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## THREE TRENDS SHAPING THE FUTURE OF COMPENSATION AND HUMAN RESOURCES

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**I**N 1798, THOMAS MALTHUS WROTE: "Population, when unchecked, increases in a geometrical ratio." Essentially, he warned that the population of the world would soon outstrip the planet's capacity to sustain it.<sup>1</sup> Ironically, despite population growth of more than 600 percent since then, concern has recently shifted to too little population growth in much of the world.

Malthus's grim predictions have not materialized because among the population there has always been a talented core that, through the application of human ingenuity, has so far overcome our major challenges to survival. Scarce talent has similarly driven the growth of our economies and businesses. Up until the very recent past, the talented few, combined with plentiful and cheap labor, were sufficient to power our economies and prosperity.

Today, despite global population growth nearly as steep as it has ever been,<sup>2</sup> the demand for talent has reached pandemic levels across much of the world. There is an obvious but important distinction between the thin layer of worldwide talent that can contribute to our increasingly complex, global economy and what is commonly referred to as “labor.”

The global market for competent, skilled workers is getting tighter; while at the same time the developed world is shedding as much of the repetitive, “low-end” work as it can. All the while, we raise the bar for talent unrelentingly. In 2000, Thomas Homer-Dixon warned in his thought-provoking book, *The Ingenuity Gap*, “When things happen faster, in greater numbers, and with greater interactive complexity, we need more ingenuity to make the right decisions at the right time.”<sup>3</sup>

If education can be used as a proxy for talent, albeit an imperfect one, the situation is dire and worsening. Between May 2006 and April 2007, unemployment among four-year college graduates in the United States averaged just over 1.8 percent,<sup>4</sup> meaning essentially that anyone in the United States with a college degree who wanted a job, had one. Even during the last U.S. recession, roughly between 2001 and 2004, unemployment in this group never went above 4 percent, which is the rate economists consider as full employment.

As economies, business, social problems, science, and health and security issues become more complex, and as our knowledge and information society becomes more globally integrated and sophisticated, ever greater skills and knowledge are required and in larger numbers. Add to this the demographic realities of an aging workforce nearly everywhere in the world, and demand that will continue to come out of developing economies like China and India, and we have the ingredients for a talent crisis.

Without a doubt, organizations that can develop, attract, mobilize, and retain talent will be the winners of the future, and the talent management executives and teams that lead these efforts will be among the most important and strategic parts of any organization. The question then, is what are organizations and the human resources profession in general doing about it?

### THREE CRITICAL TRENDS

The human-resources trade long ago proved itself, at best, a necessary evil—and at worst, a dark bureaucratic force that blindly enforces nonsensical rules, resists creativity, and impedes constructive change . . . it is a career graveyard for people who can’t make it in other parts of the business. (Keith Hammonds, from “Why We Hate HR,” *Fast Company* magazine, August 2005)

Where is HR? Has the profession taken advantage of the tremendous opportunity that our nascent “Age of Talent” presents? As the questions surrounding

talent, skills, successors, performance, and leadership consume more corporate board and "C" suite time, in what direction will the HR profession evolve? There are really just two possibilities—up or out. But which outcome is the more likely?

A good place to start is with the shifts and trends that are likely to shape the workplace in the coming years. The ways in which HR anticipates and responds to these changes will largely determine its future. The first of these trends is demographics. The United Nations cites the aging workforce globally as among the three great challenges facing the world today. Nations in Europe and Asia have already begun the painful process of depopulation, and from the United States to China, the fastest growing segment of the population is the over-50 cohort.

But it is not just an aging workforce that is presenting new challenges; the workforce is being transformed through rapid changes in its makeup—more women, more visible and ethnic minorities, more generations in the workforce, and more disparate types of workers—from contingent to virtual. This trend is accelerating faster than most organizations can respond.

The third sweeping trend that will change the business landscape, and the world, is continued and faster-paced globalization. The threats and opportunities it poses to developed world economies and business are as yet barely understood. For Western workforces, globalization accelerates the imperative for innovation, creativity, and productivity. For stewards of talent, it demands a deeper understanding of international economics, laws, and culture as well as a range of new expertise in issues as esoteric as "captive" vs "third-party" offshoring.

These and other forces will shape the evolution of the HR profession, but HR executives must also shape the trends. A daunting set of skills and knowledge will be required for success. The modern talent management (TM) executive will be multidisciplinary: an economist, demographer, strategist, psychologist, sociologist, salesperson, speaker, leader, coach, consultant, and among the organization's most knowledgeable authority on globalization, outsourcing and offshoring, sustainability, corporate social responsibility, talent-related technologies, finance, corporate governance, and measurement. Of course, he or she must also be a master of the organization's business and its industry. This does not sound much like HR and it is not. It is a tall order for anyone, but exciting at the same time. An executive who can demonstrate these competencies will almost certainly take a well-earned position beside the CEO and will be on a par with any senior executive. But advancement is not the point. Increasingly, winning organizations will require world class TM executives. The best from other parts of the business need to be drawn into these ranks and this transformation must come soon.

### **Trend 1: Demographics**

Every day in the United States, 10,000 baby boomers turn 55. By the end of this decade, two experienced workers will leave the U.S. workforce for every inexperienced young one that joins. This is significant in more ways than one. Since the

turn of the twentieth century, each new generation of workers has brought more “human capital” to their employers (and hence, more productivity) than the generation of workers exiting the workforce—*despite* the imbalance in work experience. This is no longer true. Mass access to higher education began in the 1960s in North America and has continued ever since. Unfortunately, today’s 25-year-old male is only marginally better educated than his predecessor of the 1960s and 1970s. Today’s generation of workers brings roughly the same level of education as the baby boom generation. Yet the early boomers are leaving with 30–40 years experience, a legendary work ethic, and incredible reservoirs of knowledge.

This knowledge deficit could not come at a worse time. Some 85 percent of jobs today require education beyond high school compared with just 61 percent fifteen years ago. The trend is only accelerating, yet in the United States today, less than 70 percent of students graduate high school on time and many who graduate are the beneficiaries of exaggerated grades and low expectations such that they require remedial studies before they can enter university-level courses. As of 2007, only 38 percent of Americans held at least a two-year degree; worse, it is estimated that 60 percent of the jobs in North America already require skills possessed by only 20 percent of the population.

The greatest HR challenge of the coming decades will be to enhance workforce productivity as the availability of skilled workers declines. (Watson Wyatt, 2006)

To underscore the importance of workforce productivity gains, especially in an era that promises perpetual talent shortages, consider that since World War II, the U.S. economy has grown eightfold while the labor force has only grown 2–2.5 times. This means that the average worker is about four times as productive now as they were in 1946. This is partly due to technology but is in greater part due to an increasingly better educated workforce. If the next generation of retirees is replaced by a smaller, less productive cohort, the results will be doubly grave.

Demographically, the United States is in a much better position through 2030 than other Western nations. The U.S. birthrate, in part due to recent immigrants from the south, is at near-replacement rates (i.e., there are enough people being born to replace those dying), compared with Canada and Europe, where the birthrate is far below replacement rates.

However, the United States is, arguably, in the midst of an education crisis, not only at the primary and secondary levels but also in the university and college systems. As noted above, dropout rates are increasing, high school students opting for math and science tracks are decreasing, and many schools themselves are inflating grades, passing almost everyone and producing legions of graduates who are functionally innumerate and illiterate.

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doled out to anyone who complains. Students who do not show up for classes are rarely censored. Obviously this trend produces graduates without the knowledge, skills, abilities, or discipline to contribute in the modern workplace.

In the past, North America has made up for labor and talent shortfalls by increasing immigration. The United States and Canada are still magnets for people from all over the world and neither has lost the ability to attract the best and the brightest. But this advantage is slipping away quickly. Today’s stricter immigration laws in the United States are making it more difficult for firms to bring in foreign skilled workers. Moreover, as the Indian and Chinese economies grow (at three or four times the rate of Western economies), more and better opportunities arise in those countries. Far fewer graduates of the famous Indian Institutes of Technology or their equivalents in China are interested in relocating to the West today and the numbers will only diminish. Moreover, according to experts like Richard Florida and David Heenan, thousands of Indian and Chinese entrepreneurs who built their companies and fortunes in the West in the 1990s, are returning home to launch creative new initiatives there.<sup>5</sup>

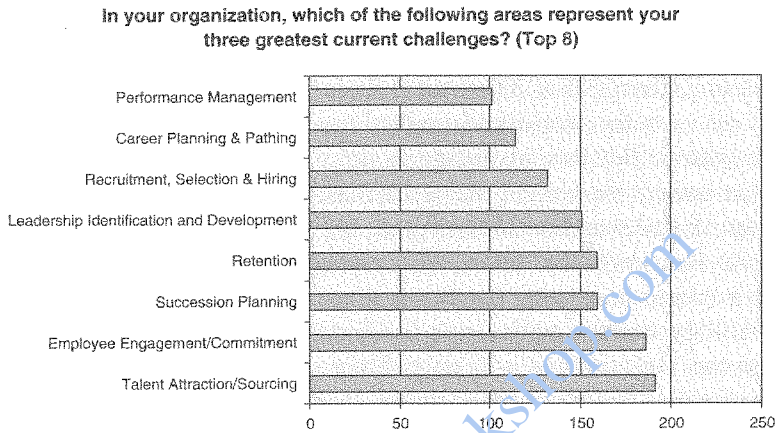
Whereas the United States had few competitors for global skilled talent in the past, today demographics have changed the game entirely. Many countries are already experiencing the turmoil of shrinking workforces. For Russia, Japan, Italy, and Spain the wrenching experience of depopulation has begun or will begin by the end of the decade.<sup>6</sup> For them, attracting young, skilled workers is a matter of national urgency. Much of Western and Eastern Europe face only a slightly milder problem. The competition for talent, wherever it resides, will intensify. The United States will be but one competitor. According to recent research conducted by the Human Capital Institute, sourcing and attracting talent remains the greatest challenge faced by HR (see Figure 4.1). HR executives expect this to continue over the coming three years at a minimum (see Figure 4.2).

Global workforce growth, even among developing countries, is already or will soon be in decline. By 2012, China’s workforce, which has grown for centuries, will start to reverse. As Figure 4.3 reveals, today only 22 percent of the Chinese population is aged 50 or more. By 2030, that number will jump to 37 percent and by 2050 to 45 percent.

Even more worrisome, in the short term, is the steep decline in worldwide working-age population—a truly bleak picture among developed countries. Combined, the Western economies, including Japan, will see working-age population reductions of more than half. In the developing world, only a few countries—Brazil, India, some Northern African nations (sub-Saharan African populations are held in check by the AIDS epidemic), and some small countries in the Middle East—will register working age population gains through 2025. By 2050, even India will be an aging society if current trends hold.

The final front in this “perfect storm” is the global, inexorable demand for higher skilled, better educated talent. As organizations and nations rush to become

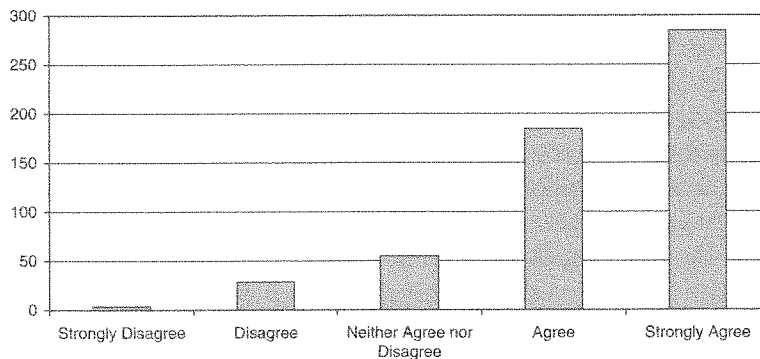
**FIGURE 4.1 Talent attraction and sourcing remain the number one current challenge of HR**



Source: (Human Capital Institute/Vurv Technologies, October 2007;<sup>7</sup> N=732)

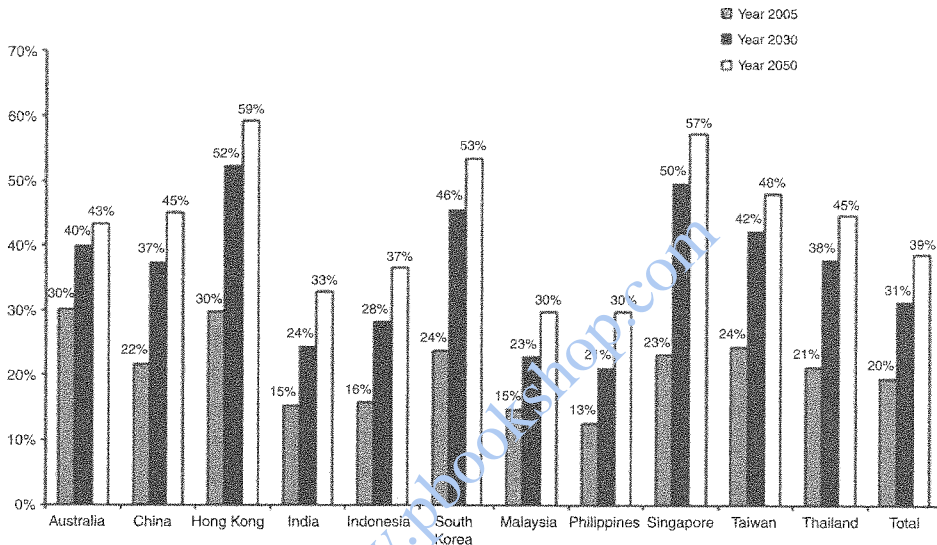
more creative and innovative (so that they can maintain their higher wages and better standards of living), the demand for talent capable of producing in the global economy is placed under greater and greater stress. Billions of people may reside in Asia and Africa, but the percentage capable of working for a firm that operates in the global economy is tiny. Even university graduates in China, India, and Eastern Europe are, in most cases, under-equipped upon graduation to work in the knowledge economy. Simply put, this means that they are not in the global talent pool.

**FIGURE 4.2 Specific skills and talent shortages represent a challenge**



Source: (Human Capital Institute/Vurv Technologies, October 2007;<sup>8</sup> N=732)

**FIGURE 4.3 Asia Pacific's demographic transformation: percentage of population aged 50 and above**



McKinsey estimates that, over the next 10–15 years, China alone will require 75,000 leaders who can manage in global environments; today there are fewer than 5,000. In India, the situation is similar. In mid 2007, *Business Week Magazine* reported that fewer than 8 million of that country's 200 million students make it through high school and even fewer finish college. The article quotes NASSCOM (India's National Association of Software & Services Companies) as stating: "At the nation's 1,200 technical colleges, just 400,000 engineers graduate each year. Among those, only a fourth has the skills to immediately start work at a multinational or major Indian IT firm."<sup>9</sup> McKinsey has projected that, by this year, 2008, India will not be able to meet its own domestic demand for engineers, let alone supply the West as it has been doing for decades.

To summarize, we are facing everything from declines in workforce growth to outright depopulation in Western nations. At the same time, the young workforce replacing the first waves of baby boomer retirees brings less human capital to the table and therefore (at least theoretically) less productivity to the workforce. Foreign skilled talent, which has been so critical in building the North American economy, is increasingly less likely to emigrate for work. Worse, many thousands of highly skilled and entrepreneurial members of the Indian and Chinese diasporas have decamped and are now applying their creativity and innovations in their countries of origin. For the mobile and virtual global workforce, competition will be intense from all corners of the developed and less developed worlds. Already, Poland, for example, is recruiting Asian workers to replace the million-plus young workers who have left that country (mainly for Western Europe) since the fall of the Soviet Union.