talent segmentation** enables HR executives to better appreciate generational differences, specific work-life challenges and differing cultural attributes that can affect motivation or the design of incentives. Segmentation also allows HR executives to more accurately measure the individual contribution each employee makes, as well as variations in performance, which in turn can help them unlock hidden sources of value.

Figure 11: Future approaches to talent segmentation

Our company...



Source: Oxford Economics

Our survey shows that in the coming years nearly 70% of firms will identify top-performing employees, as well as those in pivotal roles (66%) and those with high potential (64%). Companies will also change the way they approach segmentation. Sixty-eight percent of firms will differentiate talent management programs and tailor them to different business segments. Firms will also become more forthcoming in telling employees how and why talent is being segmented, so they might better understand what is expected of them and how they can succeed. In financial and business services especially, roughly 80% of firms plan to tell employees how they can influence their own career trajectories.

3. Optimize talent by deciding where to invest and where to prune.

Talent optimization is a critical tool for deciding where resource investments will make the biggest difference. Few companies have gotten to the point where they are not only well-aligned internally, but also know how to optimize the workforce to meet shifting business needs. Yet this is the ultimate payoff that emerges from a comprehensive investment in the suite of HR tools and analytics that properly interconnect people and strategy.

“These things tend to move hand in hand,” explains Dr. Boudreau. “If you’re doing segmentation, if you are using logic-based and deeper analytics, you’re also trying to optimize your workforce.” This approach allows executives to determine where investments will have the biggest impact, while also giving them the courage to pare investment in areas that will become less critical.

Our survey shows that while 55% of firms today measure the ROI of talent management initiatives, that number will rise to 63% in three years. And 63% say they will make changes in resource allocation based on demonstrable business value in three years, from 53% today. However, reducing commitments to less critical parts of the business seems more difficult. While 52% currently reduce resources to programs or roles where the payoff is not high, that number will rise only slightly, to 57%.

4. Shift from a risk-averse to a risk-aware mindset

In a business world characterized by accelerating volatility and uncertainty, HR executives will need to move away from risk avoidance to **risk leverage**. Just as top management teams now find it critical to balance the risk and reward of their decisions, HR leaders will also need to incorporate risk into their thinking. This new mindset will help them not only to understand the full range of HR risks, but to determine which risks are worth taking.

Mr. Jesuthasan puts it succinctly: “Being risk-averse is no longer a viable approach. Risk awareness is not just about identifying the risks you don’t want to take, but also the risks you do want to take.” Ms. Kaderali of American Express agrees, and sees an explicit relationship between the deep data analysis her company is now developing about its workers, and its ability to manage future risk: “If there’s risk in our workforces, or in our talent pools, then we need to be aware of it and we need to use the data to help manage that risk.”

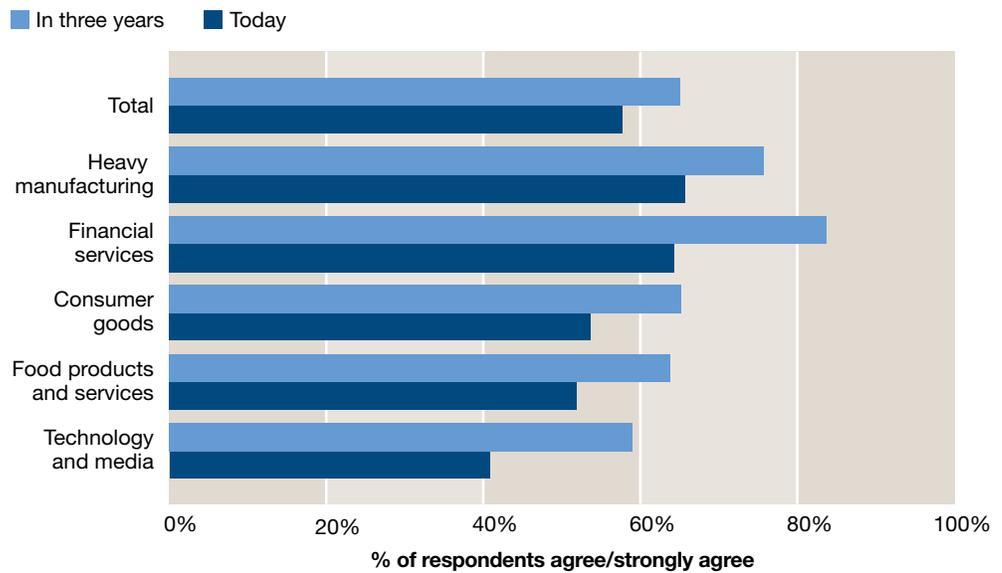
Our research shows that HR executives plan to take a more informed approach to risk management in the future. For example, in the next three years, almost two-thirds of companies (65%) will leverage risk in a disciplined way for the benefit of their organization; for financial firms, where risk is central to their business, the percentage is considerably higher (84%). More than 55% of firms will use data-based forecasting to identify future risks, and nearly 60% will employ scenario planning.

“Being risk-averse is no longer a viable approach. Risk awareness is not just about identifying the risk you don’t want to take, but also the risks you do want to take.”

Ravin Jesuthasan, Talent Management Practice Leader, Towers Watson

Figure 12: More firms are accepting HR risk

My firm understands that risk can be leveraged for the economic benefit of the organization in a disciplined way.



Source: Oxford Economics

Figure 13: Future plans to measure and manage HR risk

	Total	Industrial	Emerging	>\$5bn	<\$1bn
Identifying alternate sources of talent	62.0%	60.3%	64.5%	72.0%	58.6%
Scenario planning	59.4%	52.1%	68.4%	59.8%	58.1%
Analyzing the value of difference in job performance for different roles	59.4%	55.7%	63.2%	58.5%	58.1%
Portfolio risk diversification	57.4%	50.0%	66.5%	73.2%	51.6%
Data-based forecasting	55.4%	49.5%	62.6%	58.5%	54.3%
Experimentation	50.3%	46.4%	55.5%	46.3%	50.0%
Heat maps	46.6%	44.8%	49.0%	48.8%	41.4%

Source: Oxford Economics

As HR executives begin to systematically collect and analyze data, our research suggests that they will become more confident in their ability to accept certain risks in human resources regarding issues such as sourcing, talent segmentation and market optimization. Instead of being rewarded for side-stepping risk, HR managers of the future will be expected to better analyze and optimize risk, assessing the threats as well as the opportunities.

Boosting engagement through evidence-based change

Since evidence-based analysis was a key focus of our study, it seemed fitting to apply this principle to our own work.

As part of this survey, we asked firms 42 targeted questions on the five core principles of evidence-based change: logic-driven analytics, segmentation, optimization, risk leverage, and integration/synergy. We also asked them to evaluate how levels of employee engagement—work commitment and enthusiasm—had changed over the past three years. We then used regression analysis to investigate the correlation between the five principles and engagement.

Our research shows conclusively that implementing the five HR principles boosts employee engagement. Among the firms that use the principles, the ones that emphasize optimization, risk leverage, and integration/synergy have the best engagement performance. This reflects the typical development path of evidence-based change, since HR executives normally start with the fundamentals of logic-driven analytics and then move on to the more advanced principles of optimization, risk leverage and integration/synergy. It follows that the firms at the vanguard of these HR principles would experience the best results.

5. Align HR strategies with business transformation objectives.

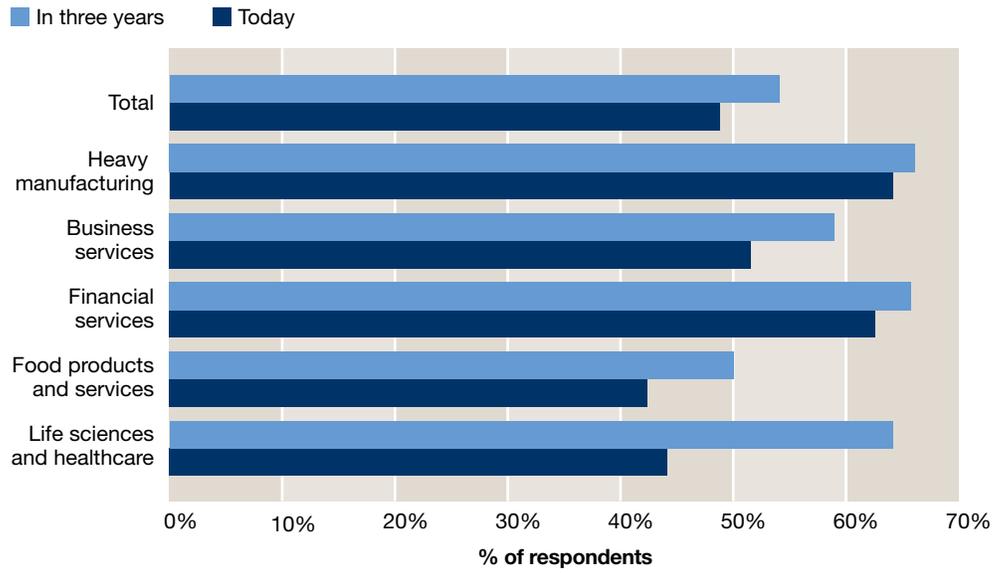
Our research shows the increasing importance of **integration/synergy** as a transformative HR tool. Though difficult to engineer in times of constant change, aligning business and talent management strategies will be crucial for success in the future. Equally important, HR executives will need to understand how HR solutions and organizational processes mesh with each other to deliver a more integrated approach to talent management.

“HR has become more strategic because of the recognition that in the end, talent is what is going to make or break us,” Ms. Wanamaker of Coca-Cola says.

Our survey shows that as HR managers come to rely more on evidence-based tools, HR functions will become more strategic within companies. Some 49% say HR and business heads already share governance of people programs today; this figure is expected to rise to 54% in three years. In addition, 57% say that HR initiatives are today brought together under key strategic goals; 66% expect this to be the case in three years.

Figure 14: HR is becoming more strategic

HR and business heads share the governance of people programs.



Source: Oxford Economics

Calls to action

Over the next decade, the dramatic shifts in the global marketplace will weigh heavily on all firms. The ability to attract and retain quality workers will be challenging, particularly as competition increases between new upstarts in fast-growth markets and long-established firms in the industrialized world. To meet these challenges, companies will need to rely on HR executives who are skilled at working in diverse cultures, managing complexity and change, applying the latest analytical tools and thinking creatively about filling future skill gaps before they emerge.

Executives have a good sense of where the best investments in HR should be made. When asked which HR strategies and tools will deliver the highest payoff, 47% cite training and career development, 43% say recruitment and retention, and 38% cite reward and recognition plans. Firms in energy, heavy manufacturing and consumer goods say technology investment is key, while companies in construction, food products, and travel and transport cite better analytics and reporting tools.

To stay ahead of the curve, companies should consider the following:

Companies will need to rely on HR executives who are skilled at working in diverse cultures, managing complexity and change, applying the latest analytical tools and thinking creatively about filling future skills gaps before they emerge.

- **Apply the same rigor, effort and sophistication to human capital planning as is given to designing overall business strategy.** No change in business strategy can be successful without ensuring that human capital plans are well aligned. The same discipline and tools associated with forecasting needs, such as scenario planning, will become increasingly valuable to HR professionals. Evidence-based personnel management will become a critical success factor as firms ponder new business models or entering new markets.
- **Think more broadly about how and where talent is sourced.** Greater volatility and emerging talent shortages in key fields will require organizations to rethink many traditional employment relationships. HR executives will need to recruit for talent in new and sometimes unexpected geographies, as talent surpluses develop in some fast-growing markets while mature markets face talent deficits. They will also need to revisit traditional employee/employer relations: Questions of outsourcing or on-shoring specific talents and jobs will become much more salient in the future.
- **Be prepared to invest more in retraining and reskilling.** An open dialogue and partnerships with educational institutions and government employment development agencies can help firms ensure a healthy talent pipeline, particularly in fast-growth markets. Developing programs that train and educate workers not only helps with recruiting but improves employee loyalty.
- **Take a greater evidence-based approach to talent management.** Employing workforce analytics to assess and segment talent, and using quantitative tools to identify risk and integrate HR into business planning can lead to superior results. Making your workforce aware of how analytical tools are being used—and that performance is being measured and rewarded—can powerfully reinforce a message that people are at the center of any successful business transformation.

- **Improve employee engagement.** Employers who are candid with their employees about how they rate relative to peers and what future leadership potential they possess may find their workers more motivated to develop new skills and master new techniques. Such programs are vital for service companies centered on talent, such as business services and financial firms. Making employees feel more part of the conversation is critical to business success, and closely correlates to the overall health and prosperity of company.

The global rebalancing of the demand and supply of talent will have enormous implications for government. The race among educational institutions and governments to keep up with rapidly changing technology will occur in every country. Those nations that win the race will build a talent surplus that will drive economic performance; those that lose the race may see their competitiveness erode. To ensure that the supply and demand of talent are well aligned, governments will want to work in partnership with companies in pursuing the following policies:

- **Ensure that education policy is fully integrated into larger economic growth strategies.** Expanding access to education, increasing the average number of years of schooling and improving the quality of education in key curricula (e.g., science, technology, engineering and mathematics), should be areas of particular focus. Educational institutions should listen to the needs of business and government in monitoring talent gaps and anticipating where future shortages may arise. Firms can also actively assist educational institutions in creating the right training programs that will meet their future needs, and investing in the cooperative training of teachers. At the same time, firms have a social responsibility to develop their staff and offer on-the-job training, expand opportunities for older workers, and encourage greater workforce diversity.
- **Move rapidly to develop new forms of digital and technology-enabled training programs.** Innovative new programs, including online learning and virtual teachers, can rapidly boost access to high-caliber education and training. By helping to ensure that today's teachers are adequately trained to master basic digital technologies, educational institutions can rapidly boost opportunities for students. Creating digital literacy should be considered almost as important as basic literacy, and even primary schools should be encouraged to find ways to bring the internet and related digital technology into the educational experience.
- **Develop investment policies that encourage foreign direct investment and reduce long-term unemployment.** As the supply of talent shifts to the South, developing nations should be more proactive in attracting the sort of foreign direct investment that can employ this expanding new pool of skilled labor, and encourage these high-value workers to stay home. An "outward looking" trade policy that encourages domestic firms to be efficient and innovative in order to keep up with foreign competition will also encourage the development of high-quality jobs and reduce the "brain drain" of well-trained workers. Incentives to small- and medium-sized firms can also increase entrepreneurship. Additionally, to combat long-term unemployment among youth, policy-makers should encourage formal schemes such as apprenticeships and mentoring programs.

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