Strategic Drift: How HR Plans for Change

ADP | Research INSTITUTE®

Foreword

When it comes to the ways we work and the dynamics of the workplace setting, one thing is certain — the times are changing. As discovered in ADP Research Institute's® (ADP RI) 2016 *Evolution of Work*, changes are already affecting the way we work. In this white paper, we consider how HR is handling these changes.

Our *Evolution of Work* research found today's workforce is in a state of flux. This study took a global look at workplace trends across 2,000 individuals in 13 countries and uncovered notable trends such as employees requesting greater freedom in where and when they perform work, their need to find meaning in the work they perform, and their desire for more independence and self-management. Many agree that these changes are being driven by millennials who want different things, such as more freedom in their workplace and a need for personal connection to their work. In addition, technological connectivity and social media in the workplace are quickly becoming required skills for most companies, not just those in technology fields.

We also know from the *ADP Workforce Vitality Index* that switching jobs pays, in terms of overall wage growth for the employee and because frequent changes allow the employee to build an array of valuable skills. While this is seen as a plus to the individual, this presents a loss of skill and institutional knowledge for the company and leads to higher costs for training and replacement. As job switching continues to gain momentum, organizations will need to make changes to lessen the impact of losing highly skilled employees.

New research in *Strategic Drift: How HR Plans for Change* suggests that, for many organizations, all of these changes — and especially the speed at which they are being implemented — present an enormous challenge. Many companies are experiencing a skills shortage, which we believe is caused by a number of factors, including the transition to a more transient workforce than in previous generations; a lack of training company employees to take on other tasks and transfer into new positions; and a failure to train younger staff to replace people when they retire.

HR departments have been keenly focused on their short-term needs to quickly fix this problem. *Strategic Drift: How HR Plans for Change* suggests that companies need to take a long-term approach to Strategic Workforce Planning (SWP) in order to resolve these issues. This includes aligning on what SWP means and where responsibility for this belongs. In addition, companies will need to change their practices, particularly by rebuilding HR budgets for training, changing corporate culture to promote from within, and allow flexible work options. Our findings suggest that companies that have been recently focused on short-term needs are beginning to see that these bigger challenges require a long-term plan.

Dermot O'Brien
Chief Human Resources Officer

Ahu Yildirmaz, Ph.D.
Vice President and Head of
the ADP Research Institute

Table of Contents

Executive Summary

U.S. companies are complaining loudly about their staffing problems. They cannot find people with the skills they need, they lament. And it is very hard to predict staffing requirements when technological disruptions can lead to rapid changes in markets, business models and the way that individual departments work.

This is where strategic workforce planning (SWP) comes in: How can companies know in advance the skills and workers they will need, and how can they ensure that they will have the necessary people in place in time?

In April 2016, The Economist Intelligence Unit (EIU) surveyed more than 500 senior executives at U.S. companies. The research was supported by the ADP Research Institute®. Respondents ranged from very small to multinational corporations. We asked respondents what SWP means to them; what they are doing to improve it; where they are experiencing skills and labor shortages; and where they expect such shortages to arise in the future.

The EIU survey finds that U.S. companies are struggling to meet their strategic talent needs, and will continue to do so — some 76% of survey respondents say the market for skilled talent will become tighter. Top talent will become increasingly expensive, say 69% of respondents, not only in areas such as IT and data analysis but also in manufacturing and hospitality. Some analysts say that the problem lies with companies' failure to train young staff and offer them experience, leading to skills gaps that they try to plug through recruitment.

Discovering and retaining high-potential employees will be the greatest problem faced by employers, according to the research. Rising staff turnover and job-hopping will be a persistent and costly headache. To that end, executives see SWP as the solution and are willing to spend time and money on it.

Discovering and retaining high-potential employees will be the greatest problem faced by employers.

For all the importance attached to SWP, there is little consensus over what it means or who owns it.

Generally, SWP is seen as the responsibility of senior management (chosen by 58% of respondents) with less than a third (28%) viewing it as an HR function. The most common response to the talent crisis is to spend more money on SWP software (37% of respondents).

Yet there is no agreement among survey respondents as to what SWP actually entails. In general, respondents are fairly evenly split between saying that SWP's main objective is to avoid skilled people leaving; plan around future skills requirements; and find new people to plug skills gaps). Indeed, the definition of SWP seems to vary by company size, with respondents defining it squarely in terms of their immediate HR concerns.

As companies focus more on developing technology skill sets, there may be a gap in filling traditional skill sets when employees retire.

It's no surprise that new technology requires new skill sets. But there are signs that traditional skills are not being replaced internally, suggesting a failure to train younger staff to replace people when they retire. Unsurprisingly, most IT sector respondents (88%) expect tighter labor markets as companies scramble to get up to speed on everything from social media to data analytics. But so, too, do a remarkable 91% of those in manufacturing, an area where companies seem to be struggling to replace traditional skills when employees retire.

More difficult to explain are the shortages reported in sectors such as manufacturing and construction or, indeed, a trend toward people continuing to work beyond retirement age — more than one-third (37%) of survey respondents say their companies continue to employ people past their normal retirement age. Fewer respondents (29%) expect to continue this practice.

Job-hopping millennials may be reacting to this lack of training and opportunity to advance. We found that companies are starting to recognize this trend and are focusing on "soft" benefits such as improving culture and better training to attract and retain staff.

Companies recognize that they must do more to develop — and retain — internal talent. A large majority (76%) of respondents say they will do more to find internal opportunities for employees to prevent job-hopping, with 72% saying they will invest significantly in improving their culture, working environment, training and benefits to retain staff. Companies will also pay more to attract and keep skilled talent: some 69% say their company is changing its pay and benefits policies to fill critical skills gaps, with 72% increasing existing employees' pay and benefits to discourage job-hopping.

In this report, we explore what skills gaps companies face and how they can fill them. We also ask what younger, so-called 'millennial', workers want from their work and why they have a reputation for job-hopping. Are they feckless, with little loyalty to their employers? Or are they actually just looking for career progression and changing jobs because companies are failing to give them the training and experience they need? If that is the case, then companies need to change the way they work rather than looking to SWP to fill gaps that might be of their own making.

72% say they will invest significantly in improving their culture, working environment, training and benefits to retain staff.

Written by: The Economist Intelligence Unit

About This Report

Strategic Drift: How HR Plans for Change is an Economist Intelligence Unit report, supported by the ADP Research Institute. The Economist Intelligence Unit bears sole responsibility for the content of this report. The findings do not necessarily reflect the views of the sponsor. The report draws on two main sources for its research and findings:

- A survey that included responses from 502 C-suite respondents in the U.S., evenly distributed across four geographic regions: the Northeast, the Midwest, the South and the West. Some 11% of respondents came from companies with fewer than 20 employees, 23% had 20-49 employees, 34% had 50-499 employees, 21% had 500-999 employees and 13% had more than 1,000 employees. Respondents came from four functional areas: 10% finance, 41% general management, 39% HR and 10% IT. They held a variety of C-level positions: 40% were CEOs; 10% were CFOs, treasurers or heads of finance; 40% were CHROs or heads of HR; and 10% were CIOs, CTOs or heads of technology.
- A series of in-depth interviews conducted with senior executives.

Interviewees:

- **Peter Cappelli**, George W. Taylor Professor of Management, The Wharton School, Director of Wharton's Center for Human Resources
- **Marc Cecere**, VP, Principal Analyst, Forrester Research
- **Nicole Cunningham**, Head of Recruiting and Employee Experience, Knot Standard
- **Stephen DeWitt**, CEO, Work Market
- **Stacey Harris**, VP Research and Analytics, Sierra-Cedar
- **Kathryn Minshew**, CEO and Co-founder, The Muse
- **Regis Mulot**, EVP HR, Staples
- **Carl Rhodes**, CEO, The Human Capital Institute
- **David Rodriguez**, Global CHRO, Marriott International

Introduction

Companies are lamenting shortages of individuals with specific skills and the difficulty of predicting staffing requirements at a time when technological change — and the continuing fallout from the 2008-09 global financial crisis — can lead to rapid changes in markets, as well as business models and the way that individual departments work. Companies from retailers to music producers can find themselves being transformed into technology firms as their operations — and their customers — continue the shift to online. And the mass of data now available requires departments from risk to human resources to equip themselves to do the high-level statistical analyses that would have been well beyond their remit a decade ago.

This is where strategic workforce planning (SWP) comes in: How can companies know in advance the skills and workers they will need, and how can they ensure that they will have the necessary people in place in time?

In this report, we ask companies what they mean by SWP; what they are doing to improve it; where they are experiencing skills and labor shortages; and where they expect such shortages to arise in the future. Can they rely on external hiring to fill the gaps or can they do more to retain existing workers and train them for career progression?

Companies from retailers to music producers can find themselves being transformed into technology firms as their operations — and their customers — continue the shift to online.

SECTION 1: Debating a Definition

Companies have always had to plan for their future workforce needs one way or another, but doing so today has become far more complicated. HR planning is being buffeted by the forces affecting businesses overall, such as globalization, technological shifts and economic pressure. But companies have also harmed themselves by slashing their training and retention budgets, leaving them lacking the knowledge they need.

This leads to skills gaps, which companies are increasingly desperate to avoid. "Strategic workforce planning" has become a core issue. Indeed, some three-quarters of respondents to an EIU survey conducted in April 2016 for this report said that strategic workforce planning (SWP) is now considered critical. That figure rises to 87% in the construction sector and 91% in manufacturing.

However, many of the definitions of SWP are vague. The CIPD, a UK HR association, defines it as "a process to ensure that the right number of people with the right skills is employed in the right place at the right time to deliver an organization's short- and long-term objectives." The EIU survey finds little agreement about what that means in practice.

Survey respondents are split fairly evenly between saying the main objectives of their companies' SWP is to retain key people to avoid skills gaps (36%); to understand and find the talent they will need in the future (33%); and to recruit new people to plug skills gaps (33%). A further 25% say managing the cost of talent is the main objective.

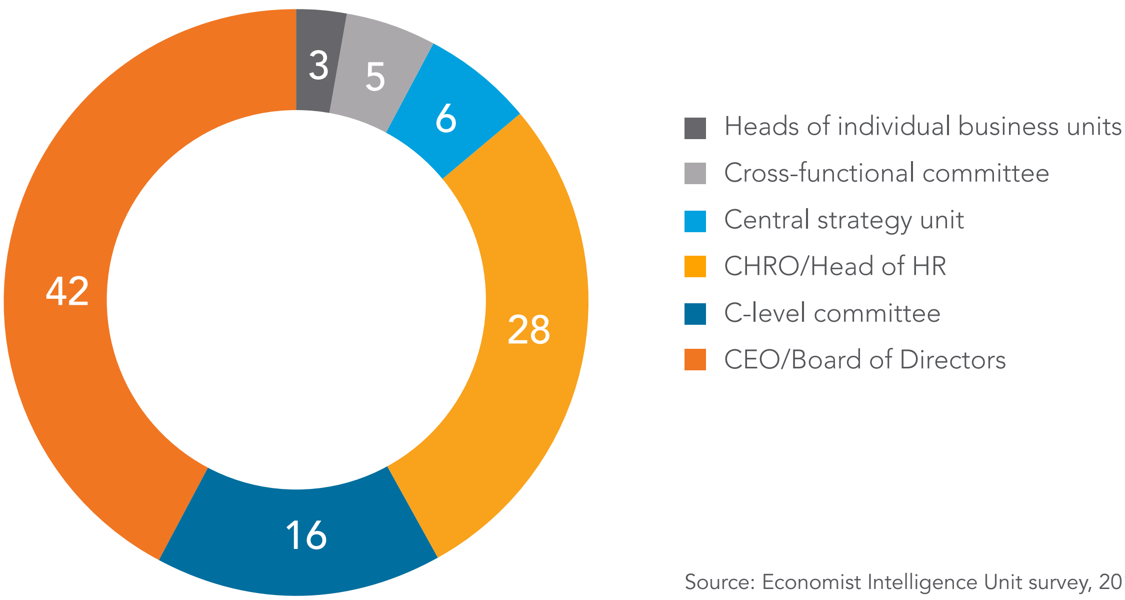
Which of the following are your company's top strategic objectives in its strategic workforce planning? (% of respondents)

Source: Economist Intelligence Unit survey, 2016.

Who’s in charge?

No true consensus is apparent among respondents over who should be in charge of SWP. Relatively few (28%) see it as the responsibility of HR, even though they define it according to concerns like employee recruitment — which are squarely within HR’s remit. Rather, SWP is seen mainly as the responsibility of senior management in general, with 42% of respondents saying primary ownership lies with the CEO or board of directors and another 16% saying it resides with a C-level committee. There appears to be a muddle between the strategic and the HR element: If it’s strategic, it belongs to top management, say our respondents, but they see the problem in purely HR terms.

In your company, who has primary ownership of the organization’s workforce planning strategy? (% of respondents)



Source: Economist Intelligence Unit survey, 2016.

In sum, “The definition of strategic HR is kind of a mess,” says Peter Cappelli, George W. Taylor Professor of Management, The Wharton School, and Director of Wharton’s Center for Human Resources. He believes that the days of organizations setting 10-year plans are long gone, with companies reviewing their strategies at least annually. Companies recognize that they need to be able to react quickly to events and that their ability to plan long term is limited. “If you can’t set company strategy long term, then how can you set a long-term strategy for HR and recruitment?” asks Cappelli.

Few doubt that SWP is important. From the EIU survey results, however, we see questions at the company level as to what SWP actually means, what problems companies are trying to solve through it and what the best solutions to those problems might be.

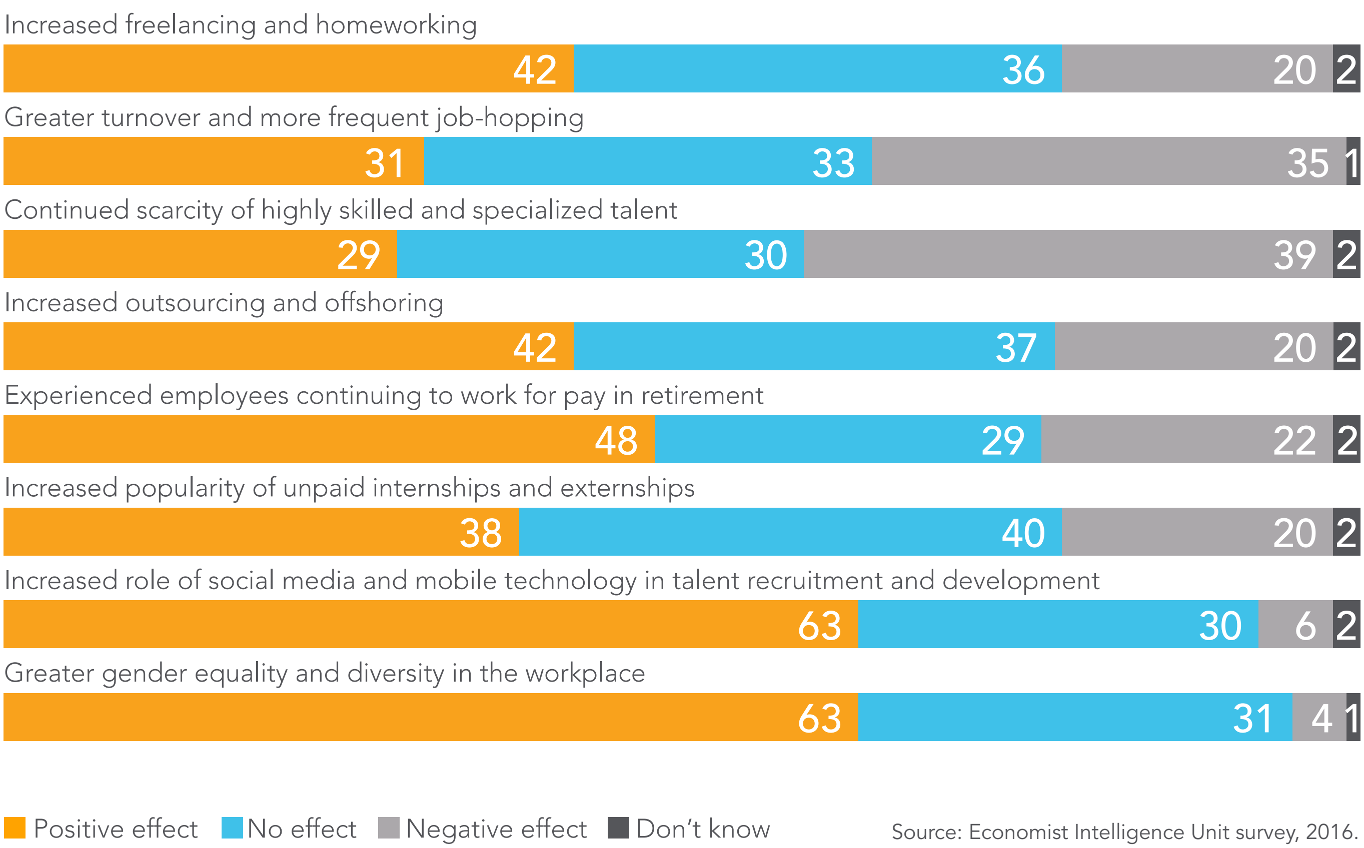
SECTION 2: Plugging the Skills Gap

The survey results clearly show that U.S. companies are concerned about skills shortages and rapid staff turnover and that they are looking to SWP to help address and resolve these problems. More than three-quarters (76%) of respondents expect the market for skilled talent to tighten, with well over two-thirds (69%) saying wages will jump for workers with advanced skills.

Most respondents (80%) believe their top management challenges stem from the shortage of skilled workers, whether that involves finding highly skilled people (28%), rising costs (27%) or holding on to experienced staff (25%). Job-hopping is a big problem, especially among younger people: More than 60% of respondents expect rapid staff turnover among 20-40-year-olds at their organizations.

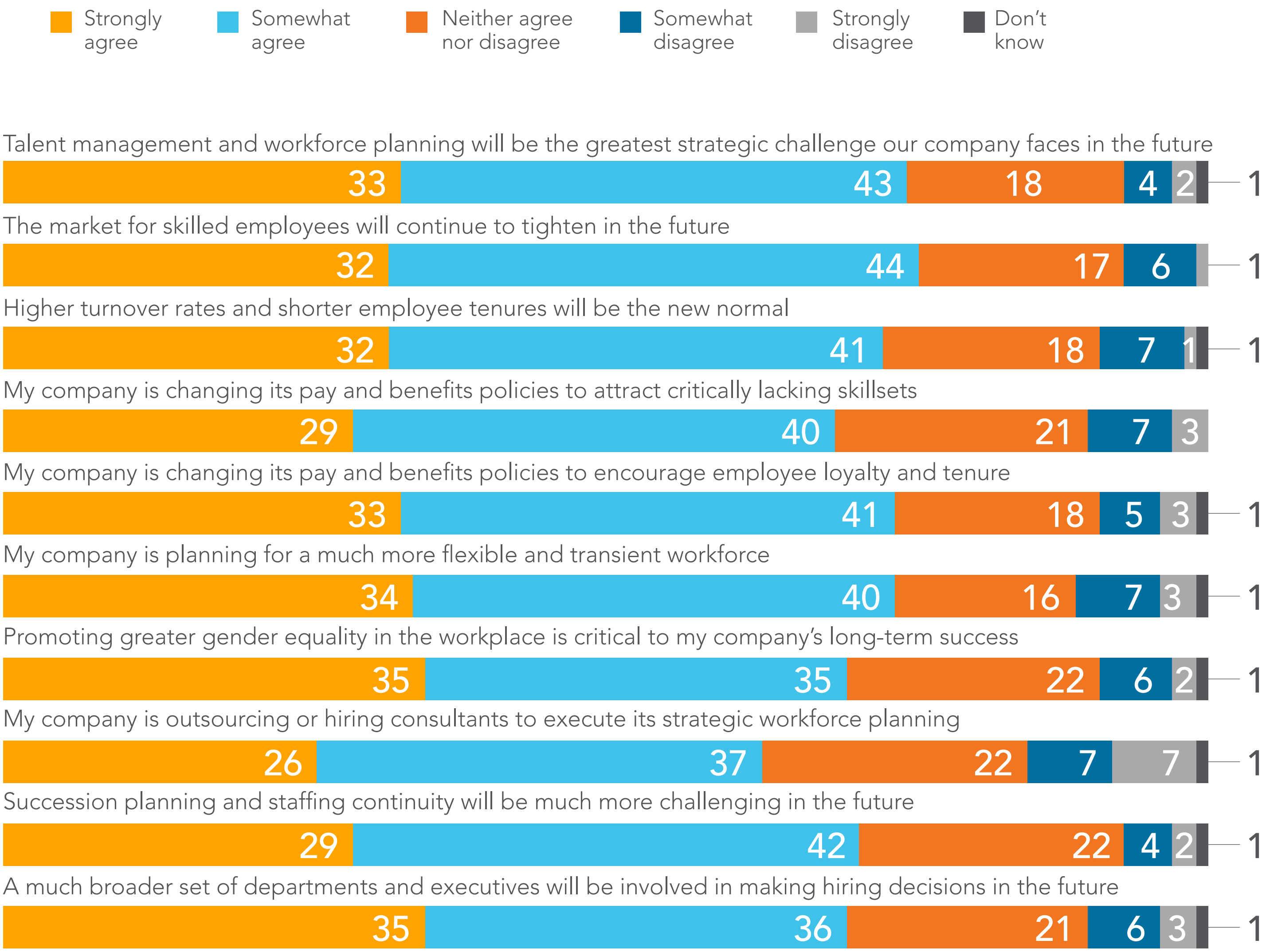
Obviously, new technology requires new skill sets. But there are also signs that traditional skills are not being replaced internally, suggesting a failure to train younger staff to replace people when they retire. Unsurprisingly, most IT sector respondents (88%) expect tighter labor markets as companies scramble to get up to speed on everything from social media to data analytics. But so, too, do a remarkable 91% of those in manufacturing, an area where companies seem to be struggling to replace traditional skills when employees retire.

What impact do you expect each of the following labor market trends will have on your company's business in the next three years? (% of respondents)



Source: Economist Intelligence Unit survey, 2016.

To what extent do you agree with the following statements? (% of respondents)



Source: Economist Intelligence Unit survey, 2016.

What are the greatest challenges your company faces with regard to talent management and workforce planning? (% of respondents)

Source: Economist Intelligence Unit survey, 2016.

So what are the answers?

Some skills shortages result from fast-evolving technology that can both change the nature of businesses and lead to specialists in one area needing new types of skills. HR departments, for example, now require data analysts so they can mine the wealth of information available to track and predict employee behavior; machine operators need to understand the computers controlling production. In these cases, competition for some of the new skills widely demanded by companies will inevitably lead to pay rises in certain sectors.

"Over the past two years, we have been hiring experienced professionals heavily in areas such as digital marketing and social media, where we need to find external expertise," says David Rodriguez, Global CHRO of Marriott International. That puts Marriott in direct competition for talent with other big companies across industries facing similar skills shortages, thus forcing wages up.

More difficult to explain are the shortages reported in sectors such as manufacturing and construction or, indeed, a trend toward people continuing to work beyond retirement age — more than one-third (37%) of survey respondents say their companies continue to employ people past their normal retirement age. Fewer respondents (29%) expect to continue this practice, which perhaps suggests that older employees are being kept in their jobs until younger employees have acquired the old skills.

CLOSER LOOK

Staples:
Operating in a state of constant reinvention

Staples, a U.S. office supplies giant, epitomizes how even the biggest company can be compelled to reinvent itself under pressure from online competitors like Amazon. The biggest company in its sector, Staples had planned to merge with the second-biggest office supplies company, Office Depot, to create a colossus capable of battling online competitors.

But U.S. regulators blocked the deal. Thus, Staples will reportedly soon announce the sale of its European operations as it continues a brutal rationalization of its store network. All this because customers increasingly buy their office supplies over the net rather than in-store.

Staples has also been forced to shift much of its own operations online, with Internet sales now accounting for more than half of the total. From an HR perspective, such a radical restructuring is a huge challenge.

> “We’re now the fifth-biggest Internet retailer,”

says EVP Regis Mulot (behind Amazon, Apple, Dell and Walmart).

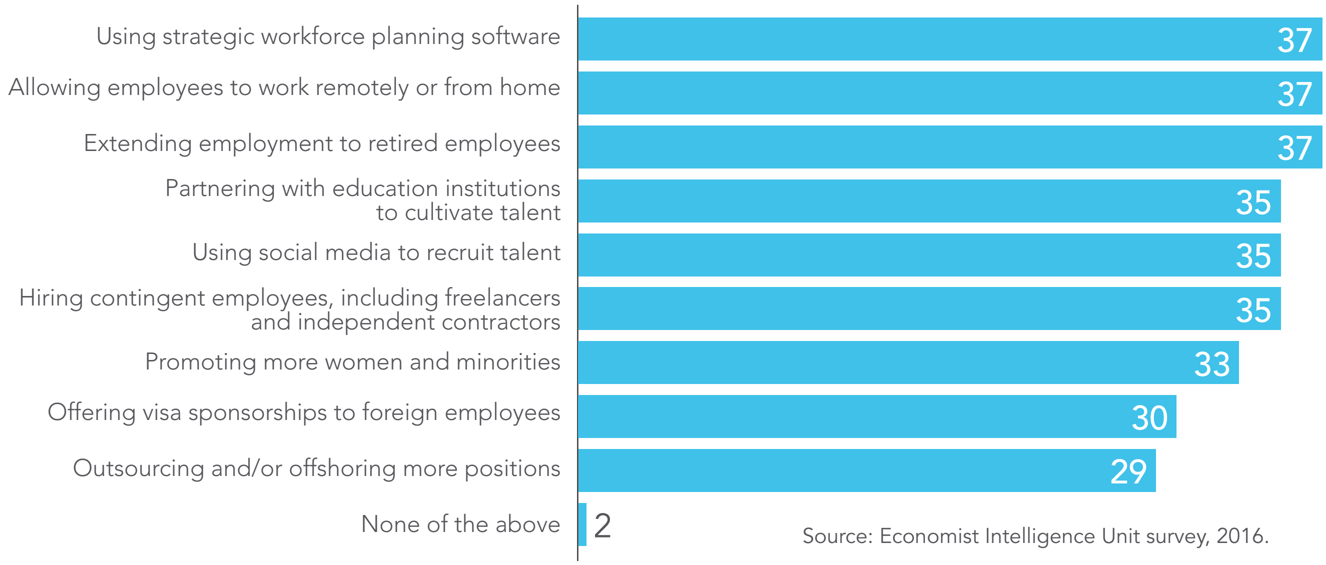
> “We’re a technology company now.”

Mulot says that he defines strategic workforce planning as the alignment of human capital with operational business plans. But he accepts that with the current pace of change, it’s not possible to predict workforce needs even two years ahead, except for certain operations. Instead, Mulot works with senior management to understand the skills likely to be required in the future and the people and skill sets that are core to the company.

“It is very expensive to hire these [technical] people,” Mulot says. He is referring not to the high salaries they command but to the need to open new headquarters buildings in locations close to tech powerhouses like MIT and Google. Data analysts and the like are not willing to commute to the company’s main headquarters in Framingham, Massachusetts.

Besides hiring in new skills from outside, Mulot accepts that Staples needs to offer existing staff more opportunity for advancement. “Excluding entry-level jobs and retail (which brings the figure down considerably), we fill only 35% of vacancies internally,” he says. “I would like to see a figure closer to 60%.”

Which of the following actions is your company currently taking in response to trends in the talent marketplace? (% of respondents)



Source: Economist Intelligence Unit survey, 2016.

In other words, these survey results suggest not just that companies are having to "buy in" new tech skills, as should be expected, but also that they lack people internally with the traditional skills found among older employees.

"The perceived skills gap is because companies have stopped training and developing people internally," says Cappelli of Wharton. "Before the 1980s, 90% of vacancies were filled internally and 10% were hired outside. Now, 65% of vacancies are filled from outside."

Cappelli blames companies' training policies — or lack thereof — for the skills shortages, pointing out that training budgets fell by 20% from 2000 through 2008, with the number of apprenticeships halving and HR departments being "gutted." According to Cappelli, "Companies then advertise for people with 10 years' experience operating some very particular equipment. It's too specific; it needs to come from experience within the company."

He adds that problems finding individuals with suitable experience often occur because companies are unrealistic about what they are demanding for the money: "They look for a machinist with computing skills for $15 an hour [the normal rate for a machinist]. You can't find people with computer skills for that."

> "Before the 1980s, 90% of vacancies were filled internally and 10% were hired outside. Now, 65% of vacancies are filled from outside."
>
> Peter Cappelli, The Wharton School

Cappelli dates the staffing problems to the 1980s, when downsizing companies meant plenty of good people were looking for work and hiring became easier — and cheaper — than training staff for companies focused on short-term results. Since then, the trend toward splitting up conglomerates into separate profit units has exacerbated staffing problems, making it harder to rotate staff between different business units to gain experience.

For example, Millennials, who are sometimes criticized for lack of loyalty and for job-hopping to gain promotion, complain of a lack of opportunity for career progression, according to those who hire them. "Millennials are more concerned with career progression than with money," says Nicole Cunningham, head of recruiting & employee experience at Knot Standard, a custom menswear company. Like human resources professionals at other companies who are heavily involved with hiring younger people, she believes that their reputation for changing jobs often reflects the failure of companies to train them and to offer them career opportunities rather than Millennials' supposed fecklessness (see next page).

> "Millennials are more concerned with career progression than with money."
>
> Nicole Cunningham, Knot Standard

CLOSER LOOK

Millennial blues?

Millennials (for the purpose of this report, defined as those from 20 to 40 years of age) do not have the best of reputations. They are believed to want instant gratification, to change jobs frequently and to lack loyalty to their employers. Hence, they have a reputation for job-hopping, with companies being reluctant to train staff who will soon leave.

Kathryn Minshew, a former consultant at McKinsey, disagrees. “They want career progression,” she says, “and are very concerned with company fit.” In 2011, Minshew teamed up with another former McKinsey consultant to launch The Muse, a careers site aimed at Millennials. With more than 50 million visitors annually, The Muse primarily works with companies to give users insights into their working environment, featuring snapshots of their office space and comments from current staff. The Muse recently launched an affordable career coaching service. “Often, they [Millennials] did not know what they were looking for or what types of company would suit them,” says Minshew.

Are Millennials demotivated or have they been left to drift by companies increasingly reluctant to train them — or to offer them entry-level positions enabling them to work their way up in the organization? Marriott International, a global hospitality chain, believes in an old-fashioned approach to career progression. “Our ethos is still that of a family-owned company, with a staff-first approach,” says David Rodriguez, Global CHRO. Some 85% of its nearly 400,000 employees are hourly-paid staff working in Marriott’s network of international hotels; and more than one-third of its staff are Millennials. Marriott has worked hard to retain them.

For example, at the height of the financial crisis, many hourly workers at other companies in the U.S. lost their medical insurance, as their hours were cut back to below the threshold for coverage. Marriott responded by suspending the minimum hours requirement. “It was expensive for us but important for them,” says Rodriguez. “To this day, people still express their gratitude for that.” More recently, the company decided to pay for income protection for all of its employees — another costly move that provides an unusual level of protection.

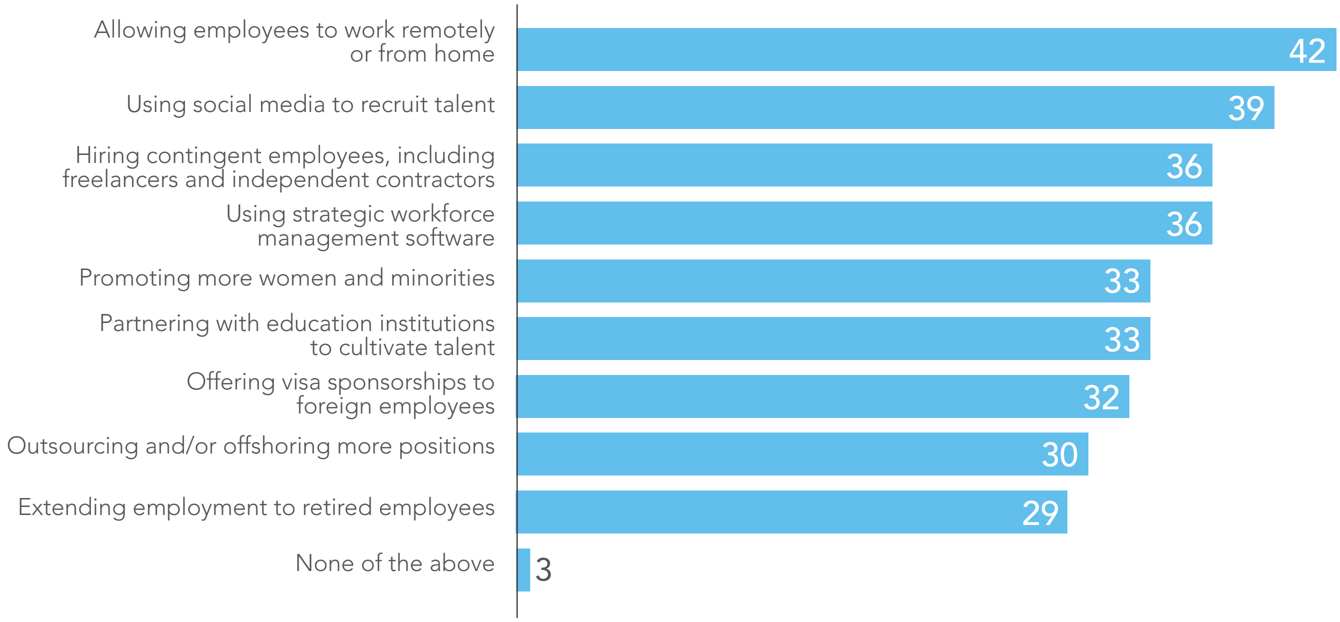
Many of these hourly workers are those Millennials notorious for job-hopping to gain promotion. However, Marriott gives them the chance to work their way up in the group — Rodriguez cites an example of someone who joined as a waiter and ended up as the chief operating officer. Besides steady investment in training (in contrast to many multinationals that have slashed that and other spending), Marriott has launched a Talent Network program that allows people to gain experience in a different area — so someone in the finance department could work on a marketing project, for example. “Millennials like to take some control over their own destinies,” says Rodriguez.

The result is that Marriott enjoys fairly low staff turnover, perhaps just above 10% for management and rather more for operations staff in a traditionally high-turnover industry. “Other hospitality companies suffer turnover perhaps four times as high as ours,” says Rodriguez.

SECTION 3: How to Avoid the Skills Gaps

For all of the fears voiced about skills gaps and staff shortages, EIU survey respondents are bullish about how well they are tackling the problem. Around half of them are confident that they have been "highly successful" in achieving their SWP objectives and that they are on top of an evolving marketplace. In particular, they say they are adapting to the challenges of labor shortages by spending more on SWP software.

Which of the following actions is your company considering taking in the next three years in response to trends in the talent marketplace? (% of respondents)



Source: Economist Intelligence Unit survey, 2016.

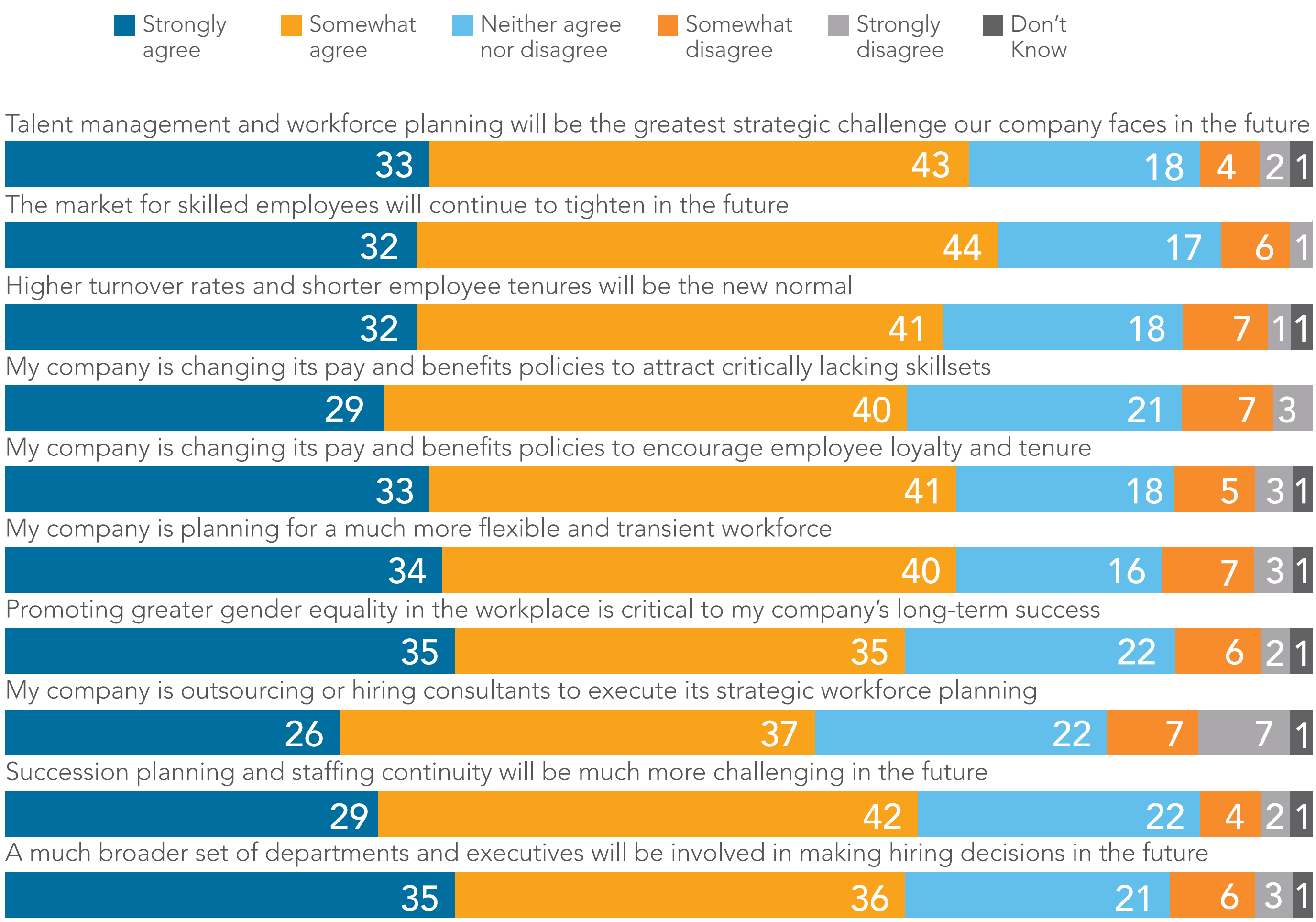
Indeed, this marks the start of a growing trend as companies face up to the need to spend more on workforce planning and the necessary technology. However, this is from a low base. Sierra-Cedar figures suggest that only a small proportion (12%) of U.S. companies are looking seriously at SWP or spending on the necessary technology, "although the figure is growing fast," says Stacey Harris, VP Research and Analytics. She believes that the necessary technology has only recently become usable. Marc Cecere, a Vice President and Principal Analyst at Forrester, adds that the mass of data now available allows companies to analyze which employees are most likely to leave and the suitability of job candidates in a more scientific manner.

"The need is to find specialists," Cecere says, pointing out that HR departments are not equipped to assess specialist staff for the likes of technology companies. "HR departments need to work in partnership with other departments such as IT to find and train them," he says.

Perhaps more important than the increased IT spend is that companies seem to be facing up to the need to change their ways to avoid skills shortages. Younger staff's demands for career progression require a hike in training budgets and a shift back to a longer-term focus among companies. Companies may be getting the message. EIU survey results point to improving pay and benefits to retain staff and to attract new joiners, with some recognition of workers' demands for more flexibility.

Nearly three-quarters (72%) of survey respondents say compensation will be hiked to discourage job-hopping, with most expecting pay increases to attract skilled staff to join and prevent them from leaving — especially for 20-40-year-olds. There is also an emphasis on "softer" benefits, most significantly training and in-house placement opportunities. Seventy-nine percent of respondents say skilled employees will be offered significant incentives to remain.

To what extent do you agree with the following statements? (% of respondents)



Source: Economist Intelligence Unit survey, 2016.

Besides recognizing that they need to do more to develop in-house talent to avoid skills gaps, companies are also waking up to the wealth of outside talent available, with the survey finding that companies expect to use freelancers more extensively. "Outsourcing has evolved dramatically," says Stephen DeWitt, CEO of the freelance management system, Work Market. "Companies now want to access the wealth of talent and skills of independent workers inside of a modernized operating model." He cites PwC, which launched the PwC Talent Exchange in February to connect independent professionals with its project teams, giving the firm a global web of experience to leverage.

SWP involves exploring how to develop in-house staff to ensure that core competencies are kept within the firm. But increasingly, it also means looking outside the company to complement those skills — and sometimes bring in new ones.

> "Companies now want to access the wealth of talent and skills of independent workers inside of a modernized operating model."
>
> Stephen DeWitt, Work Market

CLOSER LOOK

Too small to care?

At first glance, the EIU survey results would seem to suggest that small companies are much less concerned with strategic workforce planning (SWP) than their larger counterparts: On average, more than three quarters of total respondents to the EIU survey (76%) said that SWP was the top strategic challenge they face. For companies with fewer than 20 employees, however, the figure was just 42%.

Digging deeper into the results it becomes clear that small companies share the same concerns over job-hopping and retaining experienced staff as their larger brethren. However, they may lack the resources to buy software or set up dedicated departments to deal with these problems, leaving company managers to tackle the issues directly. That will likely leave them struggling to find suitable staff, but may also feed a reluctance to hire, with recruitment down from the levels seen in 2007, before the financial crisis.

Government figures show that small companies employ more than 56 million people in the U.S., around 52% of the total workforce. Bureau of Labor Statistics figures showed that by May 2015, more than two-thirds (67%) of small companies had not hired over that year, deterred by a lack of business growth and the cost of recruitment. Said Christine Kymn, chief economist at the Small Business Advocate (SBA): “We’re seeing an uptick in employment from small firms but, overall, there is still a lag from where they were in 2007.” Instead, existing staff and especially owner-managers are simply taking on more responsibilities themselves.

Unsurprisingly, given the reluctance to hire, the survey reveals an acute consciousness among small companies of the need to retain staff. Nearly half (46%) said their business was suffering because of high staff turnover, well above a survey average of 35% (and a big-company average of 33%). The biggest SWP challenge for them is retaining key people (chosen by 45% of small-company respondents against an average of 35%); mid-sized companies employing 50-499 people considered recruitment most important, in contrast. Only firms with more than 500 employees emphasized the importance of organizational structure and processes.

But for all the desire to hold on to existing staff, small companies still face the same skills shortages plaguing business in general — and say they are struggling to find the right people to plug the gaps. A May 2015 report by the National Federation of Independent Business found that 80% of the small companies who were hiring said they had received few — or no — applications from suitably qualified people.

The SBA provides a list of the skilled staff small companies are struggling to find, which includes data specialists, project managers, skilled repair technicians and sales professionals. For in-demand staff such as data analysts, small companies often struggle to match the packages offered by bigger firms, e.g., healthcare coverage. They are often niche companies, too, requiring very particular skills (e.g., in precision engineering), which makes experienced candidates hard to find.

Unsurprisingly, smaller companies feel far less equipped to handle the challenges of a fast-changing labor marketplace than bigger ones: Two-thirds (65%) of companies with 500-999 employees feel they are ‘very prepared’ for the challenge against a survey average of little more than half (51%) as confidence falls with company size.

Ironically, these companies’ small size means that senior managers tend to deal with staffing problems directly, lacking an HR department to do the work. Hence a core problem is, if not neglected, certainly not handled as competently as it could be.

One sign of that is the apparent reluctance to use the wealth of software now available to facilitate SWP for small companies. The use of such software is the most common reaction to the brewing staffing storm in our survey generally, chosen by 36% of respondents. A mere 13% of small companies use it, however.

Staff and skills shortages are among the most acute problems faced by smaller companies but they remain among the least equipped to deal with them.

Conclusion

Setting a concrete long-term strategy is difficult, if not impossible, as rapid technology change rips apart the old ways of doing business at an alarming pace and frequency. That makes it equally hard to set a long-term hiring strategy: Simply put, it has become impossible to know staffing and skills requirements well in advance.

Thus, some skill shortages are inevitable. Many companies will have little choice but to look for experienced specialists in areas that are new to them or that they need to use more heavily. That will certainly force wages up in some sectors and is going to require HR departments to become flexible and able to react rapidly to market shifts.

However, this explains only a part of skills shortages. There are also strong signs that existing skills are being lost, encouraging firms to keep people on beyond retirement age to retain skills their younger employees have failed to develop. The slashing of training budgets and an increasing reliance on hiring in staff from outside — rather than on building up the skills and experience of existing staff to fit them for promotion — could be to blame for these lost skills. This leads to a lack of career development opportunities within companies, feeding the problem of younger staff job-hopping to gain experience and promotion.

Senior leadership needs to rebuild training and HR budgets to the levels seen before the 1980s. A change in corporate culture is also critical to satisfy workers' demands for career advancement and more flexible working conditions. The EIU survey shows that companies are only now beginning to confront these bigger challenges as their staff and skills gaps become acute.

About ADP

Powerful technology plus a human touch. Companies of all types and sizes around the world rely on ADP's cloud software and expert insights to help unlock the potential of their people. HR. Talent. Benefits. Payroll. Compliance. Working together to build a better workforce. For more information, visit **ADP.com**.

About the ADP Research Institute®

The ADP Research Institute provides insights to leaders in both the private and public sectors regarding issues in human capital management, employment trends and workforce strategy. **ADP.com/research**.