GLOBAL HUMAN CAPITAL TRENDS
A MERCER PERSPECTIVE
21 OCTOBER 2014

Kim Abildgaard
Denmark
“The success of any national or business model for competitiveness in the future will be placed less on capital and much more on talent. We could say that the world is moving from capitalism to talentism.”

KLAUS SCHWAB, FOUNDER AND EXECUTIVE CHAIRMAN, WORLD ECONOMIC FORUM
Talent: A top priority and challenge

Human capital risk ranked **first** among 10 risks identified by the Conference Board’s CEO Challenge – ahead of operational excellence, innovation, customer relationships, and global political/economic risk.

**300** Sr. HR Leaders Surveyed

**85%** of organization expanding outside home market to meet growth objectives

**Top Regions/Countries**

- Asia
- China
- EMEA
- Europe
- Canada
- USA
- APAC
- LATAM
- Africa
- India
- Russia

**58%** experienced a shortage of available talent to meet your growth objectives

In the last 12 months

**Skills Gap**

- Engineers
- Technical Sales
- Project Management
- Mobile Commerce
- Science
## Macro Business Trends and Issues Across Industries & The Human Capital Environment

### Fast Changing Human Capital Environment

<table>
<thead>
<tr>
<th>Competition for talent is increasing</th>
<th>Technology is bringing flexibility, mobility to work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Many employers will face a significant challenge attracting and retaining key talent, increasing costs and protection</td>
<td>Technology is changing how we work and the skills we need. Big data is here</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The nature of work is changing</th>
<th>Working population is changing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skills lifetime is shortening (2.5-5 years), jobs no longer long-term commitments but experiences, hot jobs</td>
<td>Increased diversity: Multi-generation (older and younger), gender, etc., declining levels of trust</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supply and demand is mismatched across the world</th>
<th>The HR function is becoming more strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a clear mismatch between What’s in demand and what’s available in the global talent pool</td>
<td>The prevalence of evidence-based tools will help make strategic human capital decisions</td>
</tr>
</tbody>
</table>

### Business Trends & Issues

- Positing for (profitable) growth
- Effectively executing global strategies on a country-by-country basis.
- Innovating new products, services, and value propositions to meet unique customer needs.
- Operational excellence
- Global social, political, and regulation shifts are changing the focus of business

Source: Mercer experience and synthesis of Corporate Leadership Council, Oliver Wyman Group, and own research.
What talent issues are standing in the way of your business performance?

ASSESSMENT OF TALENT?
How are you evaluating the performance, readiness, potential, and job fit of your key talent and the flow of talent into, through, and out of the organization?

ENGAGED EMPLOYEES?
How well do your employees embrace change and understand their role in fulfilling the organization’s strategic business drivers?

MOBILIZED WORKFORCE?
How is your organization proactively managing the relocation, up-skilling, and retooling of key talent to ensure you are able to fulfill strategic business requirements?

REWARDING FOR PERFORMANCE?
How are executive and workforce rewards programs helping you to secure key talent, enhance business performance, and withstand external scrutiny?

DEVELOPING SKILLS?
To what degree do your leaders and managers have the skills to motivate employees, influence career decisions, champion talent management, and shape your organization’s culture?

WORKFORCE PLANNING: FORECASTING TALENT NEEDS?
How confident are you that your organization has the right people in the right jobs, at the right location, at the right price, at the right time?
The Human Capital Challenges vs. Readiness

Figure 5. Global trends mapped against urgency (horizontal) and company readiness (vertical)
Hot topic focus: Workforce planning (leadership gap, talent acquisition and retention)
Workforce analytics and planning is becoming increasingly important as talent challenges increase the need for robust workforce information and insight.

The biggest growth area in HR technologies is **workforce analytics**, from 14% to 46% in the next 3 years.

Source: CedarCrestone’s 2013-2014 Outlook Report

**Hottest Jobs for 2014:** Head of HR Analytics, second only to the CHRO position.

Source: CT Partners 19th annual executive jobs forecast

CEOs are not fully embracing the potential of Human Capital Analytics and Strategic Workforce Planning.

Source: The Conference Board, CEO Challenge® 2014
Workforce Segmentation
Understand Varied Employee Perspective on Rewards

- Expect to change jobs to build their skills
  - Mobility
  - Opportunities to grow/learn/innovate
- Social aspects of work
  - Meritocracy
  - Recognition
  - Feedback
  - Flexibility
- Clear criteria for success
- Regular pay increases to recognize value

**Millennials**

**Gen X**
- Less hierarchy/seniority focused
  - Independent
  - Self-reliant
- Patient for opportunities and recognition
- Rewards to match risks
- “Show me the money”

**Boomers**
- Loyal
- Life-long careers
- Deal face to face
- Get hierarchy
- Expect to earn pay over time
- Focus on benefits

Source: Mercer HR, Mercer interviews with clients
Key objectives of Strategic Workforce Planning

- **How many** people are needed to operate – and grow – the business effectively? And, how do these people requirements break down by business line, function or level?
- To what extent does the **current workforce profile** meet these requirements? How will these profiles be affected by **future workforce flows** including hiring, promotions, transfers, turnover, and retirement?

- What **skills and capabilities** are most at risk? Where are there **critical gaps**, and how deep are they?
- What new **skills and capabilities** are needed to support existing and new business products or services? Are there performance or **productivity** thresholds?
  - How can we avoid **knowledge** losses and make sure knowledge is disseminated across the organization?

- In **what geographies** will these people be located?
- How do geographic choices impact product or service **delivery and cost** efficiency?
- What are the **best future locations** to find and locate talent?
Overall Process

Strategic Setting
- What are the premises of key stakeholder?
- What are the priorities of the business? What are critical roles?

Workforce Analysis (Demand, Supply & Gap)
- What are the workforce demands in the future?
- What are the drivers of workforce demand (especially for critical roles)?

Workforce Plan (Solutions)
- What are potential solutions to close the gaps and to mitigate risks?
- Which solutions have the highest priority?

Ongoing Workforce Planning
- How does the strategic workforce planning process look like?
- Which roles are involved in the process, and how?

Workforce Planning Playbook
- What are the technical requirements for an IT support?
- What needs to be covered the HR system?

Tool Support
- What tools and templates (e.g. interview guides, communication decks) should be used?

Technical Blueprint
- What is a realistic implementation time plan?

Rollout Plan
- What are potential gaps (scenarios)?
- What are the risks imposed by identified gaps?
# Workforce Planning Maturity Stages

<table>
<thead>
<tr>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headcount Planning</td>
<td>Workforce analytics</td>
<td>Strategic workforce planning</td>
<td>Human Capital Planning</td>
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</table>

## Value for the Business
- **Level 1**: Validated figures: authorized headcount, vacancies and hiring, staffing plan, location of and competition for labour
- **Level 2**: Workforce information and analysis: hires, terminations, mobility, employee engagement, performance, salary distribution
- **Level 3**: Forecasting and partnering with business lines to make strategic workforce decisions: feasibility of entering new markets, critical skills required for the future, where to source and how to compete for these skills
- **Level 4**: Real-time decisions about talent related demand by leveraging analytics to improve: attraction and retention methods, link between employee data and business performance, differentiation from competition

## HR and Business Roles
- **Level 1**: Driven by finance, Executed by management as part of annual business cycle
- **Level 2**: Owned by HR, Provided on-demand to management or by reporting requirements, Supported by HRIS
- **Level 3**: Owned and sponsored by business leaders, Driven and facilitated by HR, Leveraged by HR to better support and challenge the business
- **Level 4**: Championed by CEO and executives, Managed by a HC analytics and planning center of excellence, Leveraged by strategic HR business partners at corporate level and in all business units

- **Driven by finance**
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Rise of HR “Big Data” and Analytics

Measurement Continuum

- Less Powerful
- More Powerful

1. Anecdotes
2. Reactive Checks
3. On-Going Reports
4. Benchmarks
5. Correlations
6. Simulations and Forecasting
7. Predictive/Causal Modeling
Prioritized Solutions

Based on understanding of gap patterns different solutions can be evaluated.

**Gap analysis**

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<td>-6</td>
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<td>Internal Support</td>
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</table>

**Possible measures**

- Near- / Offshore
- Training / development
- Co-sourcing (external contracting)
- Recruitment
- Apprentice / Traineeships
- Downsizing / Redeployment

**Ranking of measures**

1. Training / development
2. Apprentice / Traineeships
3. Recruitment
4. Near- / Offshore
5. Co-sourcing (external contracting)
6. Downsizing / Redeployment
The four pillars of Human Capital Index

EDUCATION
Access
Quality
Attainment

HEALTH & WELLNESS
Survival
Health
Well-being
Services

WORKFORCE & EMPLOYMENT
Participation
Talent
Training

ENABLING ENVIRONMENT
Infrastructure
Collaboration
Legal
Framework
Social Mobility
World Economic Forum and Mercer’s Human Capital Index: A barometer to country’s talent competitiveness

World Economic Forum and Mercer’s Human Capital Index: A barometer to country’s talent competitiveness

Numbers in bracket denote world ranking

Example:
Human capital in Japan

Human Capital Index Rank: 15 (n=122)

- Pillar 1: Education 28
- Pillar 2: Health and wellness 10
- Pillar 3: Workforce and employment 11
- Pillar 4: Enabling environment 13

Additional Indicators

- Total population (1,000s) 127,352.8
- Median age of population 45
- GDP per capita PPP (constant 2005, international $) 31,425
- GDP growth (annual %) 1.9
- Aged dependency: 36.0%
- Youth dependency: 20.9%
- Male labour force participation, age 65+: 2.9%
- Female labour force participation, age 65+: 1.8%

Education and Workforce Distribution Key:

Source: The Human Capital Report/WEF 2013
What would happen if these countries had universal education at primary and secondary?

<table>
<thead>
<tr>
<th>Country</th>
<th>Primary enrolment (%)</th>
<th>Secondary enrolment (%)</th>
<th>Education Rank</th>
<th>‘Potential’ Education Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethiopia</td>
<td>87%</td>
<td>-</td>
<td>115</td>
<td>110</td>
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<tr>
<td>Ghana</td>
<td>83%</td>
<td>46%</td>
<td>91</td>
<td>67</td>
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<tr>
<td>Kenya</td>
<td>84%</td>
<td>50%</td>
<td>90</td>
<td>72</td>
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<tr>
<td>Nigeria</td>
<td>58%</td>
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<td>116</td>
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<tr>
<td>South Africa</td>
<td>90%</td>
<td>70%</td>
<td>92</td>
<td>87</td>
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</tbody>
</table>
The Talent Market Gap
Challenge of Employability

Sources: Egon Zehnder International

Regional Leadership
Country Leadership
Middle Management
Entry Level

India
China

Demand
Deficit
Supply
Surplus

India
China

Sources: Egon Zehnder International
The Talent Market Gap
Challenge of Employability

29% of companies across Asia Pacific report that they have expatriates in more than 30% of their top 10 leadership roles.

20% of organizations report that locals hold all top leadership positions.

Sources: Egon Zehnder International, Mercer.
THE CAREER EXPERIENCE ACCELERATOR

WHILE 80% CONDUCT TALENT REVIEW, MOST REPORT BUYING CRITICAL TALENT FROM OUTSIDE

WHILE COMPANY STRATEGY AND LABOR MARKET CONDITIONS DRIVE TALENT STRATEGIES, BUILDERS REPORT HIGHER SUCCESS WITH WORKFORCE PLANS MEETING TALENT NEEDS

BUYERS 66%

BUILDERS 33%

www.mercer.com/ talentbarometer
Organizations need to invest in assessing and developing their people managers to ensure a strong pipeline of leaders.

59% of organizations in Asia Pacific say that their people managers have little or no accountability for developing talent.

**Top-5 priorities for leaders in Asia**

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creates strategy</td>
<td>37%</td>
</tr>
<tr>
<td>Drives innovation</td>
<td>31%</td>
</tr>
<tr>
<td>Develops market insights and business intelligence</td>
<td>30%</td>
</tr>
<tr>
<td>Drives results</td>
<td>22%</td>
</tr>
<tr>
<td>Optimizes talent</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: Mercer 2012 Leadership Practices Study
Manager Skill Building: Performance Management

Generally, how skilled are your company’s managers at doing the following?

Holding formal performance evaluation discussions with employees
- Highly skilled: 14%
- Moderately skilled: 65%
- Marginally skilled: 21%

Setting “SMART” goals
- Highly skilled: 9%
- Moderately skilled: 62%
- Marginally skilled: 29%

Ensuring performance evaluations are “fair” and “equitable”
- Highly skilled: 8%
- Moderately skilled: 60%
- Marginally skilled: 32%

Gathering “meaningful” information on employee performance (e.g., multisource feedback)
- Highly skilled: 7%
- Moderately skilled: 52%
- Marginally skilled: 41%

Linking individual performance to “actionable” development planning
- Highly skilled: 6%
- Moderately skilled: 46%
- Marginally skilled: 48%

Having candid dialogue with their direct reports about their performance
- Highly skilled: 5%
- Moderately skilled: 61%
- Marginally skilled: 33%

Providing career development coaching and direction to employees
- Highly skilled: 3%
- Moderately skilled: 38%
- Marginally skilled: 59%

If your organization could improve the overall capability of your managers, what one skill area would have the biggest impact on the organization’s overall performance?

- Having candid dialogue: 31%
- Linking performance to development planning: 20%
- Setting “SMART” goals: 14%
- Providing coaching: 13%
- Ensuring fair and equitable evaluations: 12%
- Holding formal evaluations: 6%
- Gathering “meaningful” performance information: 4%
Accelerating Global Leadership skills:

**Global Executive Passage**
- Enterprise manager
- Group manager
- Business manager
- Functional manager
- Manager of managers
- Manager of others
- Manager of self

**Global Mindset**
- Full package

**Global Skills**
- Baseline Attributes

**Mentoring**
- Global region assignment
- Executive education
- Strategic global projects
- Second international assignment
- 360 degree feedback
- Mentoring
- First international assignment

**Assessments**
- Multi-cultural teams
- Special projects
- Short term assignments

Source: Charan, Drotter and Noel, 2000
Patent Pending

Next Generation Job Board

Sourcing
- LinkedIn
- Monster
- Google
- Swoop
- Coursera

Assessment
- Career DNA
- Basic Assessment
- Advanced Assessment
- Identification
- Experienced

Matching
- Not Viable Candidate
- Ready to Deploy to Firms
- Quick to Autonomy
- Advanced Matching Algorithm

Identify Potential Global Talent Through Innovative Technology

Simulation Game
Day in the Life Simulations

Senior Petroleum Engineer

Realistic Job Preview

OIL & GAS
VIRTUAL JOB TRYOUT®

- Working with colleagues and customers
- Applying technical knowledge
- Solving problems
- Tell us about yourself
- Describe your approach

Plant Operator
“Robots could kill us out of kindness”

“The most important work for our lifetime is to ensure that machines are capable of understanding human values”

Nell Watson, Futurist
Q & A