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# HCM TRENDS

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Human Capital Management Report



## The Reinvention of HR: Managing HCM Trends and the Evolving Workforce



By 2025, Millennials will account for **75% of the global workforce.**<sup>2</sup>

## Preparing today for tomorrow's increasingly diverse workforce

This is the first time in history that there are five generations at work together, and the business implications of such a diverse workforce working side by side cannot be overestimated. Recently, 60 percent of CEOs surveyed by PricewaterhouseCoopers indicated that the multigenerational workforce will in fact “transform” business in the near future.<sup>1</sup> For businesses prepared to manage an increasingly diverse workforce, this transformation can be productive — and profitable. As workforce demographics shift and your employee makeup becomes more varied and complex, a long-term human capital management (HCM) plan as part of your workforce management strategy is more essential than ever.

Think about it: By 2025, Millennials — those born between 1981 and 2000 — will account for 75 percent of the global workforce.<sup>2</sup> Today, by comparison, Millennials represent only about 34 percent of the workforce.<sup>3</sup> Organizations must be ready for big changes to come — changes that include how to attract, hire, incentivize, and retain employees, as well as how to measure and reward productivity, manage absence, and create a culture that resonates with this new generation of workers. Without a doubt, human resources professionals will be key players in readying your organization for these seismic shifts within your greatest asset — your workforce.

## HR's role in managing many generations

As the oldest order of employees — who are characterized by a strong sense of loyalty, conformity, and responsibility — completes its retirement and Baby Boomers climb higher on their career ladders, substantial management shifts will be necessary. Baby Boomers, for example, tend to operate from a “live to work” ethos, putting in long hours and struggling to achieve the work/life balance that's so important to the Gen Xers and Millennials below them. With so many differing work styles, professional values, and personal goals to juggle, businesses and HR professionals in particular will be challenged to attract, retain, and maximize a diverse workforce.

Many HR leaders have already recognized the importance of instituting a human capital management plan today to secure tomorrow's business success. According to a recent Workplace Forecast by the Society for Human Resources Management, 52 percent of leaders say that developing the next generation of corporate leaders will be among their greatest challenges as Baby Boomers exit the workforce in large numbers.<sup>4</sup> This imminent skills gap is just one reason to put a human capital management plan in place now. HR professionals must consider how to attract and retain top talent from an increasingly mobile and global candidate pool.

<sup>1</sup> PwC. *17th Annual Global CEO Survey: The Talent Challenge* (2014), at 7.

<sup>2</sup> Daniel Schawbel, *74 of the Most Interesting Facts About the Millennial Generation* (June 25, 2013), found at <http://danschawbel.com/blog/74-of-the-most-interesting-facts-about-the-millennial-generation/>.

<sup>3</sup> Richard Fry, *Millennials Surpass Gen Xers as the Largest Generation in U.S. Labor Force*, Pew Research Center (May 11, 2015), found at <http://www.pewresearch.org/fact-tank/2015/05/11/millennials-surpass-gen-xers-as-the-largest-generation-in-u-s-labor-force/>.

<sup>4</sup> Society for Human Resource Management, *SHRM Workplace Forecast: The Top Workplace Trends According to HR Professionals* (May 2013), at 7.

The increased focus on engagement along with finding the best talent amid widespread talent shortages is **forcing HR to transform its function.**

## Reinventing HR: Stronger partnerships — and more strategic planning

With this tall order, it is no wonder that HR leaders are being regarded more and more as strategic business partners. The rise of C-level HR roles such as chief human resources officer (CHRO) illustrates this important shift. It's a shift that fosters financial and people data-sharing, with the understanding that almost every facet of employee performance is linked to financial and business success.

Collaboration between CHROs and chief financial officers (CFOs) is a hallmark of high-performing organizations. Indeed, Ernst & Young's 2014 *Partnering for Performance* report states that companies where the CFO-CHRO collaboration has become stronger over the past three years are experiencing "higher EBITDA growth and stronger improvement across a range of human capital metrics, including employee engagement and productivity."<sup>5</sup>

These intersecting C-level roles are just part of a larger shift in how an evolving multigenerational workforce needs to be managed effectively by HR leaders today. The increased focus on engagement along with finding the best talent amid widespread talent shortages is forcing HR to transform its function. This means developing new strategies for adapting employee lifecycle management for a changing workforce, navigating a volatile compliance landscape, and planning for optimum application of emerging technologies.

## Key HCM trends in managing today's and tomorrow's workforce

### • Recruiting, developing, and managing people

Talent is scarce and labor costs have been rising. With global expansion and Baby Boomers beginning to exit the workforce, HR leaders need new ways to attract top talent to their organizations.

At the same time, there are significant skills gaps due to changing technologies, business strategies, or operating models that are making the war for talent even more competitive. In a recent CEO survey conducted by PwC, over half of CEOs said they are planning to hire more people in the next year but are not confident that HR is up to the task ahead. Fifty-six percent of respondents said they felt the finance function was well prepared to address the talent shortage, but only 34 percent felt that HR was well prepared and 9 percent said they are not prepared at all.<sup>6</sup>

One way HR can become more prepared is through enhanced hiring tools and sophisticated analytics that can help identify trends and skills gaps to provide insight that will help organizations as a whole adapt their talent strategies. Analytics tools allow HR leaders to create data-driven strategies to make smarter decisions about whom to hire, how much to pay, the best time to hire, who are best-fit employees, who is performing well or not, and other insights into the "people part" of the business.

<sup>5</sup> EY, *Partnering for Performance, Part 2: the CFO and HR* (2014), at 4.

<sup>6</sup> PwC, *17th Annual Global CEO Survey* (2014), at 15.

It is estimated that remote workers in the U.S. alone will soon constitute **more than one-third** of the total American workforce.<sup>8</sup>

- **Engaging and enabling employees**

Employee engagement is no longer just an intangible concept put forth by HR — it's a strategy that organizations are developing, complete with PR, marketing, and social media promotion of their organizations to attract and retain the best talent. To facilitate engagement, many have positioned their organizations as “best places to work,” created a culture that makes employees feel they have opportunities to grow and evolve in their careers, given employees flexibility to achieve work/life balance, and further empowered and engaged employees and managers through technology.

Studies show that organizations with an engaged workforce often have higher profitability and a stronger brand than those that don't. For example, according to Gallup's 2013 State of the U.S. Workplace report, organizations with a high ratio of engaged employees to actively disengaged employees in 2010–2011 experienced **147 percent higher earnings per share** compared with their competition in 2011–2012.<sup>7</sup>

However, shifting demographics within the workforce has had a significant impact on the ability of organizations to create an engaged workforce. Although many organizations take a traditional HR view of employee engagement by focusing on initiatives and incentives to promote engagement such as raises and career advancement, these solutions are not real time and do not impact day-to-day employee activities.

Engaging employees who work remotely, often across many time zones, is an additional challenge. It is estimated that remote workers in the U.S. alone will soon constitute more than one-third of the total American workforce.<sup>8</sup> How can managers ensure that remote employees stay on track when they're not in the office every day? Technology such as activities tracking can benefit both managers and remote employees with more accurate data to measure effectiveness.

Today's workforce needs to be enabled to be successful and engaged. Despite employees' generational differences, they want to be on a focused path to clear goals and be part of a winning team. Implementing human capital management tools as part of workforce management technology that automates, streamlines, and improves workforce management processes helps drive this critical enablement. This, combined with a positive culture and stronger leadership, helps improve engagement — leading to increased productivity and retention and a higher bottom line.

<sup>7</sup> Gallup, *How Employee Engagement Drives Growth* (2013), found at <http://www.gallup.com/businessjournal/163130/employee-engagement-drives-growth.aspx>.

<sup>8</sup> Inc., *6 Ways to Keep Your Remote Workers Engaged and Productive* (2015), found at <http://www.inc.com/minda-zetlin/what-do-remote-workers-do-all-day-6-ways-to-keep-them-engaged-and-productive.html>.

HR leaders must be **fluent in compliance requirements** both inside and outside of their departments.

- **Compliance**

Of utmost importance today is managing an unpredictable compliance environment. Compliance requirements for U.S. organizations have been changing at a rapid pace in recent years, particularly with regard to how employees are classified and paid, how benefits are administered, and the number of hours employees work.

Therefore, in addition to partnering with the CFO on allocation of resources and delivering on company strategy, the CHRO and other HR leaders must also become partners with their organization's compliance, auditing, and legal functions. Otherwise, it's a sure bet that a weak compliance program will become a serious liability.

HR leaders must be fluent in compliance requirements both inside and outside of their departments. These include strict adherence to the Affordable Care Act (ACA), the Fair Labor Standards Act (FLSA), the Family and Medical Leave Act (FMLA), and federal civil rights laws, as well as expert management of compensation and benefits programs.

As part of an effective compliance strategy, technology solutions can help HR keep pace with changing legislative, union, and industry regulations to make this adherence and management easier and more accurate. Employee information is thoroughly documented from a single source to help ensure all policies are being applied correctly and consistently.

- **The role of data and technology**

Technology has already played a significant role in shaping the HR function to become more efficient. Now is the time to leverage this technology further for HR to become more effective.

For example, web-based and mobile apps enable many employees to manage their own HR services, including benefits, payroll, and performance evaluations. These tools allow HR to perform basic functions better and more efficiently, freeing staff to deliver more strategic services and add value to the overall organizational priorities. Mobile and web-based self-service also helps HR engage the workforce. Employees like the freedom of checking their schedules from anywhere, requesting time off, or swapping a shift with a co-worker. And it frees managers from their desks so they can coach their reports or work on other more strategic initiatives.

Another area where technology can help HR is in engaging and managing both on-site and increasingly remote/virtual workforces. With automated tools for time and attendance, activities tracking, or analytics to measure employee performance or absenteeism, HR is able to provide more transparency to employees, visibility to managers and executives, and accurate data with which they can make better business decisions related to staffing needs, efficiencies, or even skills gaps.

Ernst & Young reports that **71% of high-performing companies** are using analytics for strategic workforce planning, where only 49% of average-ranked companies are doing so.<sup>9</sup>

The importance of HCM technology in driving overall successful organizational outcomes cannot be overstated. The fact is, HR leaders at top-performing organizations are already implementing HCM technology in managing their complex workforces. Ernst & Young reports that 71 percent of high-performing companies are using analytics for strategic workforce planning, where only 49 percent of average-ranked companies are doing so.<sup>9</sup> Additionally, 70 percent of high-performing companies are using analytics to gain a better understanding of the drivers of employee performance and engagement, while 62 percent are using analytics to identify expertise within the organization.<sup>10</sup>

## Conclusion

Five generations in one workforce — managing this demographic diversity presents HR with an excellent opportunity to add value through a comprehensive HCM strategy. Technology that provides in-depth data and analytics will empower HR professionals to meet the challenge of maximizing the institutional knowledge that the Baby Boomers have brought to the table while remaining flexible and forward-thinking as Gen Xers, Millennials, and Gen Zers become increasingly influential members of the workforce. As HR transitions from a support function to a leadership function, HR professionals can add strategic value by promoting HCM strategies that use data and analytics to better manage increasingly complex, multigenerational workforces across the entire employee lifecycle.

<sup>9</sup> EY, *Partnering for Performance*, at 17.

<sup>10</sup> *Ibid.*, at 17.