

Talent, talent, talent.
Finding it. Developing it.
Keeping it.

The new role of HR in
the future

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About the Adecco Institute

The Institute is committed to facilitating discussions on the broad topic of work and how work impacts our society among all stakeholders, from governments and academics to employers, unions and employees.

Through primary and secondary research as well as thought pieces, conferences and events, the Institute provides a forward-looking and fact-based perspective on innovative approaches to help organizations and regions raise employability, productivity and employee satisfaction at work.

Adecco's worldwide reach enriches the Institute's views. With over 6,600 offices in more than 70 countries and territories, and managing a workforce of over four million individuals each year, Adecco employees every day face economic and demographic realities that both challenge and foster clients' business goals.

The Adecco Institute comprises a board of advisors and is managed and run out of London, UK. The institute draws on the full resources of the Adecco Group.

www.adeccoinstitute.com

Executive Summary

Talent, talent, talent. Finding it. Developing it. Keeping it. This is going to be the prime focus of Human Resources (HR) professionals in the coming years. The trends of outsourcing non-core and transactional activities and the shift to self-service is well-established, and will continue to free HR professionals to focus on more strategic, value-added activities. The Adecco Institute has surveyed more than 5000 HR executives over the past two years on topics including skills shortages, career management, knowledge management, and lifelong learning, among others. Informed by these interviews, as well as industry reports and workforce surveys, we conclude that Talent Management - the effective assessment of and planning for a company's human resource needs - will be the single most important focus of HR in the future.

This paper outlines our vision of HR in the Future - in particular, how HR will change as three significant trends converge:

- 1. Globalization**
- 2. Demographic Change**
- 3. Skills Shortages**

Each of these trends will impact HR Professionals in different ways. Globalization will become a necessity for growing firms in the more developed nations who will face a shortage of workers in the local market. Population trends are clear - while the world population will exceed 9 billion by 2050 (an increase of 55% from 2000), the populations of developed countries will remain virtually unchanged (experiencing only 3% growth in the same period). Companies will increasingly go abroad to meet their workforce demands. Globalization in the coming years will open up whole new vistas of Talent Management not yet envisioned. HR will hone their global skills as local problems - such as skills development and talent retention - go global, and firms becomes increasingly dependent on a geographically dispersed pool of skilled workers.

Demographic changes in the workforce will necessitate more effective Talent Management to mitigate against an outflow of key skills and resources as workers start to retire en masse. Older workers comprise the fastest growing segment of the workforce, a trend that will continue unabated as workers age and fewer young people (due to declining birth rates) line up to replace them. HR practitioners will embrace knowledge management as a means of tracking "who knows what", and limiting the impact of employee departures on the business. Skills Shortages resulting from both demographic changes in the workforce and inadequate pipelines of appropriately skilled workers will further magnify the need for Talent Management. All will have a profound impact on HR professionals.

In a world where skilled "human resources" are increasingly in short supply, the role of HR professionals will shift profoundly - from that of 'behind the scenes' coordinator of personnel management to strategic manager of critical business resources. We envision a world where analysts ask for as much information about personnel assets as financial assets - and the growth prospects of the firm are based as much on market growth as on a firm's ability to marshal the human resources necessary to meet growth demands.

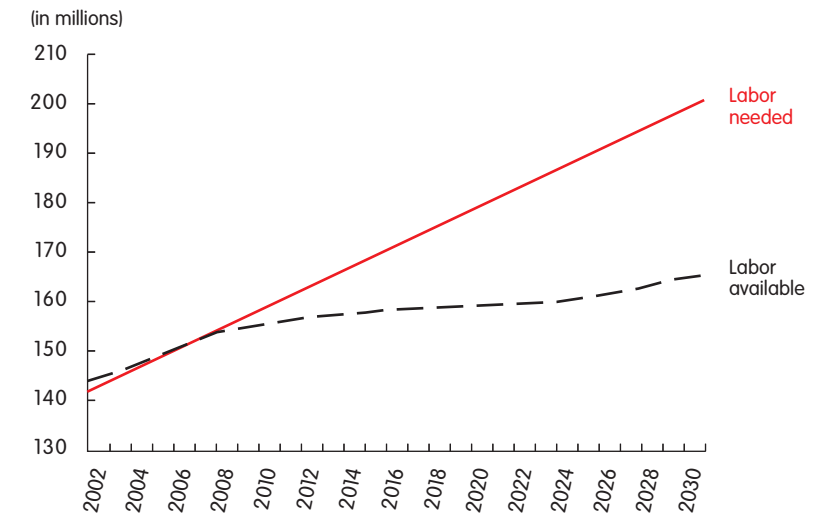
Introduction

Human Resources (HR) practitioners today face a wide range of challenges – from managing an increasingly restive workforce, to spearheading the corporation’s constant ‘right-sizing’, to ensuring that the human resources needs of the corporation are constantly being met. According to over 5000 HR professionals interviewed over a two year period by the Adecco Institute, Globalization, Demographic Change, and Technological Progress consistently rank among the top three challenges facing corporations today.¹ In this paper, we take Technological Progress as a given. We recognize that technology will continue to infiltrate the HR function, automating transactional services and reducing demand on valuable HR resources. Traditional administrative tasks will increasingly be handled through outsourcing, automation, and self-service, and successful HR practitioners will take advantage of this trend to shift their focus to the truly value-added work of managing talent. We focus instead on Skills Shortages as the third driver that will make Talent Management such a critical focus for companies of the future. Globalization, Demographic Changes in the Workforce and Skills Shortages, individually and collectively, are presenting HR practitioners with an unprecedented set of challenges – challenges that will directly impact the competitiveness, productivity and innovation of your firms.

Global competition for skilled workers and creative talent continues to grow – even as population growth (particularly in developed countries) has been stagnating and even falling. The chart below illustrates the potential gap between anticipated labor supply and the expected labor demand necessary to support sustained economic growth using the US economy as an example. Labor shortages – driven by muted population growth and an aging population - will emerge as the projected labor supply fails to keep pace with demand. Taken as a proxy for the global trend in developed nations, it is clear that the demand for labor will outstrip supply if countries are to continue their economic growth at historical levels. Even if automation were to eliminate the need for some portion of these jobs, the competition for talent will only intensify in the coming years. This projected scarcity of one of the most critical of all resources – human talent – will position HR as one of the most forceful factors in a corporation’s growth, productivity, and creativity.

¹ Demographic Fitness Survey 2007, The Adecco Institute

Labor force needed to maintain economic growth



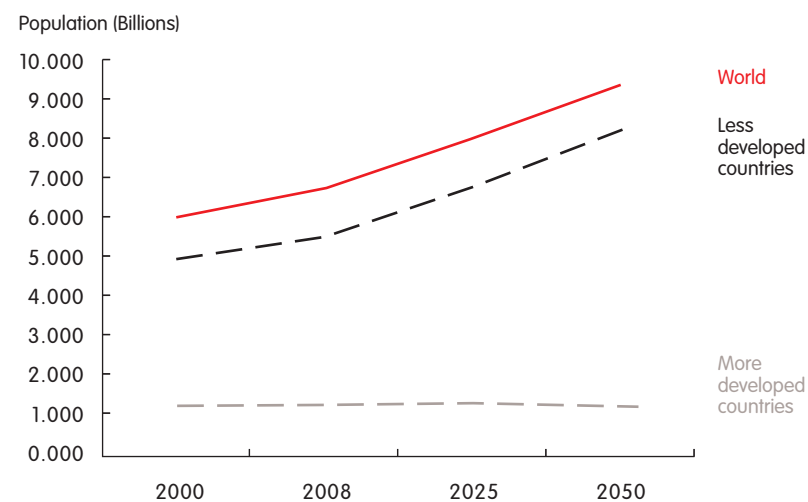
Source: Employment Policy Foundation analysis and projections of Census, Bureau of Labor Statistics, and Bureau of Economic Analysis data

HR practitioners will have to break away from the ‘just in time’ corporate culture that has transformed business practices over the past thirty years. Many corporations can staff significant portions of their organization with ‘just in time’ staffing, and will continue to do so even as these trends magnify. ‘Just in time’ staffing is the appropriate model for lower-skilled roles where basic training is sufficient to prepare new entrants for their job requirements, and will remain an important component of staffing models. However, highly skilled employees, particularly those with advanced degrees, knowledge or certifications, are less likely to be easily available on the labor market as the competition for talent intensifies and skill shortages increase. Research conducted by the Adecco Institute indicates that the average planning horizon of HR professionals today is only 1.1 years – hardly enough time to plan for unexpected waves of retirements, or fewer new entrants to the workforce than we have grown accustomed to. Forward thinking HR practitioners will start today to analyze the age structure of their workforce, develop a more robust understanding of staffing needs and trends, and develop tools and techniques to ensure that talent is acquired, developed, retained and rewarded in keeping with the demands of the workplace.

Globalization

According to the United Nation's Population Division, the world population in 2005 was 6.5 billion - 380 million more than in 2000 or a gain of 76 million annually. By 2050, the world population is expected to reach 9.3 billion.² Yet, the population of developed regions is expected to remain unchanged at roughly 1.2 billion from now through until 2050 (see chart), and Germany and Italy (among other developed countries) are actually expected to experience population *declines*. People living in developed countries will enjoy longer life expectancies, but birthrates will remain low; the net effect will be an overall aging of the workforce, and a decreasing number of 24-64 year-olds in the populations of developed countries.

World Population Growth 2000 - 2050



Source: US Census International Database

Globalization presents unique opportunities for the HR practitioner – globalization not only increases the threat of virulent competition, but for the savvy HR practitioner, the opportunity to leverage a global workforce. In a world where local workforces will stagnate in developed countries, growing companies will increasingly look to the global workforce to satisfy their appetite for talent. HR practitioners will have to grow comfortable in a global world with a geographically dispersed workforce. Regardless of location, the challenges of managing talent will remain. Whether in developed or developing countries, the competition for talent will be relentless, and HR practitioners will have to develop robust retention strategies to keep employees engaged, trained, and committed. More

² US Census International Database

sophisticated solutions will have to be developed to manage talent in the global workforce, and ensure not only that talent remains up to date, but isn't walking to competitors with valuable business knowledge.

While the trend of moving low-skilled jobs to low cost economies is expected to continue in some sectors, we believe that innovation will outpace production as a key determinant of corporate success. Successful companies will move projects to the talent best capable of completing them. Enabled by technology, teams will increasingly be comprised of geographically dispersed contributors.

Tomorrow's companies will compete not on low wages or natural resources, but on innovation, skills and productivity. Success will be increasingly dependent on the ability to leverage human resources regardless of national boundaries – and 'global' companies will no longer be characterized by physical presence, but by their ability to work effectively in a global world. Technology has demolished the boundaries once presented by geographical distances – talent can be leveraged in minutes, regardless of location – provided organizations know where it is and how to mine it.

In a global economy, companies have unprecedented opportunities to weigh the cost benefit of creating internal capabilities versus expanding globally versus outsourcing. Each are already viable options for corporations today – regardless of size. To be globally competitive, HR must be increasingly aware of the costs of these options and increasingly willing to explore the cost benefits associated with each. Globalization is no longer the sole domain of large companies – it is an accessible option for companies of all sizes – and may determine a company's viability in the long run.

The future HR practitioner will be a partner in a far broader range of business decisions– examining the options available, weighing the pros and cons of alternative solutions, and armed with robust knowledge of the internal competencies and latent skills that can be brought to bear on the issue. HR practitioners will increasingly rely on knowledge management tools to track the skills, experience, background and interests of their workforce. Research conducted by the Adecco Institute reveals that while 55% of companies maintain standardized records of business critical knowledge, only 30% publish information about 'knowledge holders' in an internal directory. HR practitioners need to focus on systems that capture and systematize information on employee skills, qualifications and interests as well as formal and informal feedback on employee performance. Armed with such tools, HR will become an active resource for company executives, who will extend their personal networks with accurate and up to date information from HR practitioners.

Demographic Change

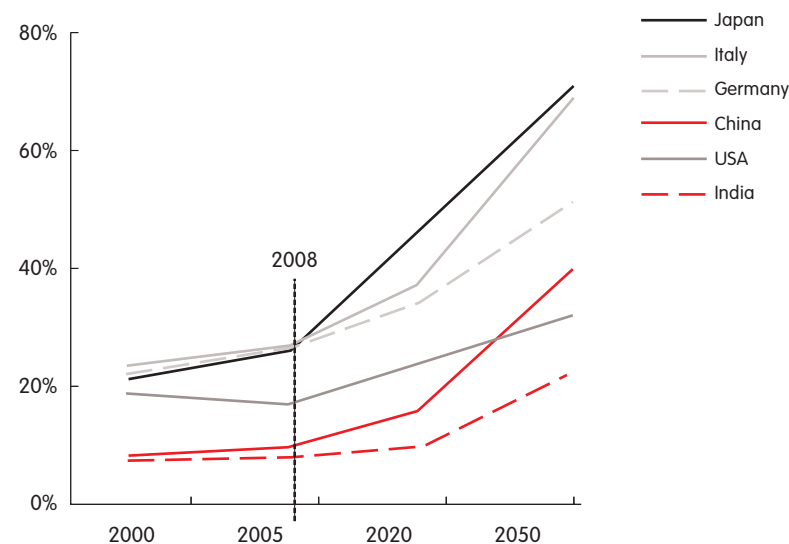
In the next ten years alone, developed countries will see dramatic growth in the size of the older population. Across **Europe**, for the first time, people over 40 will be in the majority (in **Italy** and **Germany** they will be 60% of the population). **France** will have 20% more people aged 60+. **Spain** and **Germany** will have 20-25% more people in their 50s. In just the next eight years, the number of workers in the **United States** in the 55-and-older group is projected to grow by 46.7 percent, nearly 5.5 times the 8.5 percent growth projected for the labor force overall.³

At the same time, and a directly contributing factor to the overall rise in the age of the population, there are simply fewer young people. **Spain** will see a 50% fall in people aged 20-35 (a 60% drop for 25-29 years). **Italy** will have fewer people in literally every age group from birth to 44 years, with one quarter less in their 30s. The **United Kingdom** will see a 20% decrease in the number of 35-45 year-olds. Youths in the **United States** --those between the ages of 16 and 24-- will decline in absolute numbers and their share of the labor force will fall from 14.8 to 12.7 percent.

The size of the 65+ cohort is growing in most developed countries, and is set to explode in Japan and Italy. While these countries are on the leading edge of this dramatic change, Germany, the US and even China are facing significant changes in the composition of their workforce going forward.

People aged 65+ as % of working-age population (aged 15-64)

%, 2000 - 2050



³ Employment Projections 2006-2016 Summary, <http://www.bls.gov/news.release/ecopro.nr0.htm>
United States Department of Labor, Bureau of Labor Statistics.

The aging population is due to a number of factors, not least that people in industrialized nations are living longer and healthier lives. We refer to the aging cohort as 'third-agers'. Many third-agers are willing - and some need to - continue to work; but under a new contract that enables them to both work and still accommodate their desire to actively engage in family/social/medical/volunteer/other activities. Companies wanting to retain/hire members of the third age - the largest and fastest growing segment of the workforce - will have to adapt HR policies to accommodate these employees' needs. HR practitioners wanting to make a real difference in their companies will spearhead initiatives to attract and retain third agers. This will include embracing flexible work schedules, making workplace accommodations to enable workers to remain working longer (think everything: from larger typefaces on documents to larger workspaces, from ensuring the workplace is age-friendly to modifying manufacturing processes!) Our research indicates that most companies are lagging in even their recognition of the issue.

Consider this:

Air France:

In 2002, it had 8,600 workers aged over 50. In 2010 it will have 16,500.

BASF:

Today 55% of the workforce are aged between 35 and 50, but in 2020 the large majority (two thirds!) will be 50 to 65 years old

France Telecom

45% of the headcount in France is aged 46 to 54 (in fact, each of the 8 biggest age cohorts in the company are in exactly these ages)

RWE Power (Europe's third largest energy utility)

Workers over 50 will make up more than half the workforce of the business by 2011 - and close to 80% by 2018.

Some large European banks

60% of workforce is already aged between 40 and 65.

Source: Adecco Institute, based on ILO, Laborsta data base (Oct 2006), Press reports (May 2007), Harvard Business Review. "Managing Demographic Risk", February, 2008.

In 2011, Baby Boomers will start to retire en masse. The Adecco Institute's Global Demographic Survey 2007 indicates that companies are sorely unprepared for this potential exodus of talent, knowledge and expertise. Only 29% of European companies have conducted a full and complete analysis of which employees hold critical business knowledge - 31% have done nothing at all. The remaining 40% are at varying degrees of awareness – an awareness that will skyrocket once that talent starts to retire. The same survey revealed a general apathy toward knowledge management. The following table shows the extent to which the knowledge management tools listed have been adopted for use within European companies:

Knowledge Management	Tools % of Companies
Management Information Systems	57
Targeted advanced training programme for renewal of knowledge	57
Standardised records of business-critical knowledge	55
Internal online forums	46
Building mixed-age teams	40
Customer Relationship Management Systems	33
Publication of knowledge holders in an internal directory	30

As key employees depart taking critical business knowledge with them, Knowledge Management tools that track individual holders of business knowledge will become ever more important. What knowledge are departing employees taking with them? Has anyone worked as their 'second'? Is the knowledge truly business critical? What relationships are going unattended when key employees depart? These questions need to be addressed when every employee departs, whether for retirement or to move to a new opportunity. HR practitioners need to build Knowledge Management tools into their arsenal of information about internal talent – they will be a critical tool in understanding the impact of individual departures on the company.

Workforce ageing driven by:

- Fertility below replacement
- Longer life expectancy
- Limited immigration

Compounded by:

- Later entry into labor force (longer education)
- Early retirement

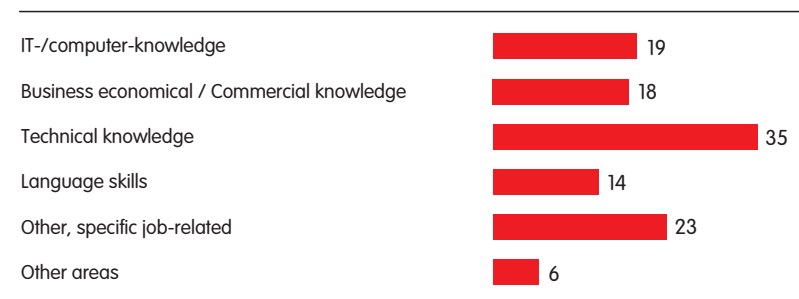
HR practitioners can start to assess the impact of aging in their own companies with the aid of tools right within their grasp. The first critical step is to conduct a full and complete analysis of the age of their workforce – right down to the job function level. With a fuller understanding of how aging will impact their workforce, HR will need to become actively involved in developing plans around career management for individual employees, knowledge management for the integrity of the firm, and lifelong learning to ensure that skills are renewed and up to date. All of these can mitigate against the impact of aging workers in the workforce. HR needs to become actively engaged with their aging workers – not only for the expertise they command, but also to meet workforce demands in the face of a shrinking labor force.

Skills Shortages

Much has been written in the popular press about skills shortages. Skill shortages exist when employers experience difficulty in filling vacancies for a given occupation - or, in extreme cases, are unable to fill the vacancies at all. Skill shortages generally involve skills that require a significant period of training and/or experience (e.g. the shortage cannot typically be resolved by undertaking short-term training programs), and can coexist with relatively high unemployment rates. Skills shortages are fed by inadequate preparation of school-leavers (e.g. the mismatch between the expectations of students entering the workforce and the needs of the employment environment they enter)⁴, an unexpected growth in demand for emerging skills (arguably true in the growing field of biotechnology, for example), or unexpected changes in demand (driven by unexpected growth or the success of a new product). Regardless of the underlying cause of skills shortages, we have evidence that they are already pervasive in corporations today, and are expected to grow in the coming years – driven by all the causes just listed, and compounded by the aging of the workforce (retiring and taking their expertise with them) and the increasingly difficult transition of youth into the workforce. The Adecco Institute's Demographic Fitness Survey 2007 reports that 35% of the 2500 companies interviewed are experiencing particular shortages in Technical Knowledge; and another 23% are having difficulty meeting specific job-related skills for the positions into which they are hiring (see box). Notably, skill shortages are not limited to technical fields, which has been the focal point of the popular press – European companies are reporting shortages in language skills and general business knowledge as well.

⁴ For a more complete discussion on the issue of school to work transition, please see "Transitioning from Education to Work: Can We Ease the (Hard) Journey for Europe's Young", Adecco Institute White Paper 2007. http://www.adecco.com/Adecco_Institute_White_Paper_Transition_Education_English.pdf

% of European companies reporting Skills Shortages



Source: Adecco Institute Demographic Fitness Survey

Peter Cappelli, Director of Wharton’s Center for Human Resources, has argued that skill shortages are a consequence of HR practitioners defining roles too narrowly – of not capitalizing on existing talent in their workforce and developing latent skills. In an environment of increasing skill shortages, HR has the opportunity to expand their role at every point of contact with candidates and employees. Those already faced with skills shortages have numerous opportunities to think more creatively about filling those gaps: from more active recruitment to increasing the adoption of lifelong learning, career management and knowledge management tools throughout the enterprise. HR practitioners will be increasingly driven to provide tools to ensure that latent talent is indentified, developed and deployed. We have already discussed the need for lifelong learning tools to keep the aging workforce up to date – but the problem will not end there. Until the issue of skill shortages is embraced at the academic level, it will become the domain of HR practitioners to mine the existing and prospective workforce for aptitudes, and embrace training programs to develop the skills necessary for the corporation. Once this investment is made, it becomes incumbent upon HR to track where investments have been made, where knowledge resides (as already discussed) and to ensure the retention of that talent. HR’s ability to meet workforce demands in the face of skills shortages will determine their strategic role in the organization. The future of the organization may ride on the ability to HR to effectively address this issue.

Conclusions

Globalization increases the potential labor force, while demographic changes point to a shrinking – as well as older - workforce. Skills shortages will demand increasingly creative ways to meet the need for labor. These trends indicate that Talent Management is on track to become the single most important differentiator among successful HR departments – and indeed, among successful corporations. An HR practitioner’s ability to manage talent – talent acquisition, talent management, talent planning and talent retention – will determine

the influence and success of HR in the future. We envision a shift to more influential HR leaders who take an active role in assessing workforce needs and putting strategies in place to meet them before ‘skills shortages’ are blamed for shortfalls.

Talent Management is the assessment of and planning for a company’s human resources needs. HR practitioners can start on this road today by conducting a detailed analysis of their existing workforce. Categorize jobs into functions (those jobs that require the same sets of skills), families (grouping job functions that share groups of skills, even if not directly transferrable) and groups (families that share similar core skills, even if not directly transferrable)⁵ Don’t neglect emerging demands from the business – solicit input from key executives on emerging workforce trends. Once these groupings have been completed, analyze the age structure of the workforce within each function, family and group. Identify areas that are at risk due to impending retirements or intense competition for talent. Create ‘early warning systems’ that will raise awareness of impending gaps in a timely manner. In a world that demands increasingly complex qualifications, ‘timely’ can mean years in advance – a dramatic change from the ‘just in time’ mantra that businesses have been marching to for decades. The reality for HR practitioners is that they must look years ahead – driven not least by the changing demographics of the workforce. Once HR truly understands the landscape of the business – the business demands, the existing workforce, predictable workforce trends, expected changes in the business environment – only then can HR develop a strategy to ensure that the ongoing workforce demands of the business will be met

Human resource practitioners will encounter enormous challenges in face of globalization, changing workforce demographics, and increasing skill shortages. All of these point to the need for robust talent management to keep abreast of, if not one step ahead of, the competition. HR practitioners need to start developing a far more comprehensive understanding of their workforce and the individuals who comprise it – who the people are, what skills (active and latent) they possess, career aspirations, what knowledge they’ve brought to and acquired from the corporation, and how best to retain them. HR will be on the forefront of a number of changes in the workplace – starting with embracing long term planning around human resources – and are likely to be as critical to a company’s future bottom line as are the products and services a company sells. In so doing, HR will truly become a strategic partner in the business. Organizations that do a better job finding, deploying, and keeping their human capital will enjoy the benefits of increased productivity and will not only overcome but exploit new labor market realities. Effective workforce planning based on existing and expected demand for talent – not filling existing vacancies - will become the single most valuable function of HR in the future, and will help employers gain competitive advantage in an increasingly competitive world.

⁵ For a more detailed description of how to create functions, groups and families, see “Managing Demographic Risk”, in The Harvard Business Review, February 2008, p. 119.

