

Timely Topic Survey—Results

Preparing for the Workforce of Tomorrow

Seismic demographic changes are transforming the workforce across the world. According to demographic projections, in a decade the workforce will look dramatically different than what we see today.

Four major trends are driving these changes:

- **An Aging Workforce:** By 2010, the U.S. workforce will see a 29% increase in the 45–64 age group, a 14% increase in the 65+ age group, and a 1% decline in the 18–44 age group. This trend is a result of Baby Boomers not leaving the labor force completely but rather moving to nontraditional post-retirement jobs.
- **A Shrinking Workforce:** The math is that in the next 10 years, 32 million jobs will be vacated and 20 million new jobs created (52 million jobs will need to be filled). However, projected labor force availability will only be 29 million, leaving a 23 million job gap.
- **A More Diverse Workforce:** By 2008, 70% of new labor force entrants will be women and minorities. By 2010, the U.S. workforce will be 34% nonwhite.
- **Globalization of the Workforce:** Predictions for the next decade are that North America and Europe will only produce 3% of the world's entering labor force, while 75% of these new workers will come from Asia.

In this Timely Topics Survey, 27 major companies shared their opinions about these changes. Survey results, as well as Hewitt's point of view, are reported on the following pages.

Note: When we refer to cross-cultural competence, our definition is: "The abilities to discern when misunderstandings and conflicts are due to cultural differences and then be able to work toward a solution that takes various worldviews into account; and the ability to maximize cultural differences for better, longer lasting, and more creative solutions."

We believe that cross-cultural issues are prevalent **across** national cultures (e.g., U.S., India, Mexico) and **within** a country's own subcultures (e.g., in the U.S., Latino, Caucasian, African American, etc.)

Statistics cited above are from the U.S. Bureau of Labor Statistics, Census Bureau, and the International Labor Organization World Employment Report.

Main Findings and Observations

Among the findings of this survey, those in the following areas are the most notable.

Age and race/ethnicity are seen as the greatest change in workforce demographics.

This finding coincides with government trend data. Managing three to four generations and increased levels of racial/ethnic diversity will present challenges in developing HR policies to meet the diverse needs of various employee segments. For example, compared to whites, minorities save at lower rates in 401(k) plans and underutilize preventative health care. Among the implications of these findings, one of the most important is how best to communicate to diverse employee segments with differing behavioral drivers.

Only about one-third of survey companies think their HR staffs have the skills to serve a diverse U.S. workforce; even fewer (22%) think they have the skills to serve a *global* workforce.

Creating an inclusive culture where all talent is valued and fully utilized is not easy to do even with a relatively homogenous workforce. Challenges become exponentially greater the more diverse the workforce becomes. Cross-cultural conflicts can result in lost productivity, increased errors, and increased litigation. We believe that it is critical that the HR staff be cross-culturally competent in order to provide the best advice and counsel to the company.

In addition, business and HR leaders will need to be equipped with cross-cultural competency skills to effectively motivate and engage the future diverse workforce. Survey results suggest that HR professionals may be underestimating the extent in which cross-cultural issues may emerge as a key HR issue as more companies outsource work to other countries. This is critical because one prediction is that over the next 15 years, American employers will transfer 3.3 million white-collar jobs to places like India, China, and Russia (by Forrester Research).

About two-thirds of respondents have specific, measurable recruitment goals to increase workforce diversity. In contrast, only about one-third report having similar retention goals, even though retention was cited as a significant problem.

Hewitt believes the workforce challenges of the future lie in attracting, retaining, and developing the best talent. Various research studies show that retention of minorities is a significant issue across corporate America. The “revolving door syndrome” is a common phenomenon. While Hewitt concurs with the need to pay more attention to retaining minority talent with strategic initiatives such as on boarding, mentoring, and regular “listening” forums, one overlooked area is the strategic importance of developing cross-cultural competence organizationally. This ability can go a long way in addressing minority retention issues.

The most challenging area for attracting and retaining diverse talent is executives and middle managers, both in and outside the U.S.

Studies have shown that companies whose senior management teams are mixed in ethnicity, gender, and age outperform companies whose management teams are homogeneous. Survey respondents' challenges in talent acquisition of executives and middle management leaders is partly due to retention difficulties, resulting in fewer diverse candidates in the pipeline for promotional opportunities. The fact remains that the pool of diverse candidates with required skill sets is smaller and in demand. These leaders will migrate to organizations where they feel their skills will be valued and utilized.

We see two stealth issues—employee benefits and retirement planning—that will result from workforce changes.

Overwhelmingly, survey participants anticipate that changing workforce demographics will bring about major changes to HR's recruitment practices (84%), knowledge management (81%), retention strategies (78%), and diversity/inclusion programs (74%). But further, Hewitt believes that there are two sleeper areas that will require enormous change—employee benefits and retirement planning. Studies have shown that minorities value and use benefits quite differently than whites, which has design and communication implications. Programs will need to be created to help older workers delay retirement in order to fill jobs created by upcoming worker shortages.

Currently...

[When reviewing results, note that **bold font** highlights key findings.]

1. Currently, to what extent is the company experiencing diverse workforce issues?
(n=27)

By "diverse workforce issues," we mean the ability to attract and retain both the number and type of employees needed to run your business, being able to tailor employee compensation, benefits, and communications to a heterogeneous workforce, and being able to parallel your customers' demographics with employee demographics.

1a. By employee group, within the U.S.

- a. Executive/leadership
- b. Middle management
- c. Professional/technical
- d. Administrative/clerical
- e. Hourly production workers

Significant

Issues	Some	Few	None
37%	41%	18%	4%
26%	55%	15%	4%
23%	42%	35%	0%
0%	19%	54%	27%
0%	9%	56%	35%

1b. By employee group, outside of the U.S.:

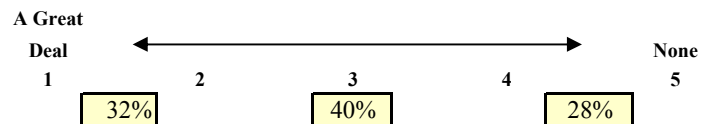
- a. Executive/leadership
- b. Middle management
- c. Professional/technical
- d. Administrative/clerical
- e. Production workers

Significant

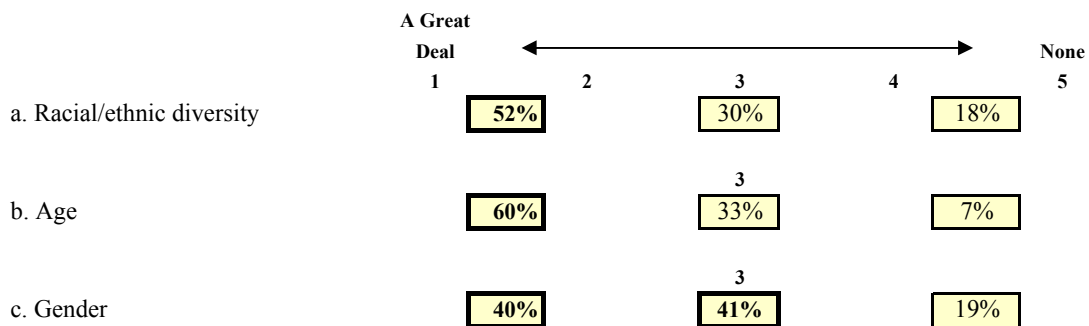
Issues	Some	Few	None
7%	57%	29%	7%
16%	46%	15%	23%
17%	33%	33%	17%
20%	0%	20%	60%
11%	0%	11%	78%

Hewitt Comments: HR leaders report that the most significant diversity issues are in the executive and middle management ranks both inside and outside the US.

2. In the **past** 5 years, how much demographic change has there been in the company's workforce?
(n=25)



3. Thinking about changes in the **upcoming** 5 years, how much change do you expect in the demographic makeup of the company's workforce?
(n=27)



Hewitt Comments: While respondents only saw some changes in the demographic makeup of the workforce in the last five years, they anticipate significantly more change over the next five years especially in age and racial/ethnic makeup. This coincides with Census Bureau projections that by 2010 about one-third of the workforce will be nonwhite.

4. Currently, to what degree does your employee base reflect the demographics of your customers?
(n=26)

12%	Very much—we reflect the demographics of our customers quite closely
46%	Somewhat—we reflect the demographics of our customers to some degree
42%	Not very much—we are less diverse than our customers' demographics
0%	Not very much—we are more diverse than our customers' demographics

Hewitt Comments: The buying power of diverse groups in the U.S. is growing at far higher rates than of whites. In fact, the total purchasing power of U.S. minorities today is said to be \$1.4 trillion. (According to the University of Georgia's Selig Center for Economic Growth, Asian American buying power increased 102%, Hispanic 84%, and African American 73% since 1990.) Thus, a workforce that is representative of the company's customer base is more likely to be able to understand customer needs.

In this survey, only 12% of respondents said their demographic makeup closely reflects their customer base and 42% said that their companies are less diverse than their customer base. It follows that as the U.S. becomes increasingly diverse, customer demographics are also increasing in diversity. These trends and results suggest a strong business rationale to ensure that diverse customer segments' needs are adequately anticipated and met by a comparably diverse workforce.

- 5a. For each employee group below, has the company set specific, measurable goals for attaining a diverse workforce?
(n=25; multiple responses)

	Recruitment Goals	Promotion Goals	Retention Goals	None
Executives	60%	40%	32%	36%
Management	64%	44%	36%	28%
Overall workforce	68%	44%	32%	28%

Hewitt Comments: Companies focus more on setting specific recruitment goals for diversity than they do for more cost-effective goals for retention or promotion. Since recruiting and retention are closely linked in achieving greater diversity, if retention does not receive equal attention as recruitment, the result is often a "revolving door" where expensive recruitment efforts are always at full peak because of disproportionately high attrition among minority groups.

- 5b. If so, which of the following do the goals cover?
(n=23; multiple responses)

96%	Labor force representation as defined by EEOC/OFCCP ¹ ?
57%	Employee engagement surveys, measuring attitudes and perceptions?
48%	Community relations/social responsibility?
35%	Accountability measures for managers linking diversity goal achievement to pay/bonus?
26%	Representation of groups beyond EEOC/OFCCP? (religion, nationality, gay, lesbian, etc.)
26%	Employee population parity with customer base?

¹ Equal Employment Opportunity Commission/Office of Federal Contract Compliance Programs—U.S. specific.

Hewitt Comments: While employers must address compliance with EEOC/OFFCP representation requirements, there is no parallel accountability for managers, with only a one-third reporting linking diversity goal achievement to pay. Over one-half of respondents report setting goals around engagement, attitudes, and perceptions. Attention to these efforts should pay off since engagement surveys often find that minority employees are less engaged than their white counterparts due to feeling isolated and excluded. When these concerns reach a peak, minority employees leave the organization.

Anticipated Changes

9. Given the changing demographics of the workforce, over the next five years, to what extent will the company's HR policies/practices need to change in the following areas?

(n=27)

	←—————→				
	Enormous Change				No Change
	1	2	3	4	5
Recruitment practices	84%		8%		8%
Knowledge management ²	81%		15%		4%
Retention strategies	78%		22%		0%
Diversity/inclusion	74%		15%		11%
Alternative work arrangements ¹	52%		33%		15%
Skill retooling	52%		22%		26%
Compensation strategies	48%		33%		19%
Promotion criteria	41%		37%		22%
Employee benefits	37%		52%		11%
Retirement planning	25%		41%		34%

¹ Flextime, telecommuting, hoteling, job sharing.

² Data mining of employee data for use in making decisions about employee needs and preferences.

Hewitt Comments: Nearly 75% see the need for enormous change in their company's diversity/inclusion policies/practices. Survey results, however, suggest that HR leaders may be overlooking some implications. The only areas that are seen as *less likely* to require changes to HR policies and practices are employee benefits and retirement planning. However, we believe these are two "sleeper" areas. For benefits, several studies have shown that in some key ways minorities value (and use) benefits quite differently. For example, compared to whites, minorities save at lower rates in 401(k) plans and underutilize preventative health care provisions. This has various implications, including how to best communicate about benefits in order to tap into differing behavioral drivers within more diverse workforces. For retirement planning, HR practices will be increasingly critical to encourage older workers to delay or phase in their retirements in order to fill upcoming worker shortages.

10. From the list in Question 9, (a) which **two** policies/practices will need to change the most and (b) what changes to you anticipate?

(n=26; multiple responses)

54%	Retention strategies
35%	Recruitment practices
31%	Diversity/inclusion
27%	Knowledge management
23%	Alternative work arrangements
11%	Compensation strategies
11%	Employee benefits
8%	Skill retooling
0%	Promotion criteria
0%	Retirement planning

(b) Anticipated changes: The general themes in the write-in comments are retention strategies, recruitment, and alternative work arrangements, as illustrated by these quotes:

"Improve our ability to attract, motivate, and retain a more diverse employee group."

"Re-engineering recruitment strategy to meet core business objectives (i.e., moving away from decentralized to more centralized recruitment policies/practices). Structuring retention strategy to retain key talent."

"Our ability to statistically analyze our workforce is a HR priority. We are implementing a new enterprise-wide system that will give leaders better visibility to the performance of our workforce and succession plans, and directly correlate them to business unit performance."

"One-third of our managerial workforce is age 45 or older. With the projected retirement boom of the Baby Boom generation, and the declining numbers of younger talent to backfill, we have to develop retention strategies to convince those people to work longer, but we must also develop alternative work arrangements to entice those people to actually stay, such as with part-time work, more flexible work arrangements, telecommuting, etc."

Hewitt Comments: The policies that companies most anticipate changing are their retention practices, followed by recruitment, inclusion, and knowledge management. It is interesting that none of the survey respondents cited retirement planning as something that will need to change. We believe that the large number of Baby Boomers delaying retirement will necessitate vast retirement planning changes. Skill retooling is another area that is not seen as a priority, but that will be key to companies' ability to meet workforce shortages.

11. Which of the following do you think the company will/might do in the future to accommodate the needs of tomorrow's diverse workforce?

(n=27)

	Do This Now	Will Do	Might Do	Unlikely
Translate employee communications into languages other than English	57%	8%	8%	27%
Sanction employee networks/affinity groups	38%	4%	35%	23%
Tailor products/services to diverse customers	35%	30%	26%	9%
Initiatives to change co. culture to be inclusive	30%	51%	15%	4%
Provide additional support for nonmajority employees for leadership	30%	30%	33%	7%
Ensure that functional teams are diverse	26%	26%	41%	7%
Reps bilingual (HR, customer service, etc.)	23%	15%	31%	31%
Provide effectiveness training for global teams	17%	13%	37%	33%
Comprehensive cross-cultural training	12%	23%	42%	23%

Hewitt Comments: In the above results, it is notable that the strongest upcoming change to accommodate future employees' needs will be changes in the company's culture to be more inclusive (66% "will" or "might" do this). Nearly one-third will tailor their products and services to diverse customers as well as providing additional support for nonmajority employees for leadership. In terms of what is done now, the majority of companies say they already translate employee communications into languages other than English. But we believe that the key to successful inclusion strategies is to shift from solely a sensitivity/tolerance model of diversity/inclusion to one that is additionally focused on developing cross-cultural competency (that goes beyond language) within the workforce. This would move inclusion strategies from awareness to a skills-based approach.

The Global Workforce

12. In the next five years, will the company's workforce be more global?

(n=27)

33%	No
67%	Yes

12b. If yes, if at all, how might the following be barriers to the company's high performance?

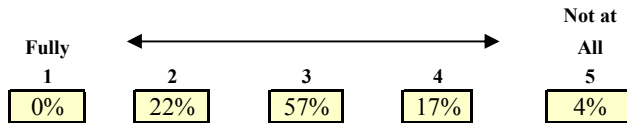
(n=18)

	A Great Deal	Some	Not At All
Generational differences	6%	94%	0%
Geopolitical issues	6%	94%	0%
Language differences	6%	88%	6%
Leadership	11%	83%	6%
Cultural differences	22%	78%	0%
Geographic distance	22%	78%	0%
Company culture/politics	28%	66%	6%

Hewitt Comments: Companies are well aware of the challenges to globalization of the workforce. About one-quarter of the survey respondents cited the potential for cultural differences, geographic distance, and company culture/politics getting in the way of the company's business performance. In fact, the entire list of potential barriers are seen by almost all companies as somewhat of a barrier. Here again we see developing individual and organizational cross-cultural competence as a key strategy to best address these barriers.

13. To what extent does the company's current HR staff have the skill set required to serve a diverse **global** workforce?

(n=23)

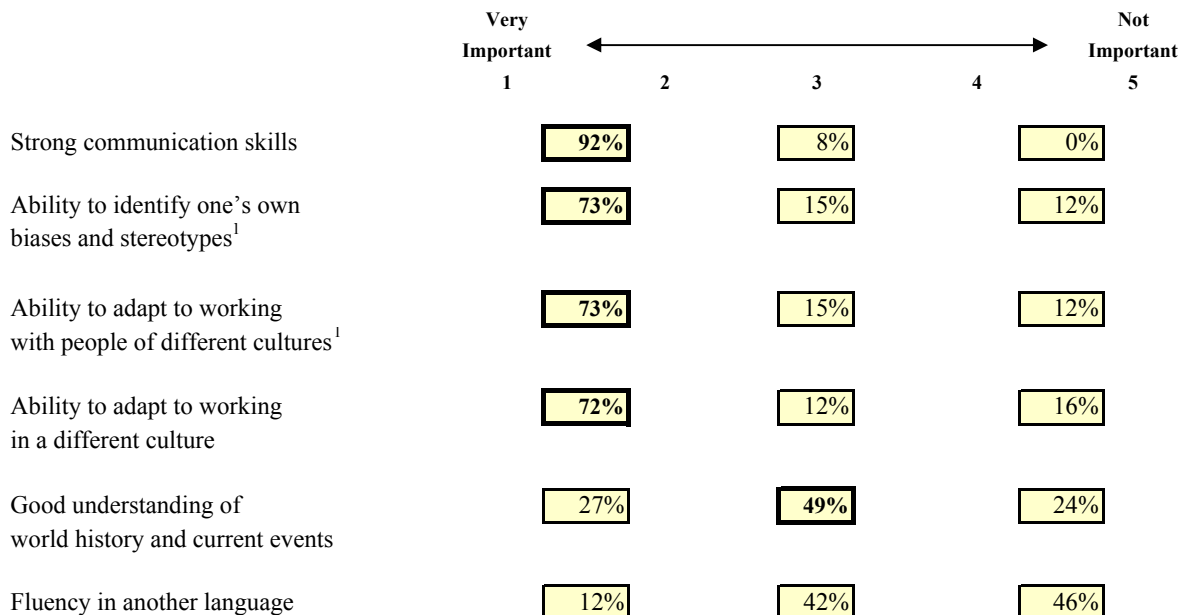


Hewitt Comments: As HR leaders look ahead to their staffs' developmental needs, skill sets may be an area to explore. While 67% of HR leaders indicate that their workforces will be more global in the next five years, yet over one-half believe their staffs are not in a thought-leadership position in this area. This has implications not only for their own direct work but also their ability to consult with line managers.

Cross-Cultural Competencies

14. How important are the following competencies in managing a diverse and global workforce at your company?

(n=26)



¹ Data is identical for these two response categories.

Hewitt Comments: The four most cited competencies important to managing a diverse and global workforce require focused individual and organizational skill development under the overall umbrella of cross-cultural competency. This finding is inconsistent with the fact that only 12% of companies (in Question 11) are currently putting as much emphasis on developing cross-cultural competence as necessary to accommodate the needs of the diverse workforce. In fact, Hewitt believes that developing cross-cultural competency (different from sensitivity/tolerance) is critical to being able to manage future workforce diversity.

Company Demographics

Annual Global Revenues (\$US mil.)	Total Employees Worldwide	% Employees Outside the U.S.
<div style="border: 1px solid black; padding: 2px; display: inline-block;">\$3.4 B</div> (median)	<div style="border: 1px solid black; padding: 2px; display: inline-block;">14,800</div> (median)	<div style="border: 1px solid black; padding: 2px; display: inline-block;">24%</div> (median)
<i>(Omitted if a financial company)</i>		
Primary Industry		
Banking	4	
Consumer Products-Nondurable Goods	3	
Manufacturing-Other	3	
Business/Computer Services	2	
Electronics/Electrical	2	
Health Care/Medical Services	2	
Automotive	1	
Chemicals	1	
Computers and Related Products	1	
Construction/Engineering	1	
Consumer Products-Durable Goods	1	
Energy (Oil/Gas/Coal)	1	
Hospitality/Restaurants	1	
Insurance	1	
Multi-Industry	1	
Transportation Services	1	
Utility-Electric	1	
	27	
	<i>Total:</i>	