

# Global Human Capital Trends 2015

## Leading in the new world of work





# Contents

Introduction | 2

## Leading

Leadership: Why a perennial issue? | 17

Learning and development: Into the spotlight | 25

## Engaging

Culture and engagement: The naked organization | 35

Workforce on demand: Are you ready? | 43

Performance management: The secret ingredient | 51

## Reinventing

Reinventing HR: An extreme makeover | 61

HR and people analytics: Stuck in neutral | 71

People data everywhere: Bringing the outside in | 79

## Reimaging

Simplification of work: The coming revolution | 87

Machines as talent: Collaboration, not competition | 95

Editors | 102

Acknowledgements | 103

Global Human Capital leaders | 105

Human Capital country leaders | 105

# Introduction: Leading in the new world of work

**G**LOBAL organizations today must navigate a “new world of work”—one that requires a dramatic change in strategies for leadership, talent, and human resources.

In this new world of work, the barriers between work and life have been all but eliminated. Employees are “always on”—hyper-connected to their jobs through pervasive mobile technology.

Networking tools like LinkedIn, Facebook, and Glassdoor enable people to easily monitor the market for new job opportunities. Details about an organization’s culture are available at the tap of a screen, providing insights about companies to employees and potential employees alike. The balance of power in the employer-employee relationship has shifted—making today’s employees more like customers or partners than subordinates.

Many of today’s employees work in global teams that operate on a 24/7 basis. An increasing number of skilled workers in this new world work on a contingent, part-time, or contract basis, so organizations must now work to integrate them into talent programs. New cognitive technologies are displacing workers and reengineering work, forcing companies to redesign jobs to incorporate new technology solutions.

Demographic changes are also in play. Millennials, who now make up more than half the workforce, are taking center stage. Their expectations are vastly different from those

of previous generations. They expect accelerated responsibility and paths to leadership. They seek greater purpose in their work. And they want greater flexibility in how that work is done.

For human resources (HR) organizations, this new world requires bold and innovative thinking. It challenges our existing people practices: how we evaluate and manage people and how we engage and develop teams; how we select leaders and how they operate. HR organizations now face increasing demands to measure and monitor the larger organizational culture, simplify the work environment, and redesign work to help people adapt.

For HR and talent teams, 2015 will be a critical year. As these forces gather momentum, we see 2015 as a time for creativity, bold leadership, and a fundamental reimaging of the practices HR leaders have used for years.

## In this new world of work, the barriers between work and life have been all but eliminated.

### Our global research

Deloitte’s 2015 *Global Human Capital Trends* report is one of the largest longitudinal studies of talent, leadership, and HR challenges and readiness around the world. The research described in this report involved surveys and interviews with more than 3,300 business and HR leaders from 106 countries. (See the appendix to this chapter for details on survey demographics.) The survey asked business and

HR respondents to assess the importance of specific talent challenges facing their organization and to judge how prepared they were to meet these challenges.<sup>1</sup> Using these responses, we calculated a “capability gap” for each challenge, measuring the difference between an issue’s importance and an organization’s readiness to address it.<sup>2</sup>

In this year’s report, we explore 10 major trends that emerged from our research, which reflect four major themes for the year: leading, engaging, reinventing, and reimaging (figure 1). We also present the capability gaps associated with each of these trends, and offer practical insights to help you address each of these challenges in your organization.

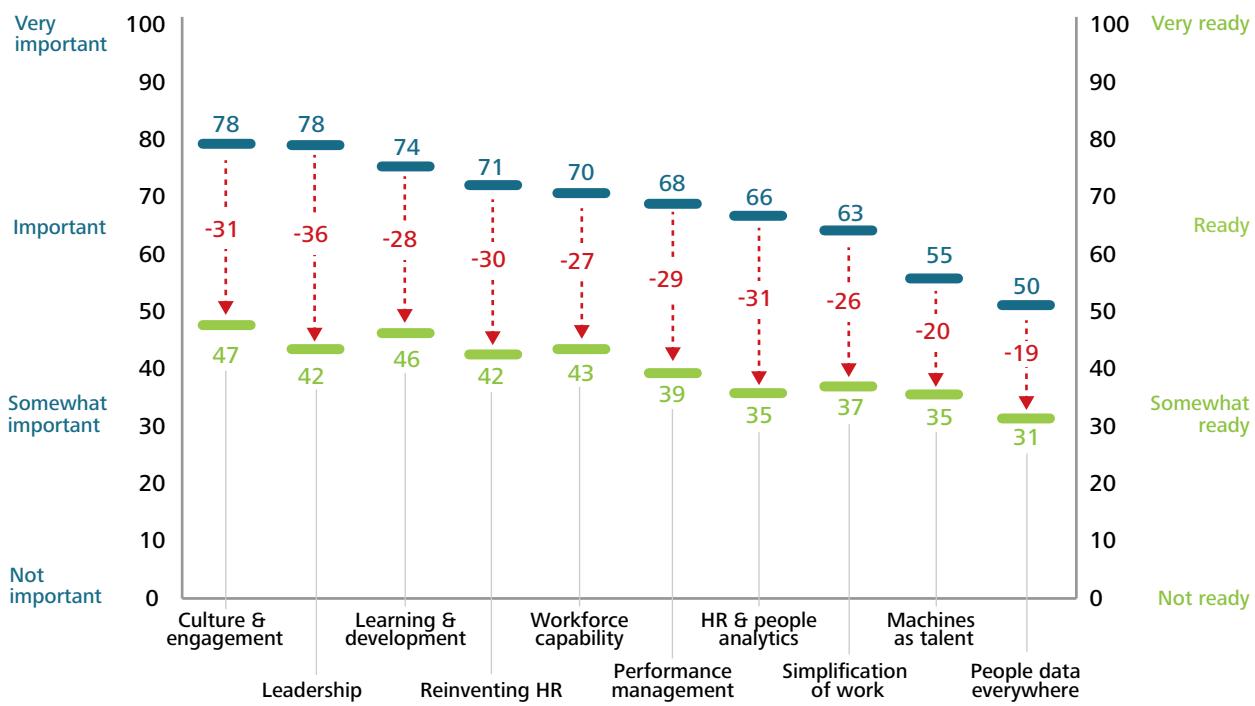
All the data from this research can be viewed by geography, company size, and industry using an interactive tool, the Human Capital Trends Dashboard. This tool, available at [www.deloitte.com/hcdashboard](http://www.deloitte.com/hcdashboard), lets you explore the data visually to see how talent priorities vary around the world.

## Leading in the new world of work: The 10 trends

Figure 2 shows respondents’ ratings of the importance of 10 talent challenges alongside their rated readiness to address each challenge.<sup>3</sup> These data highlight substantial capability gaps in all 10 areas. Comparing these results to the data from last year, we see that

**Figure 1. The 10 trends in the 2015 *Global Human Capital Trends* report**

<b>Leading</b>	<p><b>Leadership: Why a perennial issue?</b> Companies are struggling to develop leaders at all levels and are investing in new and accelerated leadership models.</p>	<p><b>Learning and development: Into the spotlight</b> Companies are actively exploring new approaches to learning and development as they confront increasing skills gaps.</p>	
<b>Engaging</b>	<p><b>Culture and engagement: The naked organization</b> Organizations are recognizing the need to focus on culture and dramatically improve employee engagement as they face a looming crisis in engagement and retention.</p>	<p><b>Workforce on demand: Are you ready?</b> Companies are taking a more sophisticated approach to managing all aspects of the workforce, including the hourly, contingent, and contract workforce.</p>	<p><b>Performance management: The secret ingredient</b> Organizations are replacing traditional performance management with innovative performance solutions.</p>
<b>Reinventing</b>	<p><b>Reinventing HR: An extreme makeover</b> HR is undergoing an extreme makeover to deliver greater business impact and drive HR and business innovation.</p>	<p><b>HR and people analytics: Stuck in neutral</b> Too few organizations are actively implementing talent analytics capabilities to address complex business and talent needs.</p>	<p><b>People data everywhere: Bringing the outside in</b> HR and talent organizations are expanding their HR data strategies by harnessing and integrating third-party data about their people from social media platforms.</p>
<b>Reimaging</b>	<p><b>Simplification of work: The coming revolution</b> Organizations are simplifying work environments and practices in response to information overload and increasing organization and system complexity.</p>	<p><b>Machines as talent: Collaboration, not competition</b> The increasing power of computers and software to automate and replace knowledge workers is challenging organizations to rethink the design of work and the skills their employees need to succeed.</p>	

**Figure 2. Talent trends: Global importance vs. readiness**

Graphic: Deloitte University Press | DUPress.com

the capability gap in many of these areas has increased in magnitude (figure 3), suggesting that the accelerating economy and rapid changes in the workforce have created even more urgency in the need to adapt HR and people practices around the world.

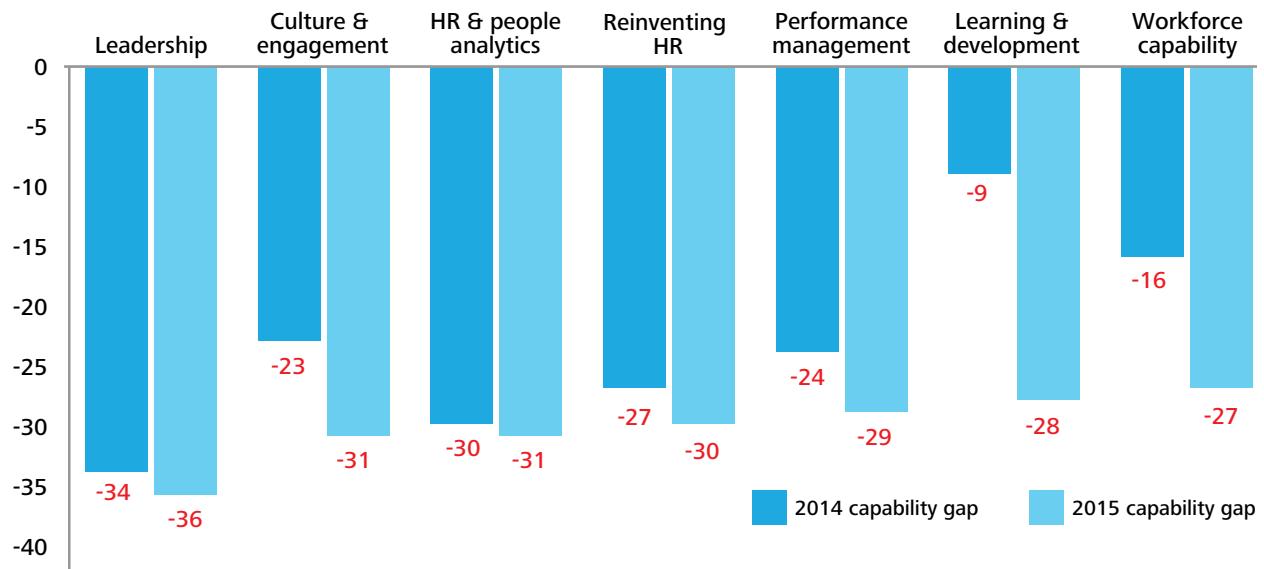
Based on the survey data, interviews, and secondary research, we provide more detail on each of these challenges and recommendations for how leaders can begin to address them in this report's 10 chapters:

- 1. Culture and engagement: The naked organization.** This year, culture and engagement was rated the most important issue overall,<sup>4</sup> slightly edging out leadership (the No. 1 issue last year). This challenge highlights the need for business and HR leaders to gain a clear understanding of their organization's culture and reexamine every HR and talent program as a way to better engage and empower people.

## 2. Leadership: Why a perennial issue?

Building leadership remains paramount, ranking as the No. 2 issue in this year's survey.<sup>5</sup> Yet despite the fact that nearly 9 out of 10 respondents surveyed cite the issue as "important" or "very important," the data also suggest that organizations have made little or no progress since last year: The capability gap for building great leaders has widened in every region of the world.

- 3. Learning and development: Into the spotlight.** This year's third most important challenge<sup>6</sup> was the need to transform and accelerate corporate learning, up from No. 8 in 2014. The percentage of companies rating learning and development as very important tripled since last year. But even as the importance of this issue rose, the readiness to address it went down. Only 40 percent of respondents rated their organizations as "ready" or "very ready" in learning and development in 2015, compared to 75 percent in 2014.

**Figure 3. Capability gaps in selected areas, 2014 and 2015**

Graphic: Deloitte University Press | DUPress.com

**4. Reinventing HR: An extreme makeover.**

The fourth biggest issue was the need to reskill HR itself.<sup>7</sup> This area also shows little progress since last year. Both HR and business leaders, on average, rated HR's performance as low; furthermore, business leaders rated HR's performance 20 percent lower than did HR leaders, showing how important it is to accelerate HR's ability to deliver value as the economy improves. Perhaps because of these dim views of HR's performance, we found an increasing trend of CEOs bringing in non-HR professionals to fill the role of CHRO.

**5. Workforce on demand: Are you ready?**

Eight out of 10 respondents surveyed cited workforce capability as being either "important" or "very important" in the year ahead, indicating the demand for skills that is driving a trend toward greater use of hourly, contingent, and contract workers. This trend highlights the need to develop better processes, policies, and tools to source, evaluate, and reward talent that exists outside of traditional corporate and organizational balance sheets.

**6. Performance management: The secret ingredient.** One of the biggest needs in the new world of work is the need to rethink how organizations manage, evaluate, and reward people. New, agile models for performance management have arrived, and we see these new performance management models as a core component of this year's focus on engagement, development, and leadership.

**7. HR and people analytics: Stuck in neutral.** HR should now make serious investments in leveraging data to make people decisions. People analytics, a strategy that has been evolving over the last several years, has the potential to change the way HR will work. However, HR organizations appear to be slow in developing the capabilities to take advantage of analytics' potential.

**8. Simplification of work: The coming revolution.** Last year's *Global Human Capital Trends* report identified the "overwhelmed employee" as an emerging trend. This year, the percentage of respondents who regard this as a "very important" issue rose from 21 percent to 24 percent. This heightened

recognition is just the beginning of what we see as a long-term movement by companies to simplify work, implement design thinking, overhaul the work environment, and help employees focus and relieve stress. We are entering an era of “doing less better” rather than “doing more with less.”

9. **Machines as talent: Collaboration, not competition.** Cognitive computing—the use of machines to read, analyze, speak, and make decisions—is impacting work at all levels. Some believe that many jobs will be eliminated. HR teams must think about

how to help redesign jobs as we all work in cooperation with computers in almost every role.

10. **People data everywhere: Bringing the outside in.** The explosion of external people data (data in social networks, recruiting networks, and talent networks) has created a new world of employee data outside the enterprise. It is now urgent and valuable for companies to learn to view, manage, and take advantage of this data for better recruiting, hiring, retention, and leadership development.

**Figure 4. Importance of challenges in different regions**

Trends	Global	AMERICAS		EUROPE, MIDDLE EAST, & AFRICA					ASIA PACIFIC		
		North America	Latin & South America	Africa	Central & Eastern Europe	Middle East	Nordic Countries	Western Europe	Southeast Asia	Asia	Oceania
Culture & engagement	78	76	84	83	76	75	74	76	80	72	78
Leadership	78	80	82	84	75	75	73	74	80	74	77
Learning & development	74	73	79	81	70	78	71	69	75	72	66
Reinventing HR	71	67	78	77	71	76	71	66	71	67	72
Workforce capability	70	72	72	78	67	74	64	67	79	67	71
Performance management	68	64	74	78	68	69	62	62	73	63	68
HR & people analytics	66	66	70	72	60	67	65	60	69	65	66
Simplification of work	63	59	66	69	65	61	64	60	65	62	60
Machines as talent	55	46	63	62	57	57	50	49	57	55	43
People data everywhere	50	45	54	55	47	49	45	46	50	53	45

No. 1      No. 2      No. 3      No. 4      No. 5

Note: Figures represent the importance index score for each challenge calculated on a 0–100 scale, as described in endnote 1. Rankings are based on actual scores when decimals are taken into consideration. Differences may not be statistically significant.

## Six key findings

As we analyzed the data and talked extensively with companies around the world about these issues, we uncovered six key findings that paint a high-level picture of how organizations are approaching talent and work.

### **"Softer" areas such as culture and engagement, leadership, and development have become urgent priorities.**

As the economy grows and skills become more specialized, the competition for talent has increased. This has driven culture and

engagement, leadership, and development to the top of the human capital agenda. These challenges consistently ranked as the top three most important issues across regions (figure 4) and industries (figure 5).

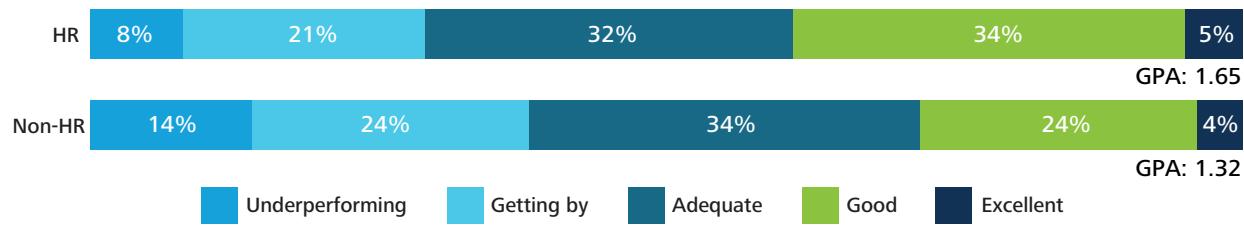
Especially notable in these results is the prominence of culture and engagement. While leadership has been the top issue in past years, this is the first time culture and engagement has been viewed as the most important challenge overall. In fact, the proportion of respondents citing culture and engagement as a "very important" issue almost doubled this year, from 26 percent to 50 percent. Almost two-thirds of our HR respondents are looking at ways to update or revamp their entire

**Figure 5. Importance of challenges in different industries**

Trends	Global	Consumer business	Energy & resources	Financial services	Life sciences & health care	Manufacturing	Professional services	Public sector	Technology, media, & telecommunications
Culture & engagement	78	81	76	81	79	75	78	75	77
Leadership	78	80	79	81	78	77	77	78	77
Learning & development	74	74	73	74	71	70	76	77	75
Reinventing HR	71	74	71	72	73	70	69	72	71
Workforce capability	70	69	72	70	74	68	72	68	73
Performance management	68	70	66	69	67	66	69	67	71
HR & people analytics	66	66	66	69	65	64	67	64	67
Simplification of work	63	64	60	64	63	62	64	64	63
Machines as talent	55	53	54	55	50	53	57	56	57
People data everywhere	50	49	49	50	50	48	50	48	52

No. 1    No. 2    No. 3    No. 4    No. 5

Note: Figures represent the importance index score for each challenge calculated on a 0–100 scale, as described in endnote 1. Rankings are based on actual scores when decimals are taken into consideration. Differences may not be statistically significant.

**Figure 6. HR performance rated by HR and non-HR leaders**

Graphic: Deloitte University Press | DUPress.com

strategy to measure, manage, and improve employee engagement.

Every program in HR must address issues of culture and engagement: how we lead, how we manage, how we develop, and how we inspire people. Without strong engagement and a positive, meaningful work environment, people will disengage and look elsewhere for work.

### **Leadership and learning have dramatically increased in importance, but the capability gap is widening.**

As the economy recovers, companies see an accelerating demand for leadership at all levels, especially among Millennials.<sup>8</sup> This may be one reason that the proportion of respondents rating leadership as “very important” rose by 32 percent over last year, and the capability gap is increasing. Yet, as noted above, improvements are not coming fast enough. Only 6 percent of companies feel fully ready to address their leadership issues, only 10 percent feel comfortable with their succession program, and only 7 percent have strong programs to build Millennial leaders.

Learning and development showed a similar pattern. On average, respondents’ ratings of the importance of this issue quadrupled this year over last year’s ratings.<sup>9</sup> Moreover, while this issue had the smallest capability gap last year at -9, this year, the gap widened significantly to -28. This result suggests that, while technical and professional skills are a top priority, corporate training departments have fallen behind. Companies are struggling to redesign the training environment,

incorporate new learning technologies, and utilize the incredible array of digital learning tools now available.

### **HR organizations and HR skills are not keeping up with business needs.**

As previously noted, compared with last year, the capability gap for virtually every talent issue increased in magnitude (figure 3). Meanwhile, business leaders and HR respondents themselves continue to give HR borderline failure/barely passing grades. At a time when talent is indisputably a CEO-level issue, this should be setting off alarms in every HR organization.

HR organizations rated their teams the equivalent of a C-minus (an average of 1.65 on a five-point scale), showing almost no improvement over last year’s ratings. When we asked business leaders to rate HR, the score was even lower. Business leaders rated HR a D-plus (an average of 1.32 on a five-point scale), indicating their increased expectations.<sup>10</sup>

Given these poor grades, it is not surprising that only 5 percent of the HR leaders surveyed this year believe their organization’s talent and HR programs are “excellent” and only 34 percent rate them as “good” (figure 6). The rest—about 61 percent, or nearly two out of three—believe their HR solutions are barely adequate or falling behind. And HR’s self-assessment of its skills has hardly budged over the last two years. The upshot: As business is growing and changing exponentially, HR is improving at a much slower pace.

The silver lining is that while the average HR scorecard has barely improved in the past year, organizations whose HR functions have made strides are reaping significant benefits across the spectrum of talent issues. Organizations whose HR teams rate themselves as “excellent” (5 percent) also far outperform their peers in every talent capability by between 40 and 60 percent, according to research.<sup>11</sup>

### **HR technology systems are a growing market, but their promise may be largely unfulfilled.**

HR's self-assessed lag is taking place amid a steady increase in HR investment. HR spending grew by 4 percent in 2014 over 2013, with much of this growth dedicated to technology.<sup>12</sup> Further, according to this year's research, nearly 6 in 10 companies are planning to increase HR spending in the next 12–18 months (figure 7).

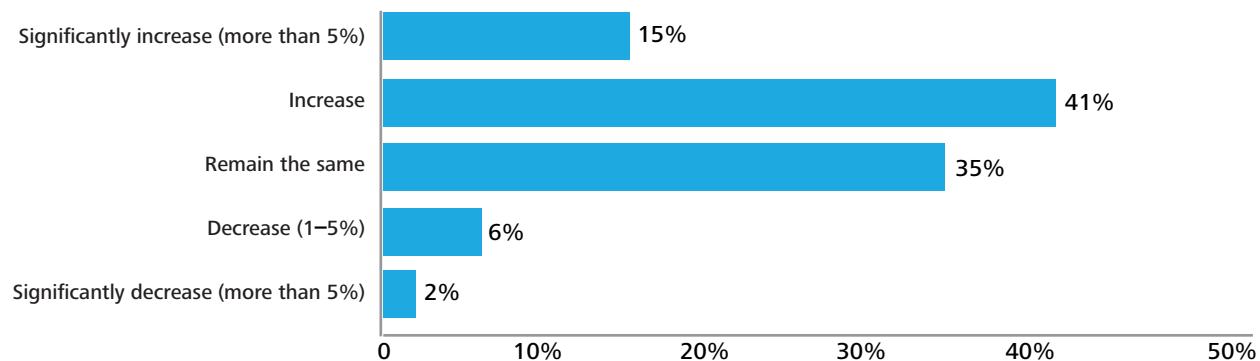
Why is this money not resulting in improved outcomes? The widening capability gaps in areas such as learning and development, engagement and culture, and leadership, coupled with Deloitte's client experience with HR technology, suggests that the heavy increased spending on technology has not been accompanied by similar investments in process and people. HR technology investments are critical—and the market for these

solutions has grown by 50 percent into a \$10 billion industry in the last five years.<sup>13</sup> But when it comes to critical issues like learning, engagement, and the work environment, HR organizations have not transformed fast enough. Implementing new tools without redesigning processes and retraining HR does not solve talent problems. The lesson is not to stop spending on technology, but to make sure complementary investments are made in programs that redesign processes, develop new learning content and programs, and train both leaders and the HR team.

### **Talent and people analytics are a high priority and a tremendous opportunity, but progress is slow.**

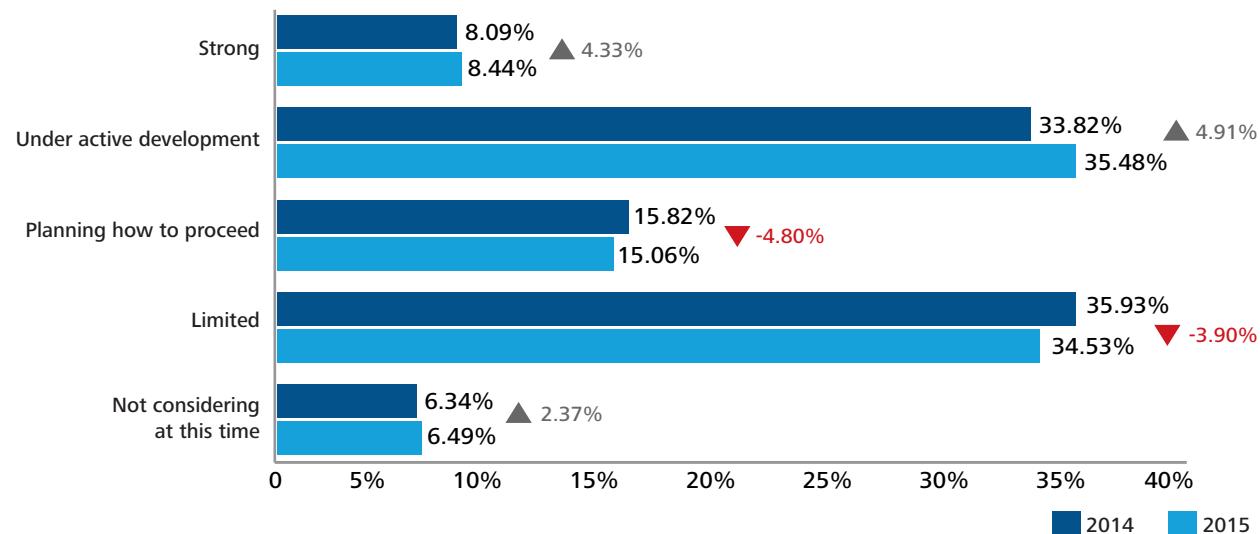
Analytics is on the agenda of almost every HR team we surveyed, with three in four respondents rating it as “important” or “very important.” But despite this interest, our research shows only a small improvement in analytics capabilities. Thirty-five percent of this year's respondents reported that HR analytics was “under active development” at their organizations—just slightly more than the proportion of respondents who said the same last year (33 percent) (figure 8). And this year, only 8.44 percent of the respondents surveyed believe their organizations have a strong HR analytics team in place, a very slightly higher percentage than last year's figure. These findings suggest

**Figure 7. Plans to invest in HR over next 12–18 months**



Note: Percentages may not total 100 percent due to rounding.

Graphic: Deloitte University Press | DUPress.com

**Figure 8. Current state of HR analytics capabilities, 2014 and 2015**

Excludes respondents who answered "not applicable." Percentages are displayed to two decimal places to show the differences between the 2014 and 2015 results.

Graphic: Deloitte University Press | DUPress.com

that new vendor tools have hit the market, but teams are still not fully enabled, trained, or organized to succeed.

The role of outside data is now integral to an HR analytics solution. Data from social networks and external job sites is vital to understanding retention, engagement, and employee career needs. In fact, some executives have found that external people data is more accurate and useful than data inside the company. How can companies make sense of this sea of data, much of which is out of their control? More importantly, how can organizations transform this data into a strategic advantage on the talent front?

We see people analytics as an accelerating trend—part of a new set of critical skills for HR, business, and leadership. Companies that take the time and make the investment to build people analytics capabilities will likely outperform their competitors significantly in the coming years.

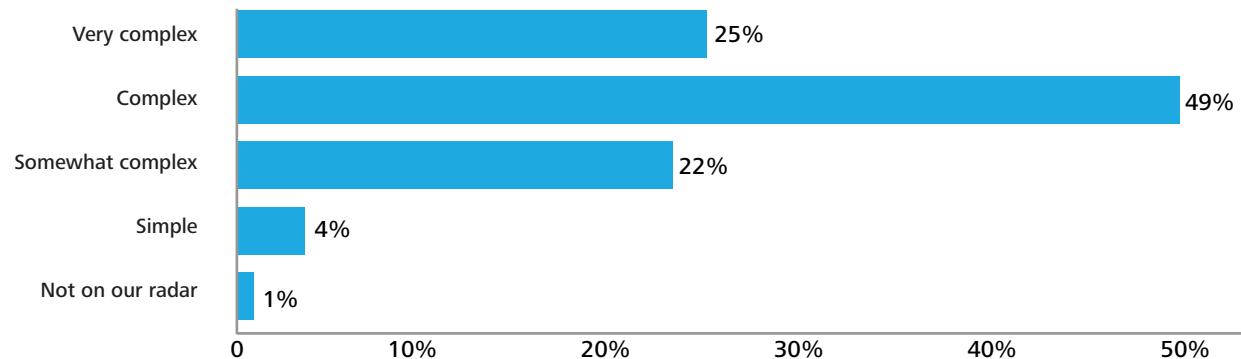
### **Simplification is an emerging theme; HR is part of the problem.**

Last year, many executives were surprised to see the “overwhelmed employee” emerge

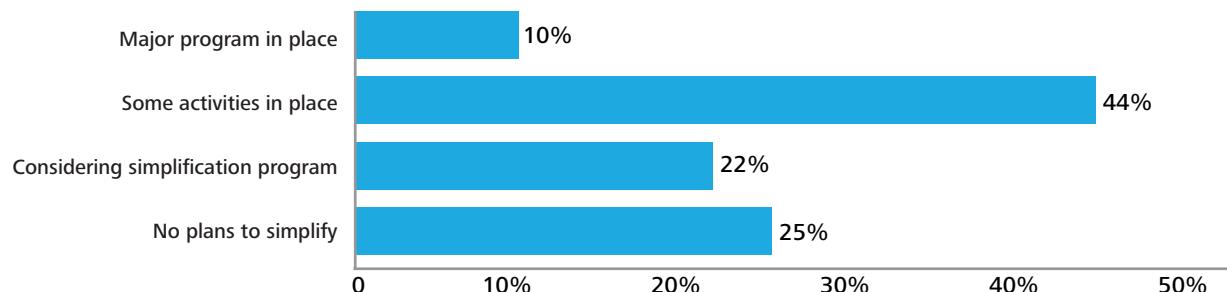
as a significant problem around the world. This year, we decided to dig deeper by assessing how companies are dealing with this issue. What emerged was what we perceive as a potential revolution in the way companies organize and operate, all built around the imperative to radically simplify work environments, practices, and processes.

In this year's survey, 71 percent of companies rated work simplification as an “important” or “very important” issue, and 74 percent believe their work environment is “very complex” or “complex” (figure 9). More than half have programs to simplify work to drive productivity gains and relieve unnecessary and counterproductive pressures on employees (figure 10). Some HR organizations themselves are working to simplify some of their procedures: Companies are starting to phase out traditional performance management processes, notorious for their burdensome nature, in favor of more streamlined approaches.

We believe that this is just the beginning of a major movement to apply innovative approaches and techniques like “design thinking” to simplify and rationalize the workplace of the 21st century.

**Figure 9. Current state of complexity of the work environment and business practices**

Graphic: Deloitte University Press | DUPress.com

**Figure 10. Do respondents have programs in place to simplify work practices?**

Graphic: Deloitte University Press | DUPress.com

## A new playbook for new times

Growth, volatility, change, and disruptive technology drive companies to shift their underlying business model. It is time for HR to address this disruption, transforming itself from a transaction-execution function into a valued consultant that brings innovative solutions to business leaders at all levels.

Unless HR embraces this transformation, it will struggle to solve problems at the pace the business demands. Today's challenges require a new playbook—one that makes HR more agile, forward thinking, and bolder in its solutions.

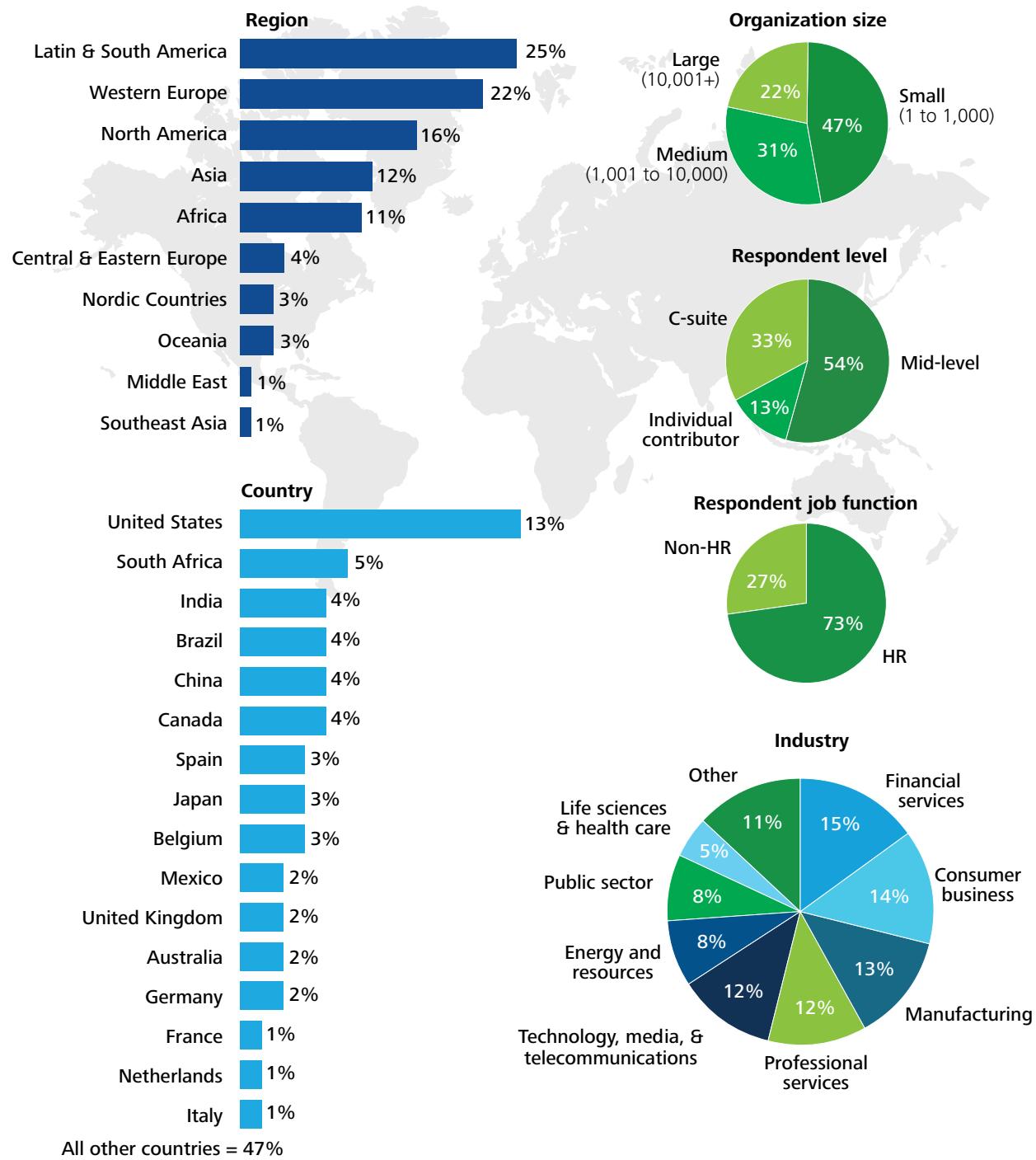
Our goal in this research is to give business and HR leaders fresh insights and perspectives to shape thinking about priorities for 2015. In a growing, changing economy, business challenges abound. Yet few can be addressed successfully without new approaches to solving the people challenges that accompany them—challenges that have only grown in importance and complexity.

Our advice is simple: Jump into the fray with enthusiasm. Seize ownership of these challenges and show leadership in addressing them. Make 2015 a year of bold leadership in helping your organization thrive in this *new world of work*.

# Appendix: Survey demographics

**Figure 11. Survey demographics**

Our survey includes data from 3,333 respondents.



Note: Figures may not total 100 percent due to rounding.

Graphic: Deloitte University Press | DUPress.com

# Endnotes

1. We asked respondents to rate each issue's "importance" and their organization's "readiness" to address it on a four-point scale: "not important/ready," "somewhat important/ready," "important/ready," and "very important/ready." These ratings were then indexed on a 0–100 scale in which 0 represents the lowest possible degree of importance/readiness ("not important/ready"), and 100 represents the highest possible degree of importance/readiness ("very important/ready"). An overall index score was calculated for each trend using the respondents' ratings of "importance" and "readiness." The index scores were also used to calculate the "capability gap" described in the following endnote.
2. The Deloitte Human Capital Capability Gap is a research-based score that shows HR's relative capability gap by looking at the difference between the "readiness" and "importance" index scores for each trend. It is computed by taking the "readiness" index score and subtracting the "importance" index score based on the 0–100 scale described in the previous endnote. For example, a trend with a readiness index score of 50 and an importance index score of 80 would produce a capability gap of -30. Negative values suggest a shortfall in capability, while positive values suggest a capability surplus.
3. Using the normalized scores described in endnote 1.
4. According to its importance index score calculated as described in endnote 1.
5. According to its importance index score calculated as described in endnote 1.
6. According to its importance index score calculated as described in endnote 1.
7. According to its importance index score calculated as described in endnote 1.
8. According to the 2015 Deloitte Millennial Survey, Millennials' expectations are different from those of older leaders. Millennials place a much higher priority on corporate purpose (77 percent believe "purpose" is their No. 1 reason for selecting an employer) and on employee wellness than older leaders. At the same time, they feel left out of the leadership pipeline: Only one-third believe their organization makes "full use" of their skills. Forty-three percent believe they will need to exit their current employer to find the opportunities they need. Deloitte, "Mind the gaps: The Deloitte Millennial survey 2015," 2015, <http://www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialsurvey.html>.
9. According to its importance index score across all respondents in each of the *Global Human Capital Trends* 2014 and 2015 surveys.
10. The GPA is the weighted average score of responses for excellent (4), good (3), adequate (2), getting by (1), and underperforming (0). The percentage values for organizations rating themselves as underperforming and getting by is calculated with a negative value that helps us determine the overall GPA. The letter grade is assigned as follows: A = 4, B = 3, C = 2, D = 1, E = 0.
11. David Mallon, Karen Shellenback, Josh Bersin, and Brenda Kowske, PhD, *High-impact HR: Building organizational performance from the ground up*, Bersin by Deloitte, July 2014, <http://www.bersin.com/library>.
12. Karen O' Leonard and Jennifer Krider, *HR Factbook 2015: Benchmarks and trends for US HR organizations*, Bersin by Deloitte, January 14, 2015, <http://www.bersin.com/Practice/Detail.aspx?id=18200>.
13. Katherine Jones, PhD, *The market for talent management systems 2014: Talent optimization for the global workforce*, Bersin by Deloitte, June 2014, <http://www.bersin.com/library>.

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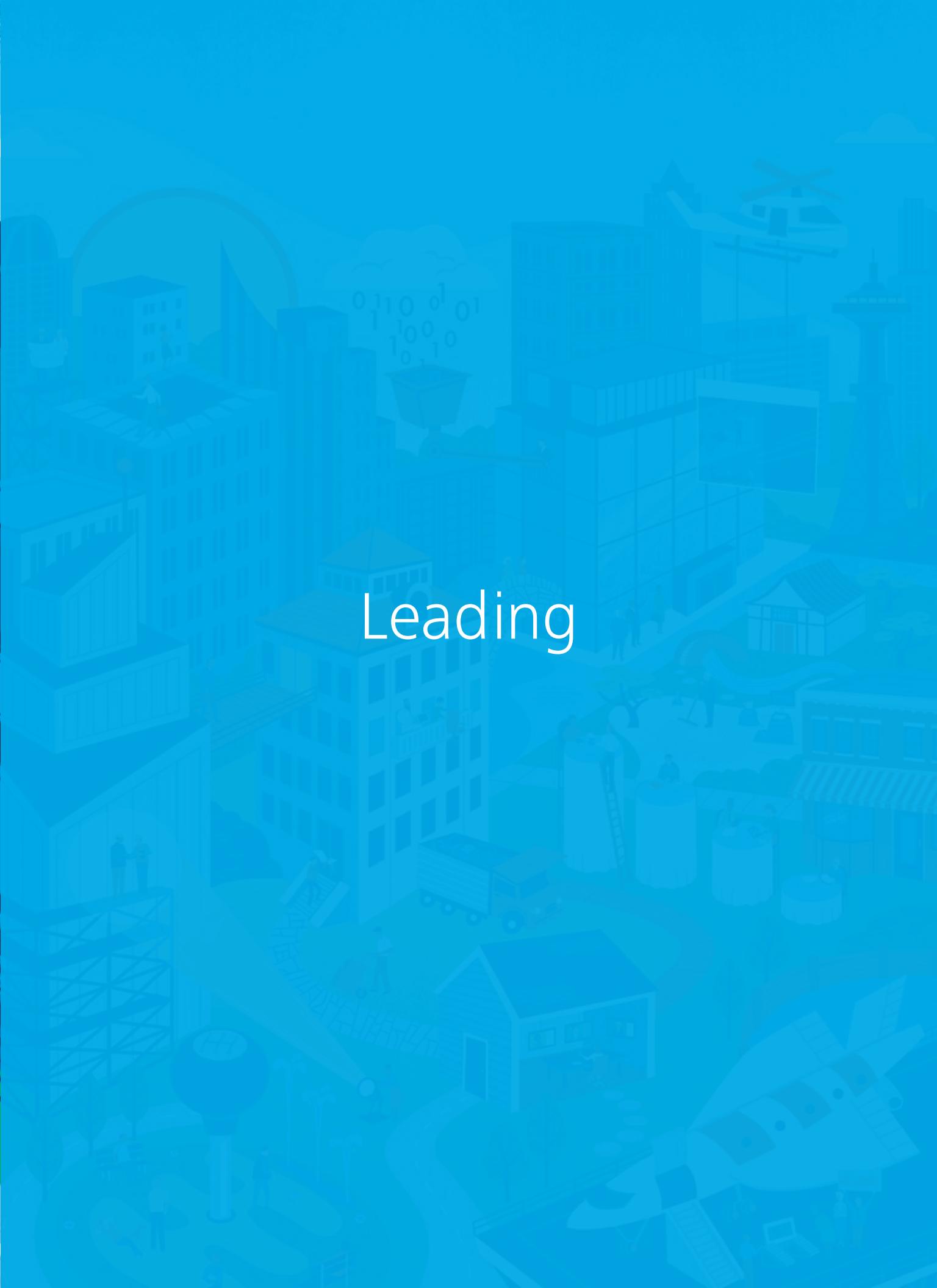
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Leading



# Leadership: Why a perennial issue?

- Organizations around the world are struggling to strengthen their leadership pipelines, yet over the past year businesses fell further behind, particularly in their ability to develop Millennial leaders.
- Eighty-six percent of all surveyed HR and business leaders cite leadership as one of their most important challenges.
- A focus on leadership at all levels, coupled with consistent year-over-year spending in this area, is key to building sustainable performance and engaging employees in the new world of work.

**W**HY is leadership a perennial issue? For the third year in a row, leadership soared to become one of the most pressing talent challenges faced by global organizations. Nearly 9 out of 10 global HR and business leaders (86 percent) cited leadership as a top issue. Fully 50 percent of respondents in our survey rated their leadership shortfalls as “very important.” Yet only 6 percent of organizations believe their leadership pipeline is “very ready”—pointing to a staggering capability gap. (See figure 1 for capability gaps across regions and selected countries). Respondents overall capability gap in leadership, which has grown in magnitude since last year (figure 2),<sup>1</sup> is striking, considering that leadership program spending has increased compared to last year.<sup>2</sup>

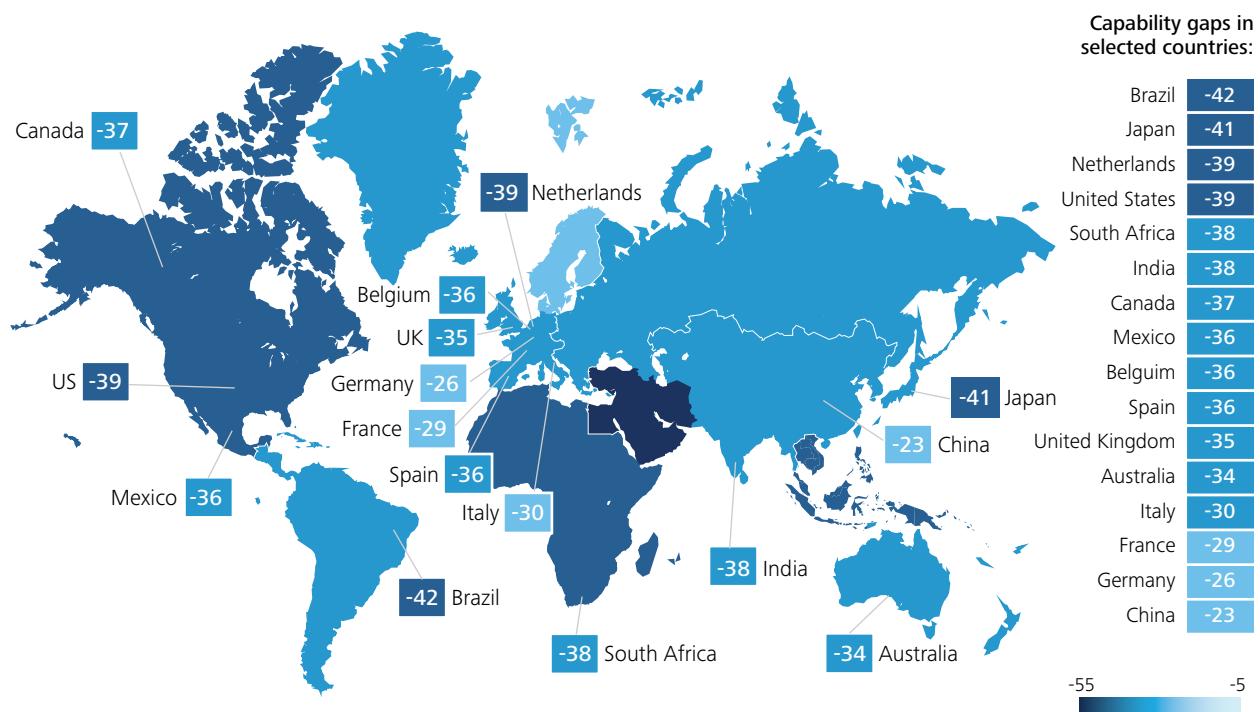
If nearly every company recognizes leadership as a critical talent problem, why are so few companies making any progress in addressing it?

The short answer is that many companies treat leadership sporadically, confining development to a select few employees, failing to make long-term investments in leadership, and neglecting to build a robust leadership

pipeline at all levels. For all the talk about leadership as a CEO-level priority, too many companies do not consistently invest in this area. Issues that hold back effective leadership development include:

- **Leadership for the few, not the many:** At the top of the corporate pyramid, fewer than 50 percent of C-suite executives feel they are receiving any development at all.<sup>3</sup> Meanwhile, lower down in the organization, just 6 percent of survey respondents report they have “excellent” programs in place to develop Millennials. This is despite the fact that 53 percent of Millennials aspire to become the leader or senior executive of their own organization.<sup>4</sup>
- **Lack of consistent investment:** Many organizations view leadership as a short-term training program or series of episodic events that are funded one year but not the next. Companies that “get it” (GE, for example) invest in developing leaders during good times and bad rather than treating it as a luxury they can only afford in strong years. In fact, research shows that

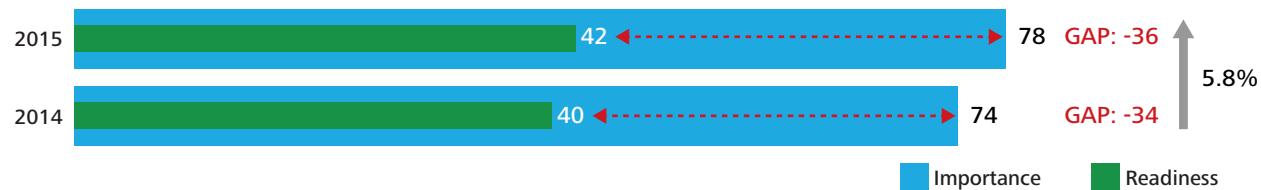
**Figure 1. Leadership: Capability gap by region**



The Deloitte Human Capital Capability Gap is a research-based score that shows HR's relative capability gap by looking at the difference between respondents' average "readiness" and "importance" ratings for each trend, indexed on a 0–100 scale. It is computed by taking the "readiness" index score and subtracting the "importance" index score. For example, a trend with a readiness index score of 50 and an importance index score of 80 would produce a capability gap of -30. Negative values suggest a shortfall in capability, while positive values suggest a capability surplus.

Graphic: Deloitte University Press | DUPress.com

**Figure 2. Change in leadership capability gap between 2014 and 2015**



The percentage change figure and up arrow denote an increase in the magnitude of the capability gap.

Graphic: Deloitte University Press | DUPress.com

high-performing companies spend 1.5 to 2 times more on leadership than other companies, and reap results that are triple or quadruple the levels of their competitors.<sup>5</sup>

- **A weak leadership pipeline:** Unless developing leadership is treated as an ongoing,

strategic initiative by HR and the business, leadership pipelines will be weak and potentially impact the ability of the business to deliver on its strategy. Recent research shows that only 32 percent of organizations have a steady supply of leaders at the top levels, while only 18 percent regularly

hold their leaders accountable to identify and develop successors.<sup>6</sup> Only 10 percent of respondents to this year's survey believe they have an "excellent" succession program, and 51 percent state that their programs are weak or have none at all.

Faced with these challenges, organizations often believe they can simply "buy" a solution to develop leaders. Off-the-shelf leadership development solutions are fragmented and of inconsistent quality. With so many models and approaches—from large firms to business schools to boutiques—it is hard for many companies to architect the tailored yet integrated experiences they need.

Despite these challenges, new data-driven tools offer innovative approaches to help accelerate leadership by better assessing leadership qualities, understanding career patterns of successful leaders, and learning what development works best. For example, companies can now look at talent movement data and use people analytics to see which job experiences and backgrounds produce the best leaders. They can then target training that best prepares leaders to learn from this experience, and use assessment tools to measure capability uplift and readiness for the next level.

As the global economy gathers momentum, companies need to seize this opportunity to transform their leadership development programs from a perennial question mark to a source of strategic strength.

## Lessons from the front lines

In late 2012, T-Mobile was on the edge. In addition to having experienced the turmoil of an unconsummated merger with AT&T in 2011, the company had difficulty differentiating itself in a hyper-competitive sector and competing at scale against much larger competitors. While profitable, it was losing customers at an alarming rate. It also had a great, collaborative culture, but was not able to capitalize on its key strengths to disrupt the status quo.

**With so many models and approaches—from large firms to business schools to boutiques—it is hard for many companies to architect the tailored yet integrated experiences they need.**

John Legere, T-Mobile's new CEO, had decided to shake up the industry. Starting in early 2013, Legere and the senior leadership team rapidly introduced their "Un-carrier" strategy in a series of bold moves that created first-mover advantage and took the industry by surprise. This series of quickly unfolding events, which continued throughout 2014, put in motion a transformation not only in the industry, but also within the company. By definition, things needed to change on the inside if they were to change outside.

One element of this internal transformation was to rethink the way the company's people were managed. "The combined HR leadership team knew we needed to look hard at all our people practices, so we started with a fresh sheet of paper and a focus on next practices, not best practices," said Ben Bratt, VP HR and head of talent and organization capability. "We knew that our managers had to embody Un-carrier in everything they did, but we had little to offer them on their journey to a new set of leadership capabilities. And we didn't want to recreate the past. We wanted to build toward the future."

T-Mobile decided early on to recreate a significant focus on first- and second-line leadership, and to radically rethink mothballed high-potential efforts. "Sometimes, you have to pause to go fast," said Melissa Davis, director of leadership and organization development. "We focused on a six-week 'dash' to get crystal clear on the new capabilities needed, and we rapidly

developed a new framework and strategy that drove toward core elements like customers, goal setting, coaching, development, and engagement. These capabilities are now the underpinning of all leadership development.”

To help shape the new, empowering culture in a way reflective of the Un-carrier spirit, T-Mobile embarked on a series of leadership investments, including:

- A high-potential program aimed at getting directors ready for VP roles
- A “dead simple” 360-feedback tool that aligned with the new leadership framework, with real-time support for selected directors to take action on the feedback
- A new, high-octane two-day “manager mastery” program for frontline managers

“We are taking a new approach to developing our 4,500 first- and second-line leaders,” said Bratt. “These leaders and their teams touch more than 1.5 million customers each



year, so we need them to inspire their teams to produce great results and deliver world-class customer service at each ‘moment of truth.’ By focusing on leadership at all levels, we know we can continuously transform the teams that work with our customers, delivering the industry’s leading service, support, and quality care with the Un-carrier spirit.”

This “clean sheet of paper” approach to leadership development and the emerging momentum in the talent development space has dovetailed with similar redesign efforts across all HR groups. From paring down and overhauling approaches to performance management, to creating radical transparency in the hiring process, to giving employees an “always on” voice that managers can immediately mine for valuable insights, T-Mobile is equipping managers to lead the Un-carrier revolution.

## Where companies can start

- **Start with commitment to leadership development from the top:** Without CEO ownership, leadership development will likely never be a long-term commitment. Engage top executives to maintain a continuous investment in leadership development.
- **Answer the question: Leadership for what?** Begin a conversation about your top business priorities. Then, build a capability framework for selection, assessment, development, and succession that defines the leadership you need for today and tomorrow. Keep the model simple—it should be your “language for leadership” across the enterprise.
- **Develop inclusive leaders at all levels:** While many executives worry about top leadership, mid-level and first-level leaders actually operate the company and are the future strategic leaders of the organization. They also interact with customers every day. Capable and engaging managers and supervisors can drive performance, foster

engagement, and increase retention. This requires focusing on growing segments of leaders such as Millennials, global leaders, and women—and tailoring development to their unique needs and preferences.

- **Make talent development and succession a priority:** Reward leaders for developing successors and sharing talent. Without a process to seed and feed the pipeline with the best, most diverse talent, your leadership investments will not deliver value.
- **Develop or leverage a capability model:** Build a framework for assessment,

development, and coaching. New models are now available, but companies can benefit by keeping the model simple and focusing on implementing leadership models and programs.

- **Extend boundaries to create new leadership development opportunities:** Work with business partners, universities, non-governmental organizations, and other third-party organizations to create a range of new leadership experiences, including pro bono and community service projects.

## BOTTOM LINE

In today's competitive business environment and rapidly evolving world of work, organizations must continuously develop a robust portfolio of leaders who are ready to engage employees, push forward growth strategies, drive innovation, and work directly with customers. Companies that fail to invest continuously in the leaders of tomorrow may find themselves falling behind their competitors.

# Endnotes

1. We asked respondents to rate each issue's "importance" and their organization's "readiness" to address it on a four-point scale: "not important/ready," "somewhat important/ready," "important/ready," and "very important/ready." These ratings were then indexed on a 0–100 scale in which 0 represents the lowest possible degree of importance/readiness ("not important/ready"), and 100 represents the highest possible degree of importance/readiness ("very important/ready"). An overall index score was calculated for each trend using the respondents' ratings of "importance" and "readiness." The scores were also used to calculate the "capability gap," which is computed by taking a trend's "readiness" index score and subtracting its "importance" index score. For example, a trend with a readiness index score of 50 and an importance index score of 80 would produce a capability gap of -30.
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# Learning and development: Into the spotlight

- Companies see an urgent need to build skills and capabilities and are now focused on transforming their learning organizations and strategies.
- Learning and development issues exploded from the No. 8 to the No. 3 most important talent challenge in this year's study, with 85 percent of survey participants rating learning as a "very important" or "important" problem. Despite this demand, capabilities in learning dropped significantly; the gap between importance and readiness was more than three times worse in 2015 than in 2014.
- Companies that transform their learning and development organizations are not only able to accelerate skills development, but also can dramatically improve employee engagement and retention—one of the biggest challenges cited by this year's respondents.<sup>1</sup>

**T**HIS year, corporate learning and development (L&D) burst onto the scene as one of the most pressing business and talent issues facing our respondents.<sup>2</sup> Business and HR leaders report that corporate learning capabilities are waning (39 percent say the problem is "very important," more than three times last year's percentage), and companies are now competing heavily for new technical and professional skills. This research tells us that 2015 will be a critical year for targeted investment in learning.

In this year's *Global Human Capital Trends* survey, more than 8 out of 10 (85 percent) respondents cited learning as "important" or "very important"—up 21 percent from last year. Yet, in a troubling development, more companies than ever report they are unprepared to meet this challenge. The capability gap between the importance of the issue and the ability to respond grew in magnitude by an enormous 211 percent over the last 12 months (from -9 to -28).<sup>3</sup> (See figure 1 for capability

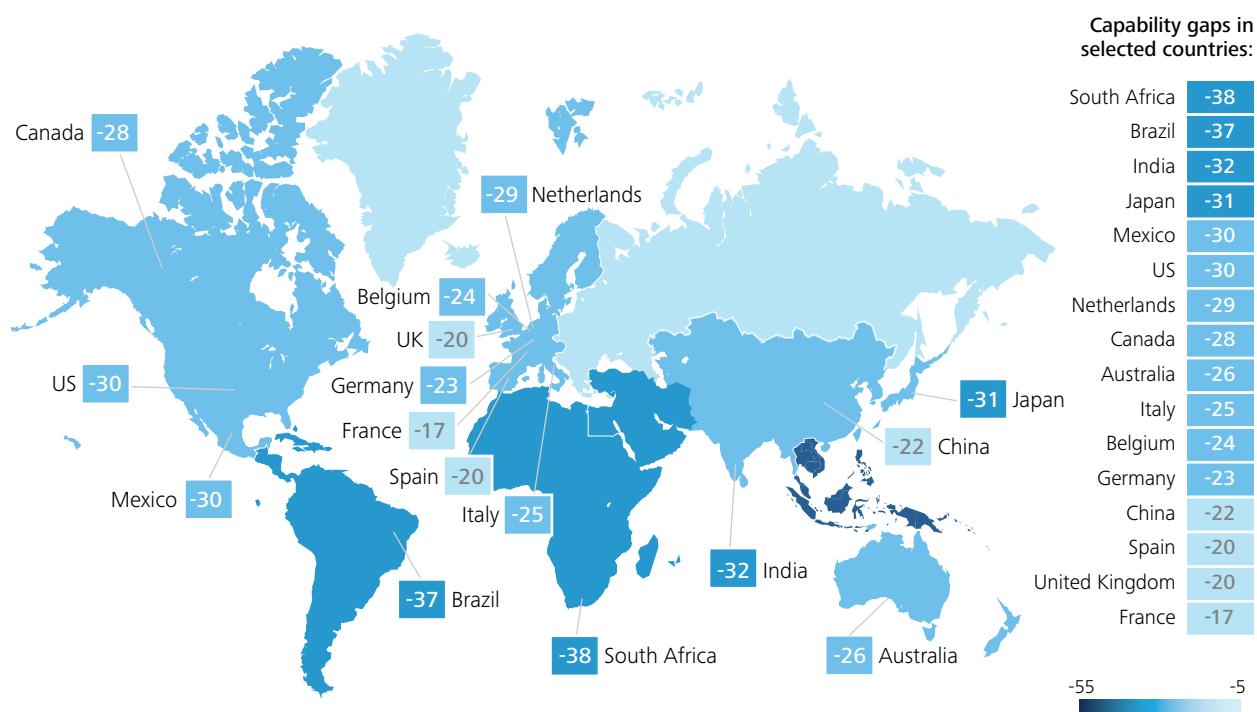
gaps across regions and selected countries, and figure 2 for year-over-year changes in the gap.)

Why the huge increase in need and growing gap in capability?

To start with, senior business leaders increasingly see shortages of skills as a major impediment to executing their business strategies. Only 28 percent of the respondents to this year's survey believe that they are "ready" or "very ready" in the area of workforce capability. As the economy improves and the market for high-skill talent tightens even further, companies are realizing they cannot simply recruit all the talent they need, but must develop it internally.

Faced with gaps in talent and skills, CEOs are turning to CHROs and CLOs to ask for more and better learning platforms and products. Just when the need is most urgent, HR organizations face a massive digital transformation in the learning and training industry, plus new expectations by employees for on-demand learning opportunities.

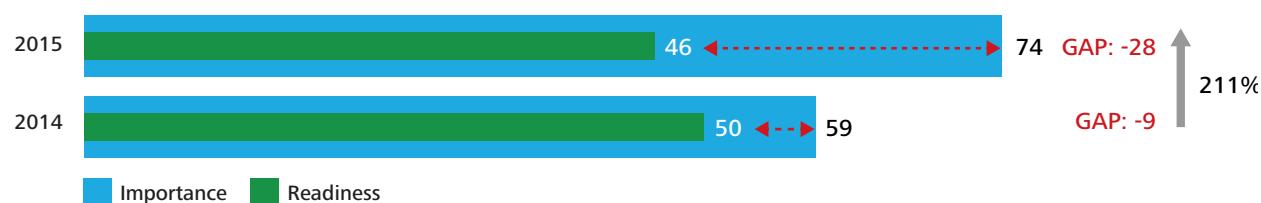
**Figure 1. Learning and development: Capability gap by region**



The Deloitte Human Capital Capability Gap is a research-based score that shows HR's relative capability gap by looking at the difference between respondents' average "readiness" and "importance" ratings for each trend, indexed on a 0–100 scale. It is computed by taking the "readiness" index score and subtracting the "importance" index score. For example, a trend with a readiness index score of 50 and an importance index score of 80 would produce a capability gap of -30. Negative values suggest a shortfall in capability, while positive values suggest a capability surplus.

Graphic: Deloitte University Press | DUPress.com

**Figure 2. Change in learning and development capability gap between 2014 and 2015**



The percentage change figure and up arrow denote an increase in the magnitude of the capability gap.

Graphic: Deloitte University Press | DUPress.com

The last three years have witnessed an explosion of new learning offerings, including MOOCs (more than 400 universities now offer free or low-cost courses), digital learning tools, video offerings, and new cloud-based training systems. These new learning platforms are easy to use, provide access to internal and

external content, and use analytics to recommend content in a manner similar to Netflix and Amazon.

Innovative and engaging learning solutions today are on-demand, fast to absorb, and available on mobile devices.<sup>4</sup> Yet, while employees now demand a personalized, digital

learning experience that feels like YouTube, many companies are stuck with decades-old learning management systems that amount to little more than a registration system or course catalog. Research shows that less than 25 percent of companies feel comfortable with today's digital learning environment.<sup>5</sup> This year's trends survey results support this: Only 6 percent of respondents rate themselves excellent at providing mobile learning, only 6 percent rate themselves excellent at incorporating MOOCs into their learning and development programs, and only 5 percent rate themselves excellent at using advanced media such as video, audio, and simulations—essential capabilities in a world dominated by digital learning platforms.

This may be starting to change, however. Many companies are starting to invest more heavily in learning and development to build the skills they need.

Last year, the learning and development market grew by 14 percent, while spending on leadership development grew at an even faster rate.<sup>6</sup> The learning technology market grew by 27 percent and is now a \$4 billion industry.<sup>7</sup> Last year, more than \$400 million was invested in fast-growing learning providers such as EdX, Khan Academy, Coursera, and Udemy, which have emerged as large marketplaces for online training, serving millions of users after only a few years of operation.<sup>8</sup>

But new technology is only one part of a learning transformation. Companies such as Philips are rationalizing their distributed learning teams, cutting down on duplicative content, and consolidating technologies to build an integrated, consistent learning environment.<sup>9</sup> MasterCard ties learning directly to

business strategies and has assigned product managers to help make sure learning is directly relevant to individual employees.<sup>10</sup>

And technology is no substitute for the expertise of a company's own people. Companies are also increasingly unleashing the power of their own experts. Google's Googler-to-Googler program is one good example of how companies promote a learning culture. Karen May, Google's head of people operations, says that giving employees teaching roles makes learning a natural part of the way employees work together, rather than something HR is making them do.<sup>11</sup>

Deckers Outdoor, a leading shoe manufacturer (the maker of Ugg footwear and other well-known brands), has redefined its learning strategy as a critical part of employee engagement, communications, and culture. Not only has Deckers revitalized its digital learning experience, but the company also considers all learning programs to be programs to engage people and drive the corporate culture. Each program includes an element of "why" and com-

municates purpose and meaning, not just content. This approach fits in with Deckers' culture of not merely "teaching people," but "inspiring people to learn."<sup>12</sup>

Deckers' head of L&D is also responsible for employee engagement, culture, and employee communications. Her team tells stories about learning successes and career growth; they give people artifacts to take to their desks to remind them to learn; and they focus on change management and communication as an integral part of the learning environment. The result is not only strong business results but also one of the lowest turnover rates in the industry.

## With a background in employee development, change, and leadership, the CLO of today wears many hats: chief capability officer, chief leadership officer, chief talent officer, and even chief culture officer.

Beyond filling skill and capability gaps, some companies are realizing other goals through learning and development transformation. TELUS, one of Canada's fastest-growing telecommunications companies, recently revitalized its learning platforms with improved technology, the assignment of "product managers for learning" within L&D, and the adoption of new contextual learning tools. Following these steps, employee retention improved by 30 percent.<sup>13</sup>

As companies begin the transformation process, chief learning officers are taking on critical business roles. With a background in employee development, change, and leadership, the CLO of today wears many hats: chief capability officer, chief leadership officer, chief talent officer, and even chief culture officer.<sup>14</sup>



## Lessons from the front lines

Nestlé recently completed a review of how learning could play a more strategic role in a world dominated by the need for innovation, agility, and social, mobile, and digital technology.

The company's CLO, Fausto Palumbo, presented a bold view that learning could be a strategic lever within the organization to change the way employees think and act. This led to a review of enterprise-wide leadership programs and the initiation of a pilot program with the mission of reimagining the learning experience for senior executives.

Instead of a lecture-based program, Nestlé developed a multifaceted experiential learning model that included a wide variety of activities:

- A multi-day, high-stress simulation around key leadership topics
- Reactions to real-time/simulated data from product-specific social and mobile feeds
- Product development by widely distributed design and development teams using digital technologies
- Prototype development of new products using digital printing

To ensure that learning was not an isolated event but rather integrated into daily work, the company set up a series of video and digital presentations before the live learning module was launched; it also built follow-up events.

Through this learning program, the next generation of senior leaders were rapidly introduced to a social and mobile world where agility and innovation are the disruptive norms. The pilot provided the foundation for how the company will use learning to drive its agenda in a digital world where social and mobile need to be part of every executive's toolkit. With the success of the pilot, the learning team is now moving quickly to reinvent other critical leadership programs.

## Where companies can start

- **Reimagine the learning experience:** This year is the time to reimagine and redesign your learning experience. Look at your learning management systems and content strategy, and expand your thinking to create an environment that attracts and encourages people to learn.
- **Assess your current learning offerings:** Analyze where your current L&D money is going. Research shows that most companies underestimate their spending by a factor of two to three, and many have uncoordinated and duplicative programs and tools throughout the company.<sup>15</sup> A project to find and rationalize learning spending often identifies areas to reengineer with little incremental investment.
- **Centralize spending and strategy while carefully distributing learning capabilities:** Great learning teams have a strong leader and spend money strategically, with centralized operations focused on technology, content, tools, and methods. They focus on technical, professional, and leadership programs across the company. They distribute programs locally, leveraging centralized infrastructure and common learning elements.
- **Assign a learning technology and design thinking team:** Companies need to redefine learning as an agile and routine experience. This often requires the assignment of a development team to build a new “learning architecture” as well as assigning people to be “product managers,” not just instructional designers.
- **Reimagine measurement:** The old measurement models no longer provide enough information. Look at measuring all types of activity, and capture data about learning like you do from outside customers. Monitor metrics such as activity and usage, feedback, and net promoter scores, as well as satisfaction and instructor ratings.
- **Elevate the job of chief learning officer:** In times like these the CLO plays a critical role. Elevate this position to attract experienced learning, technology, and HR leaders. The CLO must create a vision for the future, put in place a business and operating plan that scales, centralize strategy and architecture, and engage top leadership in building a learning culture.

### BOTTOM LINE

Learning today has become a business-critical priority for increasing skills, improving the leadership pipeline, and enhancing employee engagement. As the corporate learning market undergoes a digital transformation, this is the year to assess your current learning environment and implement a new vision to build a corporate learning experience that touches every employee in a significant way.

# Endnotes

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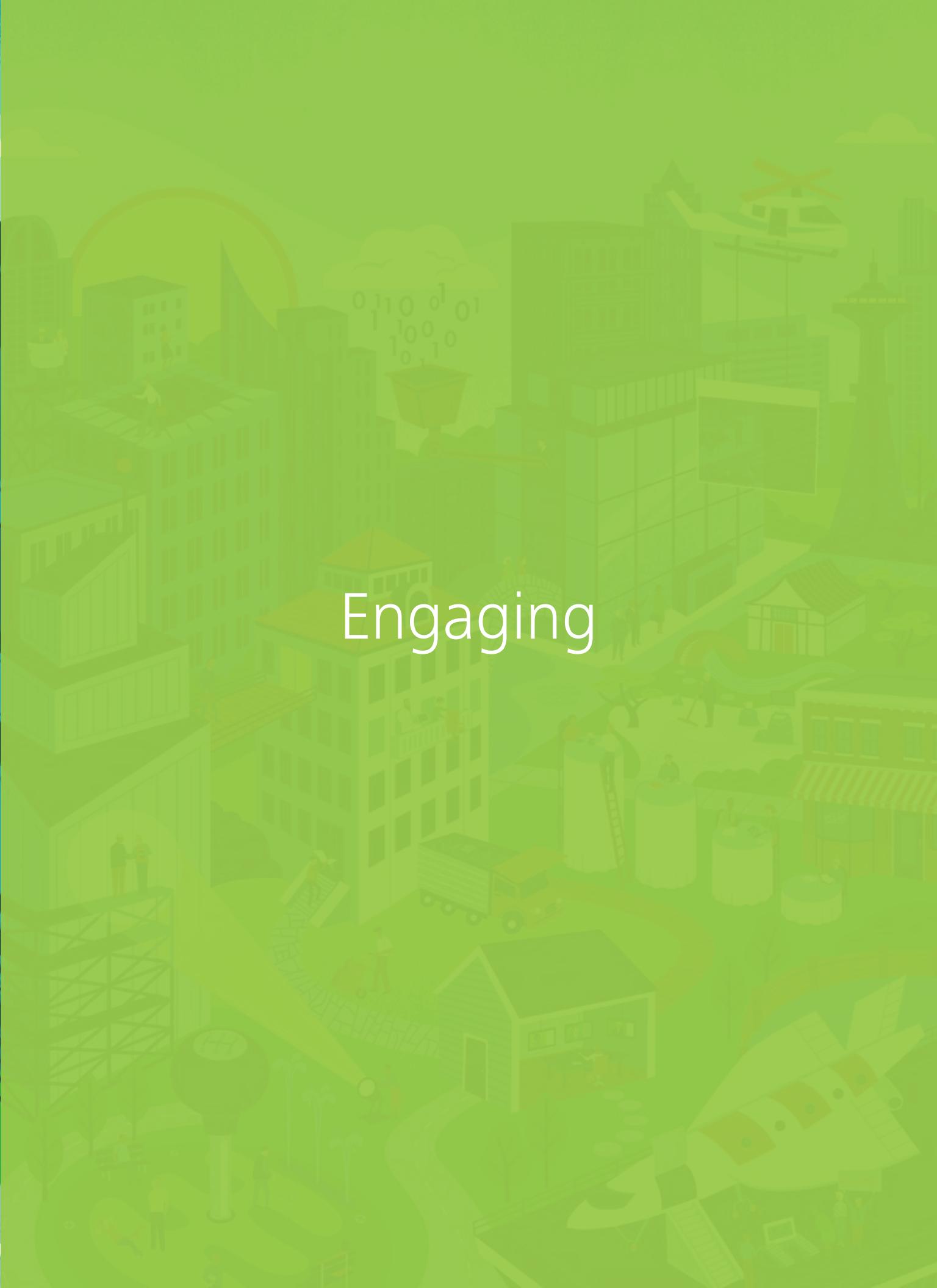
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# Engaging





# Culture and engagement: The naked organization

- In an era of heightened corporate transparency, greater workforce mobility, and severe skills shortages, culture, engagement, and retention have emerged as top issues for business leaders. These issues are not simply an HR problem.
- Culture and engagement is the most important issue companies face around the world. 87 percent of organizations cite culture and engagement as one of their top challenges, and 50 percent call the problem “very important.”
- Organizations that create a culture defined by meaningful work, deep employee engagement, job and organizational fit, and strong leadership are outperforming their peers and will likely beat their competition in attracting top talent.

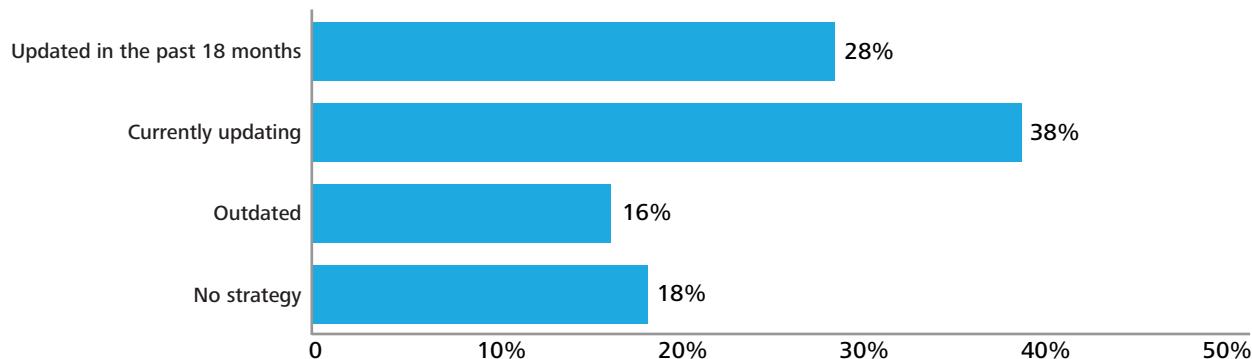
**TODAY'S** organizations live in the Glassdoor era. Every corporate decision is immediately publicly exposed and debated. Once-private issues are now posted online for every employee—and every potential employee—to read. An organization's culture—which can be loosely defined as “the way things work around here”—is increasingly visible for all the world to see.

Given the harsh spotlight of this new transparency, an organization's culture can become a key competitive advantage—or its Achilles' heel. Culture and engagement are now business

issues, not just topics for HR to debate. And there's no place for organizations to hide.

This year, employee engagement and culture issues exploded onto the scene, rising to become the No. 1 challenge around the world in our study.<sup>1</sup> An overwhelming 87 percent of respondents believe the issue is “important,” with 50 percent citing the problem as “very important”—double the proportion in last year's survey. Two-thirds (66 percent) of HR respondents reported that they are updating their engagement and retention strategies (figure 1). Along with decreasing readiness, our

**Figure 1. Status of retention and engagement strategy**



Note: Only HR respondents were asked this question.

Graphic: Deloitte University Press | DUPress.com

**Figure 2. Culture and engagement: Capability gap by region****Capability gaps by region:**

Americas			Europe, Middle East, and Africa						Asia-Pacific		
-29	-36	-25	-29	-31	-37	-34	-28	-32	-39		
North America	Latin & South America	Nordic countries	Western Europe	Central & Eastern Europe	Middle East	Africa	Asia	Oceania	Southeast Asia		

The Deloitte Human Capital Capability Gap is a research-based score that shows HR's relative capability gap by looking at the difference between respondents' average "readiness" and "importance" ratings for each trend, indexed on a 0–100 scale. It is computed by taking the "readiness" index score and subtracting the "importance" index score. For example, a trend with a readiness index score of 50 and an importance index score of 80 would produce a capability gap of -30. Negative values suggest a shortfall in capability, while positive values suggest a capability surplus.

Graphic: Deloitte University Press | DUPress.com

data also showed substantial capability gaps in engagement and culture across countries and regions (figure 2).

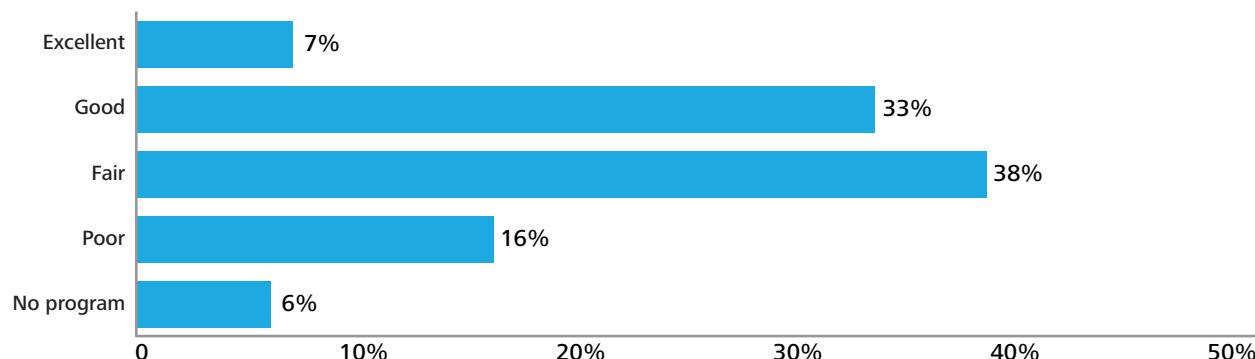
Research shows that in most companies, engagement is low. According to the Gallup polling firm, only 13 percent of the global workforce is "highly engaged."<sup>22</sup> Upwards of half the workforce would not recommend their employer to their peers.<sup>3</sup>

Despite this challenge, a substantial proportion of the respondents in this year's survey (22 percent) report that their organizations have either a poor program to measure and improve engagement, or no program at all. Only 7 percent rate themselves excellent at measuring, driving, and improving engagement and retention (figure 3). And only 12 percent believe

their organizations are excellent at effectively driving the desired culture.

This is a new and systemic problem for organizations worldwide. Why has it become so acute?

- **Employees are now like customers; companies have to consider them volunteers, not just workers:** As the job market has heated up and new technologies have exploded, power has shifted from the employer to the employee. Websites like Glassdoor, LinkedIn, Facebook, and others not only increase transparency about a company's workplace; they make it far easier for employees to learn about new job opportunities and gain intelligence about company cultures.

**Figure 3. Respondents' ratings of retention and engagement program capabilities**

Graphic: Deloitte University Press | DUPress.com

- **Leaders lack an understanding of and models for culture:** Culture is driven from the top down. Yet most executives cannot even define their organization's culture, much less figure out how to disseminate it through the company.
- **The new world of work changes the way we engage people:** The world of work is very different from and more complex than it was only a few years ago. Employees today work more hours and are nearly continuously connected to their jobs by pervasive mobile technologies. They work on demanding cross-functional teams that often bring new people together at a rapid rate. Flexibility, empowerment, development, and mobility all now play a big role in defining a company's culture.
- **Employees' motivations have changed:** Today's workers have a new focus on purpose, mission, and work-life integration.<sup>4</sup> Research shows that a variety of complex factors contribute to strong employee engagement, including job design, management, work environment, development, and leadership.<sup>5</sup> Today, more than twice as many employees are motivated by work passion than career ambition (12 percent vs. 5 percent), indicating a need for leadership to focus on making the work environment compelling and enjoyable for everyone.<sup>6</sup>

Culture and engagement is no longer an arcane topic owned by HR. It is now an imperative for every leader and every executive in the organization. Many studies now show that highly engaged companies can hire more easily, deliver stronger customer service, have the lowest voluntary turnover rates, and be more profitable over the long run.<sup>7</sup>

Google, a highly rated “best place to work” in many studies, focuses heavily on culture.<sup>8</sup> The company regularly measures dozens of factors to understand what makes people productive and happy. This research has shaped Google’s workplace culture in myriad ways—from the company’s open workplace design and unlimited vacation policy to the provision of free gourmet food and on-site laundry services for employees.

Although culture and engagement play such a critical role in business performance, most organizations do a poor job of measuring their achievements or shortcomings. Historically, companies have relied on annual engagement surveys, often costing hundreds of thousands of dollars and taking months to deploy. And very few companies have a process or tools to measure culture and learn where it is strong, weak, or inconsistent. At a time when corporate cultures are being continuously debated, shaped, and redefined on social networks, the once-a-year survey is perilously obsolete.

Fortunately, new tools are emerging to provide organizations with real-time sentiment and employee feedback. A new breed of

vendors offers pulse survey tools, employee sentiment management tools, culture assessment tools, and real-time employee monitoring tools to help leaders and supervisors rapidly assess when engagement is high and when problems are arising.<sup>9</sup> These new tools make it possible for organizations to monitor employee sentiment with the same level of rigor and speed as they measure customer sentiment.<sup>10</sup>

Ultimately, the issues of culture and engagement are driven by leadership. Companies pushing aggressive growth plans, experiencing financial stress, or going through layoffs or mergers often see a radical shift in culture. While most leaders are measured on the basis of business results, organizations must begin holding leaders accountable for building a strong and enduring culture, listening to feedback, and engaging and retaining their teams.

HR should also understand the impact of performance management, work-life balance, and flexibility on engagement. While management practices once pushed companies toward a highly competitive performance management process, in 2015, many companies are finding that pressure and competition often lead to high turnover and ultimately poorer business results.

## Lessons from the front lines

A series of events at one global financial services company not only fed a negative public perception of the company, but also generated a lack of trust internally. To turn the organization around, the company launched

a five-year transformation program, a key component of which was to build a sustainable, values-driven culture across the organization.

This cultural transformation had three key distinguishing principles that were critical to the program's success:

- “Leadership drives culture which in turn drives performance.” Company leaders should drive the change and be highly accountable
- Processes, policies, and systems should be congruent with the company’s new purpose and underpinning values
- The results should be measurable and reported both internally and externally, providing a highly visible yardstick of progress

To jump-start the transformation, HR introduced a series of leadership and development programs to support employees in being willing and able to live the new values.

There was an initial focus on informing, engaging, and empowering senior leaders and culture carriers to

promote the company’s new values, equipping them with the necessary insight, knowledge, and tools to drive the change. All processes, policies, and systems were then aligned with the new culture, with performance management, talent management, recognition, and learning all transformed to reflect the new values and behaviors. The company also deployed a cultural assessment tool to

While most leaders are measured on the basis of business results, organizations must begin holding leaders accountable for building a strong and enduring culture, listening to feedback, and engaging and retaining their teams.

understand and measure the conditions for successful transformation.

These activities had a strong and measurable business impact. The result: an improved public reputation; an aligned senior leadership group with culture at the top of their agenda; a growth in trust both internally and externally; and stronger employee engagement and commitment to the organization's new culture and values.

## Where companies can start

- **Engagement starts at the top:** Make engagement a corporate priority, and modernize the process of measuring and evaluating engagement throughout the company. Benchmark the company, strive for external recognition as validation of efforts, and reinforce to leadership that the engagement and retention of people is their No. 1 job.
- **Measure in real time:** Put in place real-time programs to evaluate and assess organizational culture, using models or tools to better understand where it is strong, where it is weak, and how it really feels to workers.
- **Make work meaningful:** Focus on leadership, coaching, and performance management to help employees make their work meaningful. Reinforce the importance of a coaching and feedback culture, and teach leaders how to be authentic and transparent.
- **Listen to the Millennials:** Their desires, needs, and values will shape the organization's culture over the next 10 years.
- **Simplify the work environment:** Read our research in this report on the [simplification of work](#) to help reduce the burden of today's 24/7 work environment.

### BOTTOM LINE

The old adage "culture eats strategy for breakfast" applies to every organization today. Business and HR executives must understand that highly engaged companies attract the best talent, have the lowest voluntary turnover rates, and are more profitable over the long run.<sup>11</sup> Companies should use 2015 as a time for change. By focusing on driving engagement through the right corporate culture, companies can improve execution, retention, and financial performance.

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1. We asked respondents to rate each issue's "importance" and their organization's "readiness" to address it on a four-point scale: "not important/ready," "somewhat important/ready," "important/ready," and "very important/ready." These ratings were then indexed on a 0–100 scale in which 0 represents the lowest possible degree of importance/readiness ("not important/ready"), and 100 represents the highest possible degree of importance/readiness ("very important/ready"). An overall index score was calculated for each trend using the respondents' ratings of "importance" and "readiness."
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# Workforce on demand: Are you ready?

- Companies are taking a more sophisticated approach to managing all aspects of their workforce, including the hourly, contingent, and contract workforce.
- More than one-third (34 percent) of all workers in the United States are contract workers,<sup>1</sup> and more than half (51 percent) of our respondents say their need for contingent workers will keep growing over the next three to five years.
- The on-demand workforce offers companies the ability to tap into extensive networks of innovators, technical experts, and seasoned professionals. To engage and retain them, companies should think broadly about how their HR programs, strategies, and analytics tools could be applied not only to full-time employees, but also to contingent and part-time workers.

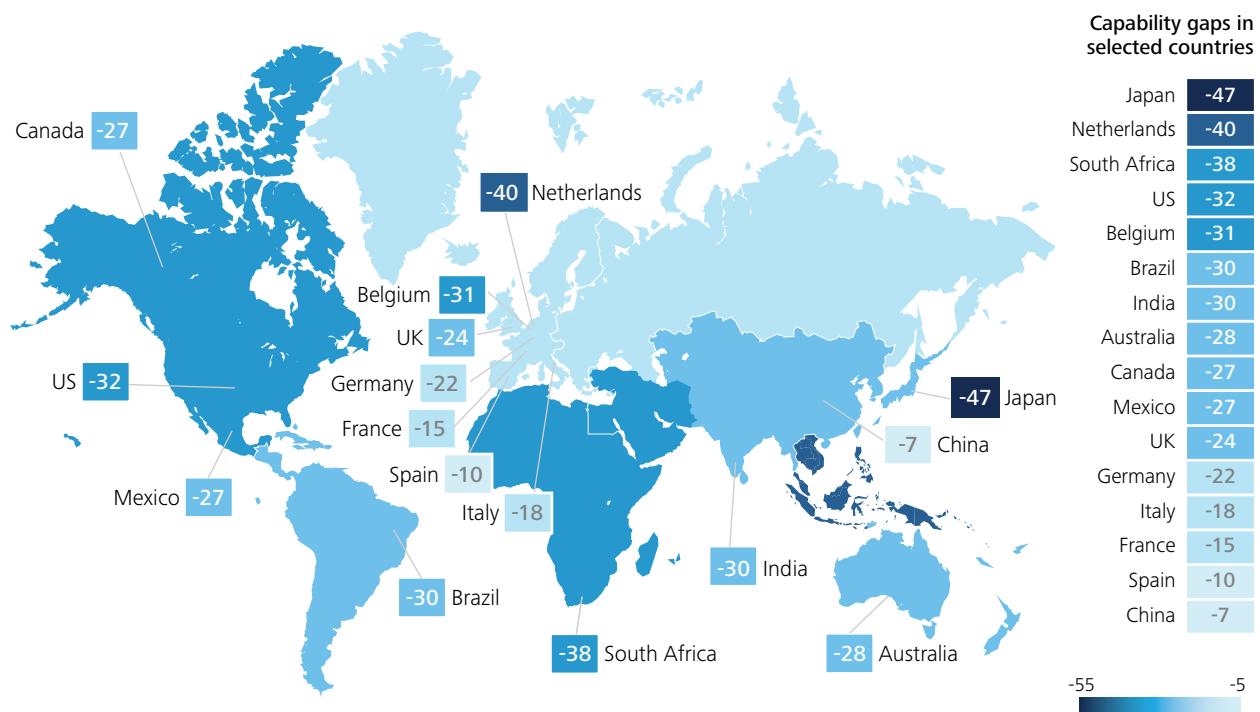
In our initial *Global Human Capital Trends* report in 2013, we described the rapidly emerging “open talent economy” and outlined how talent strategies were moving beyond traditional corporate and organizational balance sheets to tap into a broad range of external talent. This external talent market includes joint ventures and partners, contracted and outsourced employees, freelance workers, and competitions for ideas and solutions.

This year, the “on demand” and “on tap” talent markets continue to grow and to challenge companies’ ability to effectively manage their total workforce,<sup>2</sup> as companies expand their use of external talent sources to gain access to badly needed capabilities. In fact, in this year’s *Global Human Capital Trends* research, workforce capability was rated the fifth most important challenge.

Yet as the importance of workforce capability builds among corporate leaders—with the trend’s importance index climbing from 62 last year to 70 this year—organizations’ readiness to address it has slipped, with its readiness index dropping from 46 to 43.<sup>3</sup> And although workforce capability had only the eighth-largest capability gap overall, there was significant geographic variation, with particularly pronounced capability gaps being reported in Japan and South East Asia (figure 1).

**Today’s workforce is no longer a set of employees who come into the office or factory each morning or shift and go home each night.**

Today’s workforce is no longer a set of employees who come into the office or factory each morning or shift and go home each night. More and more of the workforce is composed of contingent employees working variable, often part-time hours or schedules, compensated hourly, operating remotely, or actually working for an external firm.

**Figure 1. Workforce capability: Capability gap by region**

The Deloitte Human Capital Capability Gap is a research-based score that shows HR's relative capability gap by looking at the difference between respondents' average "readiness" and "importance" ratings for each trend, indexed on a 0–100 scale. It is computed by taking the "readiness" index score and subtracting the "importance" index score. For example, a trend with a readiness index score of 50 and an importance index score of 80 would produce a capability gap of -30. Negative values suggest a shortfall in capability, while positive values suggest a capability surplus.

Graphic: Deloitte University Press | DUPress.com

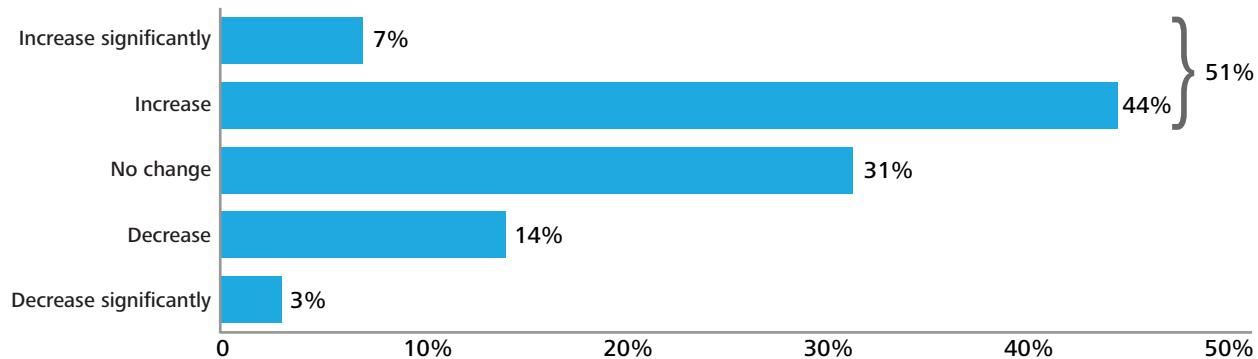
The challenges presented by the on-demand workforce are significant. But the trend itself seems irreversible, driven by the networked nature of work, the multigenerational workforce, a desire for more flexible working conditions, and the demands of business. Researchers estimate that as many as 30 to 40 percent of all US workers today are contingent.<sup>4</sup> In fact, just over half (51 percent) of respondents in our survey report that their need for contingent workers will continue to grow over the next three to five years (figure 2).

For years, roles such as delivery drivers, food service professionals, custodians, and other hourly positions have been outsourced to agencies. But today, roles that can be filled by contingent workers include IT professionals, engineers, computer programmers,

accountants, and those in other technical positions, which are commonly outsourced to contractors or staff augmentation firms. These workers are engaged as freelancers or temporary employees for a project.<sup>5</sup>

Typically, the need for such talent was considered to be a procurement problem, managed through vendor contracts and external staffing firms. Yet as these types of workers become more important, HR should now consider them an integral part of the workforce. It's time for HR to consider all workers in its talent strategy, regardless of their contingent or full-time status.

How can organizations best manage this new "freelance economy" of valued staff? Which elements of the talent management process should be applied to contingent

**Figure 2. Respondents' plans for usage of contingent workers over the next three to five years**

Note: Percentages may not total 100 percent due to rounding.

Graphic: Deloitte University Press | DUPress.com

workers—and why? Some of the biggest issues to consider include:

- **How do we recruit** from a highly diverse set of talent pools, including expert networks and specialists? Important HR practices include understanding the compensation and tax implications of contract workers' location and managing new rules such as the federal Affordable Care Act in the United States.
- **How do we manage** freelance and outsourced staff? Should we on-board, train, manage, set goals, and engage these workers like our full-time employees?
- **How do we administer and oversee** contingent workers, many of whom may be managed by procurement and not even included in HR systems? While leading HR systems vendors are adding hourly workforce management systems to their products, they have yet to integrate with external networks like Elance, Topcoder, Freelancer, and other contingent expert networks. These networks of experts are like employee pools that can now be included in the workforce.<sup>6</sup>
- **How should compensation be structured?** What is the implication of contingent or hourly workers earning more than salaried

workers? Should they get the same holidays or other benefits?

- **How can we engage contingent workers and integrate them into our culture?** Everyone in an organization impacts culture, engagement, and corporate brand. Organizations should include contingent workers in the development and management of workplace culture, making sure they are well engaged and represent the company well. Companies should consider including contractors in programs like on-boarding, development, and even performance management.
- **How should we measure contingent workers' performance?** Measuring the performance of contingent workers in a manner consistent with non-contingent workers is critical to avoid a dual class system. How can a company extend its performance management process to get a holistic view?

Companies are now beginning to realize that contract labor is often highly talented and should be managed strategically. New expert networks like Kaggle (an external network of data scientists who bid on analysis problems) and Innocentive (an online competitive marketplace where companies can post problems for innovators from all over the world to bid on and respond) make it easier for organizations

## The on-demand workforce brings many challenges to organizations as they look at ways to integrate each workforce segment, such as hourly, salary, contingent, contractor, and vendor staff, into a complex ecosystem.

to outsource problems to networks of experts without having to hire full-time staff. Netflix, Procter & Gamble, NASA, and GE are among the organizations that use such services to find innovators in the freelance economy.<sup>7</sup> In doing so, they are essentially tapping into a workforce of independent workers, whether as firms or individuals.

Companies are also successfully leveraging the contingent workforce to drive innovation and new ideas. More than half of Procter & Gamble's product initiatives involve significant collaboration with outside innovators. Through its Connect and Develop program, the company now has more than 1,000 agreements with external innovation partners. It uses crowdsourcing to get new ideas for hundreds of products. This external talent has helped P&G develop hundreds of successful offerings, such as Swiffer Dusters, the Crest SpinBrush, and Olay Regenerist.<sup>8</sup>

### Lessons from the front lines

The on-demand workforce brings many challenges to organizations as they look at ways to integrate each workforce segment, such as hourly, salary, contingent, contractor, and vendor staff, into a complex ecosystem. One area that has received a great deal of focused attention is the optimization of the hourly workforce.

For example, one of Florida's most comprehensive private, not-for-profit health care networks needed better insights into its labor utilization and budget. Serving nearly 2 million residents in central Florida annually, the company aimed to manage its limited resources more effectively through a better

understanding of its complete labor activity and associated costs.

In early 2013, this health care provider decided to tackle the problem by identifying opportunities to reduce any unintended extra spending on its workforce. During this assessment, the company examined its annual timecard data to quantify potential improvements and savings opportunities as well as operational improvements.

The result: an estimated savings range between \$700,000 and \$1.8 million that grew sharply to \$3.16 million once the analysis included more extensive data. Savings resulted from four dimensions of leading practices in workforce utilization: system design enhancement, process and management enforcement, benchmarking and analytics, and governance and accountability enrichment.

By implementing improvements in these areas, this employer has gained valuable line-item insights for aligning labor activity with budget objectives. The company has documented millions of dollars in savings opportunities from this initiative because it has enabled the company to have data-driven conversations about how best to utilize its workforce.

### Where companies can start

- **Proactively plan for a hybrid workforce that includes owned and on-demand employees:** Evaluate skill needs, including needs for technical, creative, and managerial skills, and analyze and explore how to create combinations of on-roll and on-demand talent to meet those needs. Don't be afraid to tap into expert networks rather than hire people outright.

- **Educate business and HR leaders on the range of on- and off-balance-sheet approaches to talent:** Many business and talent leaders are less than familiar with the rapid expansion of on-demand and off-balance-sheet global talent models and markets. HR leaders should take the lead and provide research, options, and information to business leaders on the full range of available on-demand and related talent markets.
- **Put in place integrated management and risk controls across the business, procurement, and HR teams:** On-demand and open talent economy models require new working relationships beyond traditional silos—across the business, the supply chain, and HR. Levels of training and on-boarding activities should match the type of contractor or employee (for instance, companies could offer less intensive on-boarding to temporary workers).
- **Extend your performance management and analytics efforts to on-demand talent:** What factors drive performance, continuity, strength of engagement, cost, and flexibility for different types of talent? With a growing portion of the workforce in new working arrangements, understanding how to develop, engage, and manage these employees will be critical if HR leaders are to optimize the entire employee base.
- **Develop HR and IT systems to support on-demand talent:** Many HR processes and systems are geared almost entirely to support full-time, on-payroll employees. HR professionals should evaluate how to modify and customize talent processes, including acquisition, assessment, development, compensation, benefits, and retention and career programs, to accommodate new categories of employees.
- **Assign ownership and governance of on-demand workforce management:** Ensure that lines of authority are clear, and define criteria for success in managing on-demand workers. Is it time for a director of extended workforce management or a dedicated workforce management office?

## BOTTOM LINE

The on-demand and extended workforce—contingent, part-time, remote, and contract workers—is now a critical part of virtually every company's talent pool. Managing this complex workforce effectively and with greater sophistication will require new, integrated relationships across HR and procurement as well as with business leaders.

Think broadly about the range of talent practices your organization uses for full-time, on-roll employees, and consider how they may be applied to other categories of the on-demand workforce. Programs to consider extending could include those around workplace culture, engagement, analytics, productivity tools, performance management, collaboration, and retention. In short, it is time for HR to take ownership and share the management responsibilities for on-demand workers—and not to leave it to the procurement department alone.

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# Performance management: The secret ingredient

- As companies struggle with leadership, engagement, and capability challenges, they are realizing that the performance management process affects all of these challenges.
- Change is underway: 89 percent of respondents recently changed their performance management process or plan to change it within 18 months.
- Innovative new performance management models are now becoming an imperative as businesses modernize and improve their talent solutions. Companies leading this transformation are redefining the way they set goals and evaluate performance, focusing heavily on coaching and feedback and looking for new technologies to make performance management easier.

**T**HE secret is out. Many organizations used to think of performance management as a backward-looking assessment program owned by HR. No longer. Performance management is being reinvented for a new, forward-looking purpose: to serve as an efficient, focused business process that improves employee engagement and drives business results.

Redesigned performance management processes may or may not include year-end ratings, but across the board, they tend to focus less on evaluation and

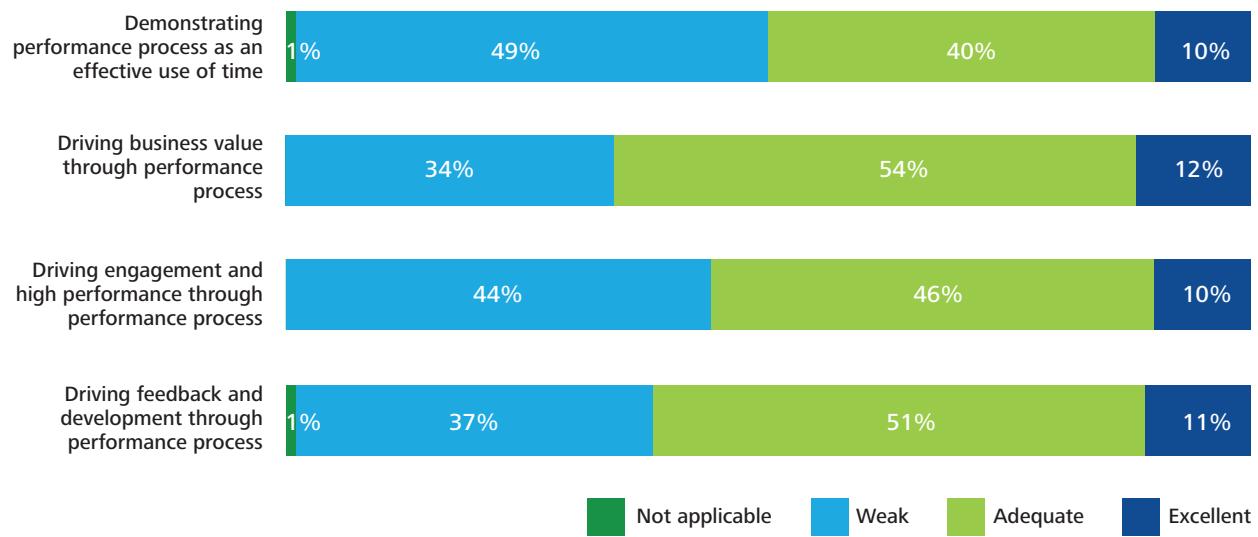
more on agile goal setting, regular feedback, coaching, and development. They shift the focus away from forced-distribution rankings and much more toward helping managers coach people to succeed. By changing this one HR “ingredient,” it is possible to affect many others.

**Our research indicates that the transformation of the aging performance management process is long overdue.**

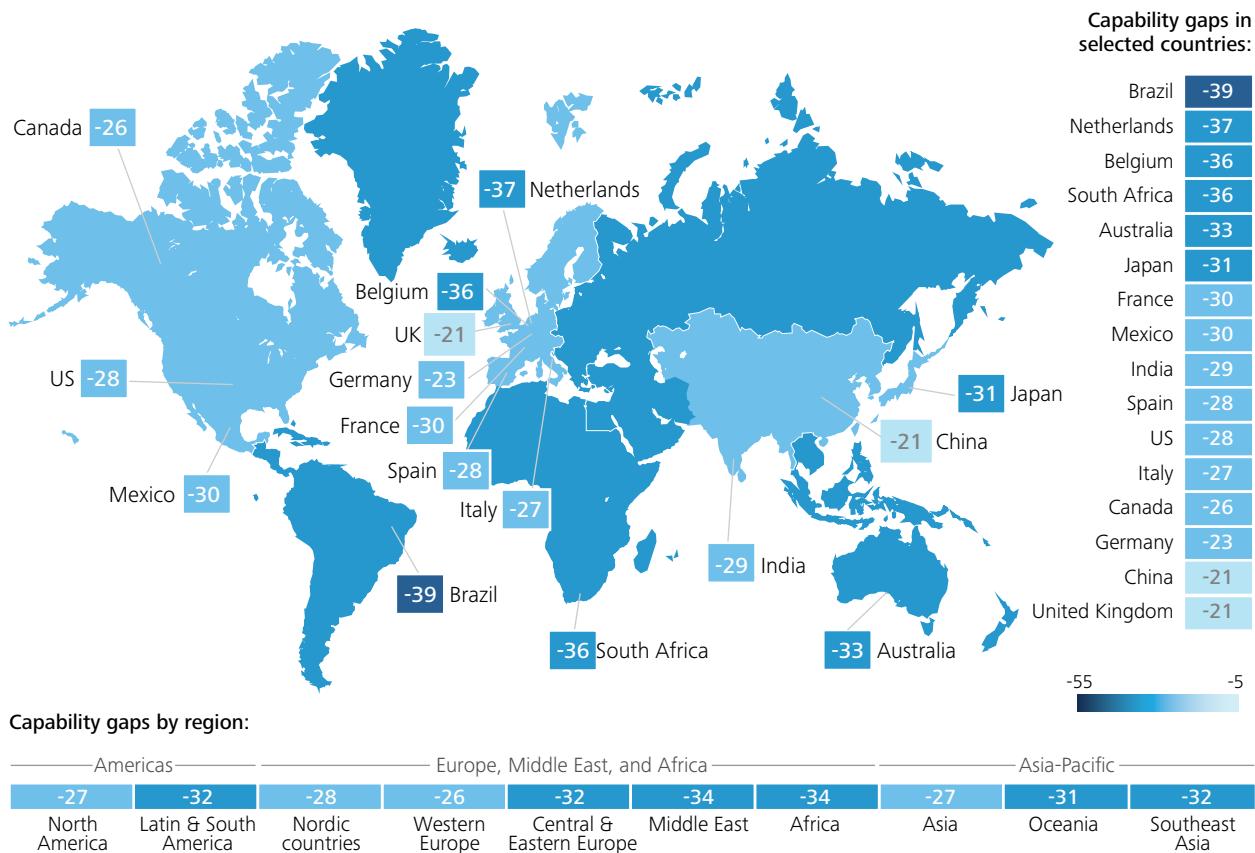
Our research indicates that the transformation of the aging performance management process is long overdue. Last year, only 8 percent of the HR respondents in our survey believed that their performance management process drove business value.<sup>1</sup> This year, the importance of performance management rose significantly, with 75 percent of respondents rating it an “important” or “very important” issue, up from 68 percent last year.

So far, however, the rising importance of revamping performance

management is just beginning to translate into a positive view of the process. Just 10 percent of survey respondents believe that performance management is a good use of time (slightly more than the 6 percent from last year), and just over half (56 percent) believe that it positively affects employee engagement and performance (figure 1). Moreover, the

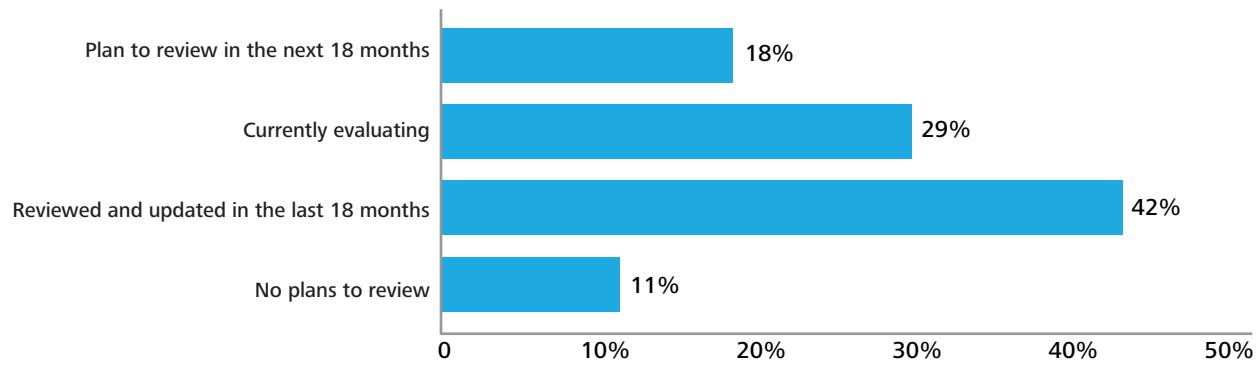
**Figure 1. Respondents' evaluation of their performance management processes**

Graphic: Deloitte University Press | DUPress.com

**Figure 2. Performance management: Capability gap by region**

The Deloitte Human Capital Capability Gap is a research-based score that shows HR's relative capability gap by looking at the difference between respondents' average "readiness" and "importance" ratings for each trend, indexed on a 0–100 scale. It is computed by taking the "readiness" index score and subtracting the "importance" index score. For example, a trend with a readiness index score of 50 and an importance index score of 80 would produce a capability gap of -30. Negative values suggest a shortfall in capability, while positive values suggest a capability surplus.

Graphic: Deloitte University Press | DUPress.com

**Figure 3. Respondents' plans for updating performance management systems**

Graphic: Deloitte University Press | DUPress.com

overall capability gap in performance management grew by almost one-third. (See figure 2 for capability gaps across regions and selected countries.)

Our survey results present a clear signal that the pressure to change is acute and that companies are finally taking steps to address the problem (figure 3).

What is driving the urgency around performance management? One factor could be that today's biggest challenges include engagement, retention, and capability development. Most companies tell us that an “up or out” performance management process alone simply does not help address these challenges, and in many cases makes them worse. A large life sciences company, for example, discovered through research that its performance discussions were focused primarily on an employee’s level of pay rather than on useful feedback, coaching, and performance improvement.

A well-functioning performance management process should facilitate good management by good managers who are trained as coaches and mentors rather than as evaluators and graders. Today’s job market is highly dynamic and transparent. High-potential young employees want regular feedback and career progression advice, not just “once and done” reviews. And companies are finding significant gaps in leadership and capabilities that need to be addressed.

**Today’s job market is highly dynamic and transparent. High-potential young employees want regular feedback and career progression advice, not just “once and done” reviews.**

As companies reengineer performance management, many changes have occurred over the past year.

- The agile movement has permeated business, changing how companies set goals and manage people. Intel, for instance, uses a transparent, agile goal management process known as OKR (Objectives and Key Results) that focuses on giving people stretch goals and helping them to establish regular, achievable results that others can support.<sup>2</sup> This approach, which is currently sweeping across technology companies, illustrates how dynamic the process should be.
- A number of companies, including Adobe, Juniper, and Microsoft, have revamped the process to reduce the impact of ratings.<sup>3</sup> This reflects a recognition that

ratings-based performance management negatively impacts culture and engagement, which ranks as the most important issue in our survey. Research has shown that giving numeric ratings undermines engagement and self-confidence.<sup>4</sup>

- A new focus on managing to strengths, not weaknesses, is emerging. Research shows that a person's best performance comes when they are given meaningful work that leverages their personal strengths and aspirations. Rather than simply evaluate people against goals, new performance models help create jobs or move people into roles where they can succeed.<sup>5</sup>
- Technology now makes transparent goal-setting and agile performance management easier than ever. A host of new tools permits employees to share their goals, provide feedback and recognition to others online, and even "gamify" the performance management process to make it more productive and useful.
- The link between performance management and compensation is weakening. Traditionally, organizations directly linked raises to performance ratings, making these ratings even more threatening and disruptive to employees. Today, the compensation process is being broadened.<sup>6</sup> Companies are starting to base compensation decisions on the competitive value of an employee and real-world market conditions.

With the advent of more tools for real-time, pulse-based monitoring of feedback and engagement, the performance management process is becoming more integrated with strategies for employee engagement. For example, a large insurance company, which is going through a major restructuring to build global business units in Asia, is using the redesign of its performance management process to drive change and bring its new management philosophy to its people. Already, the process of discussing, redesigning, and training people on the process is re-energizing the entire organization.

Feedback and team management are also integral to performance management redesign. New models focus on team-centric goal-setting and tools to help teams improve collaboration and performance. Bottom-up feedback from employees, often gathered through the engagement process,

helps managers see their own weaknesses and improve their own performance. This, in turn, makes the performance management process more developmental for both leaders and their teams.

**Bottom-up feedback from employees, often gathered through the engagement process, helps managers see their own weaknesses and improve their own performance.**

Finally and unsurprisingly, data is becoming an even more important part of the performance management process, and new tools are accelerating this ongoing development. For example, today, many companies model their performance process around the normal distribution or bell curve. Yet this distribution does not accurately model business performance.<sup>7</sup> When companies hire top people and coach them to succeed, the performance curve often shifts to reflect many high performers and a small number of "hyper-performers." By looking more carefully at the real distribution of

performance, companies can accurately reward those who contribute the most.

## Lessons from the front lines

Last year, we examined Adobe, which abolished performance scores in 2012. In their place, Adobe instituted “check-ins”—ongoing discussions between managers and employees to set expectations, offer feedback on performance, and recognize strong work. The initial impact was profound: Adobe benefited from a 30 percent reduction in voluntary turnover in a highly competitive talent environment.

Last fall, we checked in on the company’s “Check-in” program and found that Adobe’s leaders were focusing on three major areas: increasing the organization’s comfort with the program, reinforcing the need for check-ins, and integrating the approach into other areas of talent management. Adobe found that managers had difficulty with growth discussions, as they felt they did not have all the answers for staff in guiding them around promotional opportunities. In response, Adobe developed a series of resources focusing on coaching and growth to equip managers to be better coaches and to ask powerful questions. Importantly, the curriculum focused not just on training managers, but also on training employees to coach themselves and drive their own growth. The organization also reframed the concept of growth to focus on growing one’s own skills to continue to remain relevant in a rapidly changing environment.

Adobe has also reinforced the need for check-ins by having senior manager role models share their Check-in experiences with employees throughout the organization. The company has also put a large emphasis on ensuring that managers of managers are checking in on the Check-in experience. In addition, managers who receive low scores on the employee engagement survey receive feedback on how to improve their Check-in practices. Finally, Adobe has worked to integrate Check-in into other areas of talent management. New employees receive training



on Check-in during the onboarding process. “Role-modeling Check-in” is now one of the five leadership competencies that all leaders at Adobe must demonstrate.

Nearly three years into the process, Adobe’s HR leaders believe that people find it much easier to start a conversation regarding performance. Further, engagement surveys show that employees have higher expectations of performance conversations and receive better feedback than ever before. Turnover levels remain very low, with voluntary attrition continuing to decline, despite the exceptionally competitive talent market in which Adobe operates.

## Where companies can start

- **Simplify:** Get rid of unnecessary, time-consuming, paper-filled steps.
- **Align philosophy with strategy:** Explicitly define the company’s performance management philosophy and be sure that this philosophy is aligned with the organization’s strategy and culture. Clarify the behaviors expected of managers and senior business leaders as a part of this process. Determine

the firm's philosophy and strategy before choosing software to implement it.

- **Separate performance from compensation:** Take a step back and think about the entire structure before moving ahead with process reform. Disconnect performance management conversations from compensation conversations. Discussions about compensation often block an employee's ability to hear and adopt the feedback that can lead to improved performance.<sup>8</sup>
- **Build a new performance management culture:** Encourage ongoing feedback, enable effective coaching through training, and use change management and

communications teams to shift the performance management culture from an emphasis on top-down evaluation to continuous development.

- **Empower local managers:** Give managers the authority to recognize and reward employee performance throughout the year. Invest in leadership development that helps managers learn how to coach and develop their teams.
- **Ditch the curve:** Tying employees to a normalized curve can inhibit performance. Relax the curve and let local management decide where to spend incremental dollars.

## BOTTOM LINE

Done poorly, performance management can not only waste valuable time, but also have a negative effect on engagement and retention. Done well, it can be one of the most inspiring and developmental events in an employee's career, as well as drive performance improvements and organization-wide results.

Look hard at your performance process and push toward simplification and strengths-based assessment and coaching. Train managers on how to give feedback. Goals should be agile and updated regularly, and software should be simple and easy to use. The days of traditional appraisals and forced ranking are coming to an end; performance management is now a tool for greater employee engagement.

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5. Josh Bersin, “Becoming irresistible: A new model for employee engagement,” *Deloitte Review* 16, <http://dupress.com/articles/employee-engagement-strategies/>.
6. To understand why forced ranking and the normal curve no longer describe the pattern of performance in most companies, read Josh Bersin, “The myth of the bell curve: Look for the hyper-performers,” *Forbes*, February 19, 2014, <http://www.forbes.com/sites/joshbersin/2014/02/19/the-myth-of-the-bell-curve-look-for-the-hyper-performers/>.
7. Ibid.
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# Reinventing



# Reinventing HR: An extreme makeover

- HR needs an extreme makeover driven by the need to deliver greater business impact and drive HR and business innovation.
- While CEOs and top business leaders rate talent as a key priority, only 5 percent of survey respondents rate their organization's HR performance as excellent. This year, HR's self-assessment showed virtually no improvement over last year's.
- Companies are now moving beyond talk to action, revisiting the required capabilities of the HR function, building HR universities, and modernizing relationships with internal business partners.

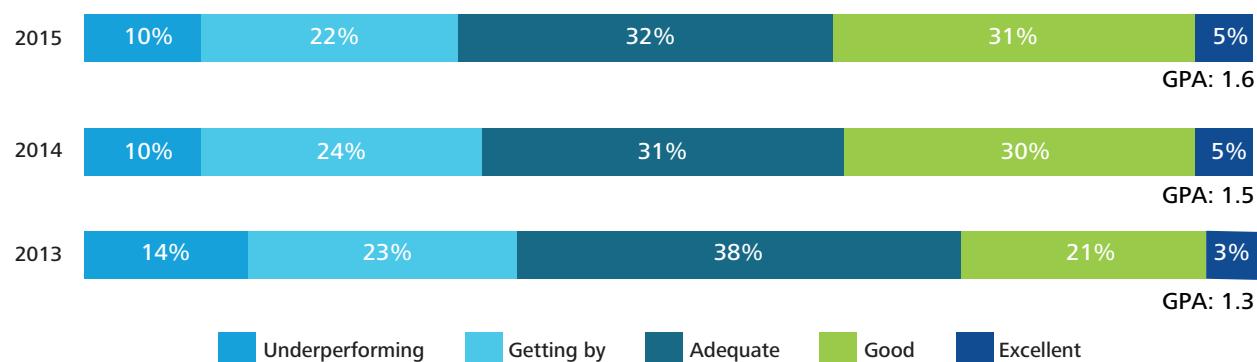
**H**R is at a crossroads. Once designed primarily as a compliance function, today's HR organization must be agile, business-integrated, data-driven, and deeply skilled in attracting, retaining, and developing talent.

These business imperatives demand not only a new organizational model for HR itself, but also a massive reskilling of HR professionals around the world. They also create an unprecedented opportunity for HR to play a preeminent role at the highest levels of business strategy.

Faced with these new pressures and opportunities, how do our respondents rate HR's performance? Unfortunately, not very highly—and not significantly better than in past years, as evidenced by HR's stagnating "grade point average" (figure 1).<sup>1</sup>

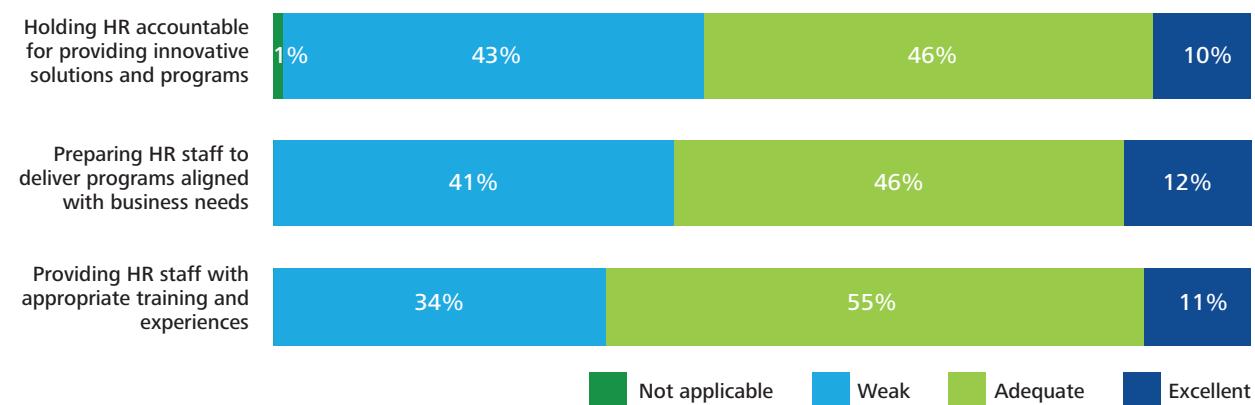
The question is, do HR organizations have the right capabilities to meet business needs? Recent research shows that only 30 percent of business leaders believe that HR has a reputation for sound business decisions; only 28 percent feel that HR is highly efficient; only

**Figure 1. Respondents' ratings of the HR organization's performance**



Note: Percentages may not total 100 percent due to rounding.

Graphic: Deloitte University Press | DUPress.com

**Figure 2. Respondents' views of HR's capabilities**

Note: Percentages may not total 100 percent due to rounding.

Graphic: Deloitte University Press | DUPress.com

22 percent believe that HR is adapting to the changing needs of their workforce; and only 20 percent feel that HR can adequately plan for the company's future talent needs.<sup>2</sup> Meanwhile, our survey shows that just 11 percent of respondents feel that their organizations provide "excellent" development for HR (figure 2).

To put it bluntly, HR is not keeping up with the pace of change in business. Today, there is a yawning gap between what business leaders want and the capabilities of HR to deliver, as suggested by the capability gap our survey found across regions and in different countries (figure 3).

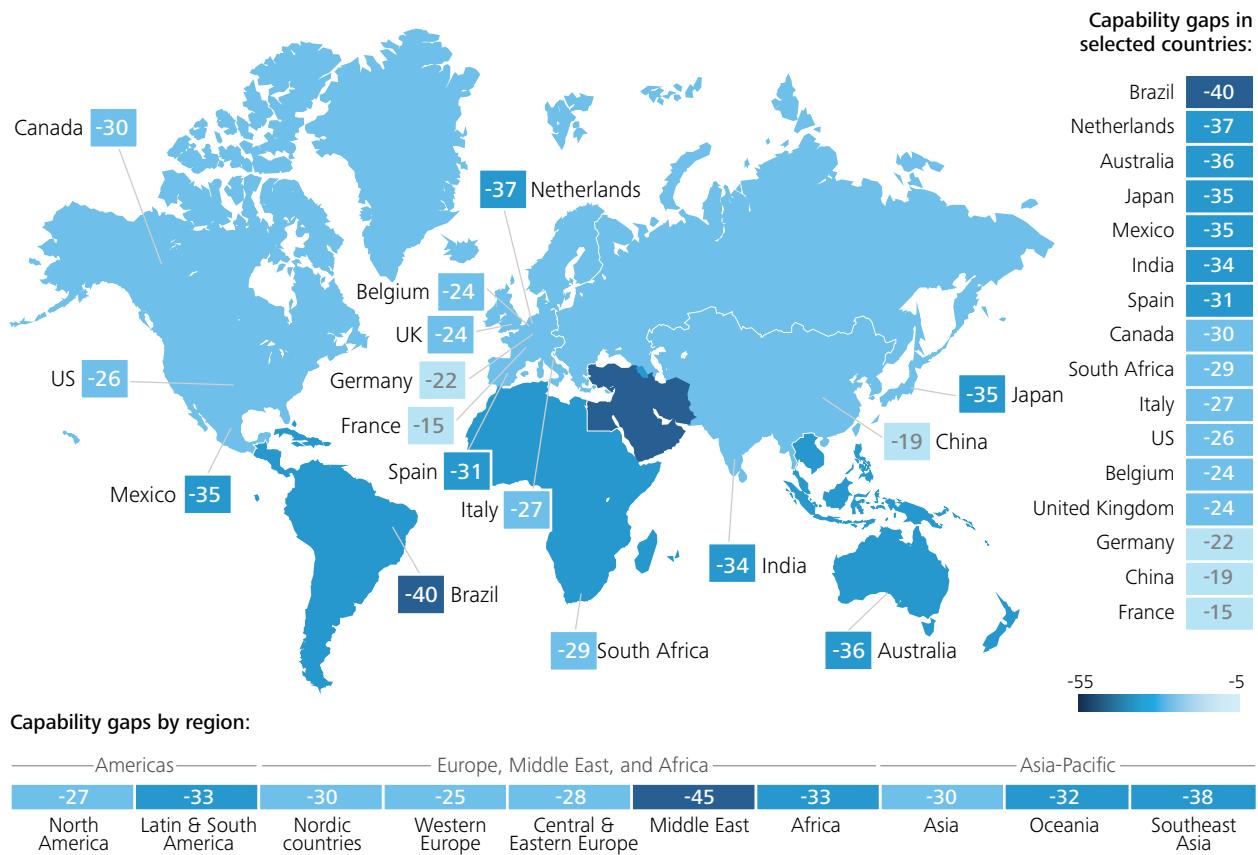
## A makeover is necessary

Several factors are converging that should make reinventing HR a critical priority for companies around the world.

- CEOs and other senior executives are more worried about talent than ever before.

Eighty-seven percent of our respondents are deeply concerned about culture and employee engagement, 86 percent about their leadership pipeline, and 80 percent about workforce capabilities.<sup>3</sup> At the same time, 80 percent of survey respondents believe their company's HR skills—or lack of skills—are a significant issue.<sup>4</sup>

- Many organizations are moving to a global business services model, and back-office functions and systems are transitioning to cloud technology. HR is often at the forefront of this transition. As a result, the HR function has an opportunity to play a leading role in defining the scope of retained functional roles such as business partners and centers of excellence.
- The newer HR technology platforms now offer integrated systems and more access to data, including analytics and assessment science. Employee self-service is now a reality, all but eliminating the need for HR generalists. Yet HR continues to struggle to optimize analytics.
- A highly competitive global talent market has shifted power into the hands of employees, forcing HR to redesign programs in the face of a much more demanding workforce.
- Traditional HR practices such as performance management and leadership and development are undergoing radical change, forcing HR to throw away the old playbook and deliver more innovative solutions.

**Figure 3. Reinventing HR: Capability gap by region**

The Deloitte Human Capital Capability Gap is a research-based score that shows HR's relative capability gap by looking at the difference between respondents' average "readiness" and "importance" ratings for each trend, indexed on a 0–100 scale. It is computed by taking the "readiness" index score and subtracting the "importance" index score. For example, a trend with a readiness index score of 50 and an importance index score of 80 would produce a capability gap of -30. Negative values suggest a shortfall in capability, while positive values suggest a capability surplus.

Graphic: Deloitte University Press | DUPress.com

Several key changes are now underway that we believe will continue to gain momentum in 2015. First, HR is being forced to redefine its role from "service provider" to an enabler and builder of talent. HR's traditional employee service mission is now handled through operational services groups, modern human capital management technologies, and easy-to-access online and mobile applications. The rapid evolution of cloud technology is encompassing even more HR activities than traditional models, leaving HR to spend the majority of its time on advising and consulting executives on people-related strategies. In this new world, HR operational effectiveness and efficiency are table stakes.

Second, HR is shifting from a group of generalists to a team of highly skilled business

consultants. Leading organizations have many more HR specialists who operate at the local business-unit level to help deliver better results, including faster time to market and greater customer satisfaction and operational efficiency. These specialists work with each other through communities of expertise, using centralized systems, processes, and shared frameworks that remain agile enough to act locally to help leaders solve problems.

Finally, professional development and research have emerged as key HR capabilities. Companies with strong development programs and focused strategies to incorporate external data far outperform their peers.

An example of a new approach to reskilling HR leaders is demonstrated by the HR leadership master class piloted by the India-based

organization Aditya Birla Group (ABG). ABG is one of the world's leading global conglomerates, operating in 36 countries with more than 120,000 employees. To support and drive the group's global expansion and growth plans (more than half of the group's revenues today come from outside of India), a key component of its HR transformation program is to increase the skills of the company's HR leadership team, including the chief people officers in each of ABG's

group companies and ABG's global centers of expertise. ABG planned and conducted a two-day "master class" for its senior HR leaders to kick off the shift in HR leadership capabilities. The master class, developed and delivered in partnership with external experts, focused on business, technology, and HR trends, emphasizing areas such as performance (productivity and innovation), leadership and talent, and teaming. It also sought to uncover information on how HR leaders were dividing their time between strategic and operating priorities. A critical part of the master class was a deep dive on business and economic value—a unit aimed at helping HR leaders better understand and speak the language of business, economic value, and HR program design. The program ended with each executive and each team mapping out his or her own capability development plan, which could include areas such as analytics, business acumen, coaching, facilitation, change management, social media, and HR technology.

Some organizations are recognizing that the development of HR business partners can include a common curriculum across functions. For instance, one major global oil and gas company developed a common behavioral framework and consistently deployed it

across all of its 12 global functions. In its four larger functions (IT, finance, HR, and legal), the framework was complemented by face-to-face programs (for senior colleagues) and virtual programs (for junior business partners) designed to enhance participants' skills. Each program was sponsored at the C-suite level, and included a series of "strategic challenges" focusing on real-time business issues the function faced. The concept of "leaders leading leaders" was central to the

program: Executive vice president-level leaders delivered part of the more senior program, and the senior group, in turn, was involved in delivering the program to the junior cohorts.

## Research shows that nearly 40 percent of new CHROs now come from the business, not from HR.

### It all starts with the senior HR leader

In this era of rapid business change, the role of the CHRO becomes radically different and more demanding than ever. Today's CHRO must be innovative and business-savvy and be able to stand toe to toe with the CEO. At the same time, a CHRO must know how to bring the HR team together and help it evolve into a more distributed, business-integrated function. CHROs must also be comfortable adopting and embracing technology and analytics, which are integral to HR's future success.

One sign that many organizations are expecting something fundamentally different from HR is that they are bringing in a fundamentally different kind of executive as CHRO. Research shows that nearly 40 percent of new CHROs now come from the business, not from HR. At Liberty Mutual, for instance, the chief talent and enterprise services officer, Melanie Foley, previously served as executive vice president of distribution at Liberty Personal Markets.

## Lessons from the front lines

Like many other global companies, Halliburton was struggling to adjust to a 21st-century talent environment that demanded new approaches to learning and development, a clear understanding of how to use data to drive decisions, and a better grasp of strategic business priorities. Unlike at many organizations, however, Halliburton's HR team recognized these challenges as an opportunity to transform HR from a transactional organization into a business-aligned trusted advisor and solutions provider.

The process involved a number of steps. The company started by launching a survey of business leaders to understand exactly what they needed from HR. The findings from this research provided the foundation for a new vision of Halliburton's HR organization built around a strong business case for HR.

With its transformation, the HR function is seeking to shift from the HR generalist model to an HR business partner role. Instead of simply managing transactions, implementing policies, and developing programs, the new HR organization aims to focus on understanding the needs of the business and delivering value-added solutions.

The Halliburton HR team recognized that business-facing HR professionals could not operate as strategic business advisors and partners without standardizing, automating, and reorganizing how repeatable, operational work was done. This was necessary to build credibility for the new operating model and for the

new kind of relationship that HR was seeking to establish with the business. The HR team established a global HR operations organization with four regional hubs to absorb much of the transactional work, and introduced new online technology to support managers in requesting services from this group. At the same time, the team engaged the larger human resources community as change agents to educate managers and to drive the transition to a new operating model.

To implement this new vision, Halliburton researched best practices and engaged HR leaders in a series of workshops designed to clearly define the new skills and competencies required for HR. As the transformation evolved, the HR organization developed a maturity map to track progress and worked with company leaders to determine the most effective way for HR business partners to impact business priorities.

Of course, a transformation of this magnitude could not occur without a significant investment in people. As part of this investment, Halliburton created an internal "College of HR" that offered a blended learning curriculum to address HR learn-

ing needs, including workshops on consulting skills and interactive webinars on the new HR service delivery model. The college offered blended learning activities in four areas: foundational HR, business acumen, consulting, and organizational capability. Innovative branding efforts, including the development of the avatars "Hal E. Burton" and "Hallie Burton," have assisted with the transformation, helping to

**Instead of simply managing transactions, implementing policies, and developing programs, the new HR organization aims to focus on understanding the needs of the business and delivering value-added solutions.**

direct program participants to the right places in their learning curriculum.

The transformed HR organization features two primary types of HR employees. Operations partners work with line managers and employees to support implementation at the local level. Business partners work with more senior business leaders to ensure that the business's needs are met. Each type of partner is expected to use industry knowledge, understand the human implications of business problems, and align HR's metrics to business results. Partners identify real business



needs and then incorporate metrics into decision making. They also work as consultants to the business, building partnerships and trust, applying active listening and questioning techniques, and utilizing coaching skills. In addition, they strive to build organizational capability in areas such as leadership development, succession planning, organization development, team effectiveness, workforce planning, and talent analytics.

Paramount to this effort's success has been the active sponsorship and commitment of Halliburton's HR leadership team. The company's HR executives have been personally involved in a number of College of HR programs, participating in session design and delivery and driving accountability and active participation within their teams.

## Where companies can start

- **Design the HR organization to deliver solutions:** For many businesses, it is time to redesign HR with a focus on consulting and service delivery, not just efficiency of administration. HR business partners must become trusted business advisors with the requisite skills to analyze, consult, and resolve critical business issues.
- **Create business-integrated “networks of excellence.”** Rather than locating HR specialists in central teams, embed them into the business—but coordinate them by building a strong network of expertise. Recruitment, development, employee relations, and coaching are all strategic programs that should be centrally coordinated but locally implemented. When specialists in these areas live and work close to the business, their impact is greatly enhanced.
- **Make HR a talent and leadership magnet:** How do people get HR jobs in your company? If they accidentally move into HR, this may be holding you back. Create rigorous assessments for top HR staff and rotate

high performers from the business into HR to create a magnet for strong leaders.

- **Invest in HR development and skills as if the business depended on it:** HR professionals at all levels need continuous professional development. Create your own “HR university” and invest in professional

development to make sure your HR team is constantly sharpening its own saw and developing the necessary skills to survive. Focus on capabilities such as business acumen, consulting and project management skills, organizational design and change, and HR analytical skills.

## BOTTOM LINE

HR needs to raise its game by aligning its skills and capabilities with the organization's overall business goals. As HR pursues its own makeover, its strategic role must also change to meet the intense pressures of today's business environment.

Imagine an organization where business leaders look to HR for advice as they develop business strategies to drive growth, where HR is considered the developer of talent and leadership across the business, and where business leaders respect and admire the HR professionals as co-leaders of the business. This can all happen, but only with an extreme makeover of HR.

# Endnotes

1. The GPA is the weighted average score of responses for excellent (4), good (3), adequate (2), getting by (1), and underperforming (0). The percentage values for organizations rating themselves as underperforming and getting by is calculated with a negative value that helps us to determine the overall GPA. The letter grade is assigned as follows: A = 4, B = 3, C = 2, D = 1, E = 0.
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3. Figures refer to the percentage of respondents rating each issue as “important” or “very important.”
4. The 80 percent figure refers to the percentage of respondents rating reskilling HR as “important” or “very important.”

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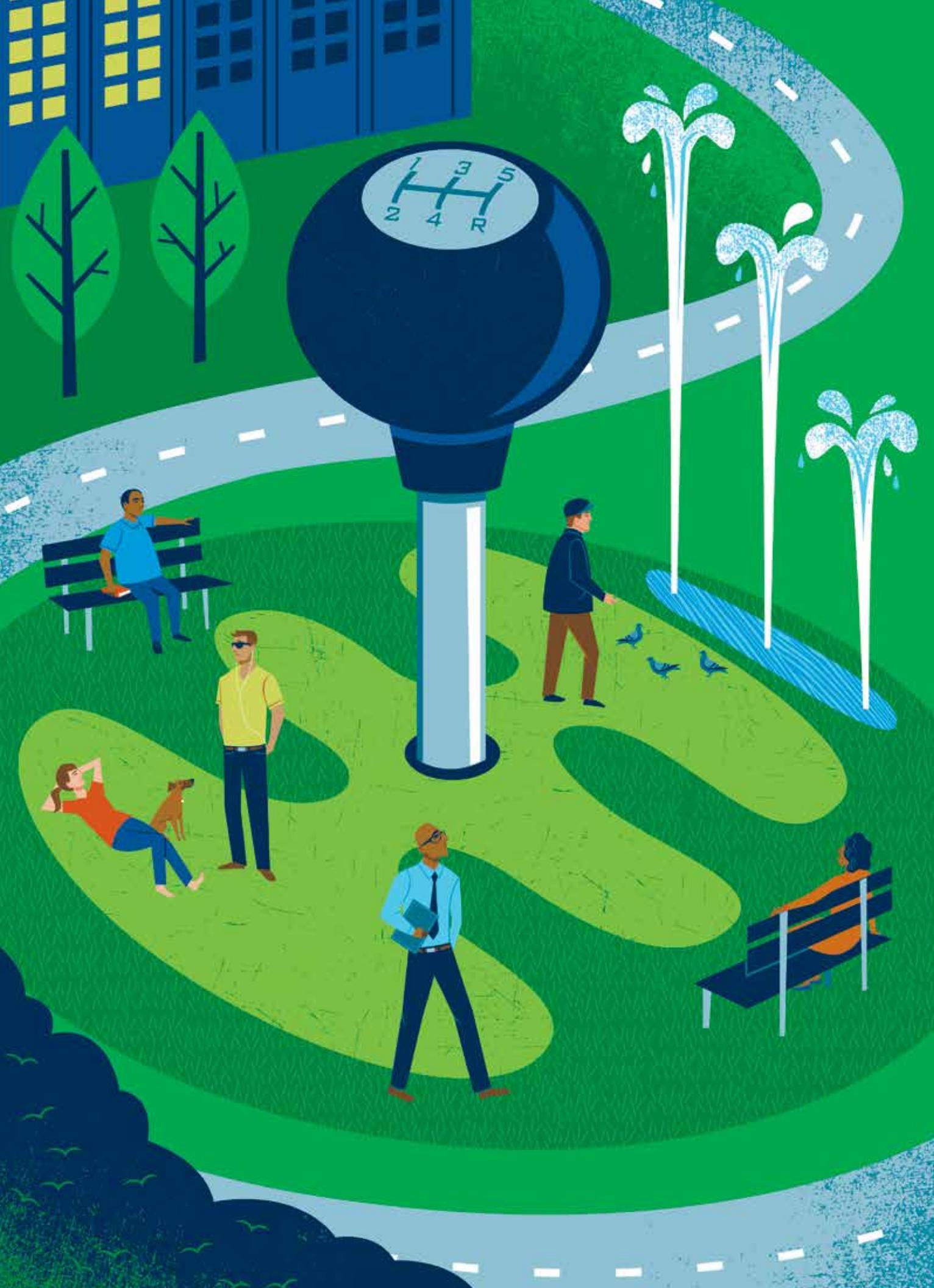
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# HR and people analytics: Stuck in neutral

- Too few organizations are actively implementing people analytics<sup>1</sup> capabilities to address complex business and talent needs.
- Three in four surveyed companies (75 percent) believe that using people analytics is “important,” but just 8 percent believe their organization is “strong” in this area—almost exactly the same percentage as in 2014.
- Companies that build capabilities in people analytics outperform their peers in quality of hire, retention, and leadership capabilities, and are generally higher ranked in their employment brand.<sup>2</sup>

**A**MONG all the challenges we studied this year, people analytics presented the second-biggest overall capability gap for organizations, trailing only the need to build better leadership. (See figure 1 for capability gaps across regions and selected countries).

Why is this issue so prominent? Today, as many companies prove the power of analytics, a new race is under way to gain a competitive advantage by understanding all elements of the workforce.

Google uses analytics to gain insights into the impact of every interview and source of hire.<sup>3</sup> Many companies, including Pfizer, AOL, and Facebook, now analyze the factors that correlate with high-performer retention. BP uses analytics to evaluate its training. SAB Miller uses analytics to drive high quality standards across a variety of programs worldwide.

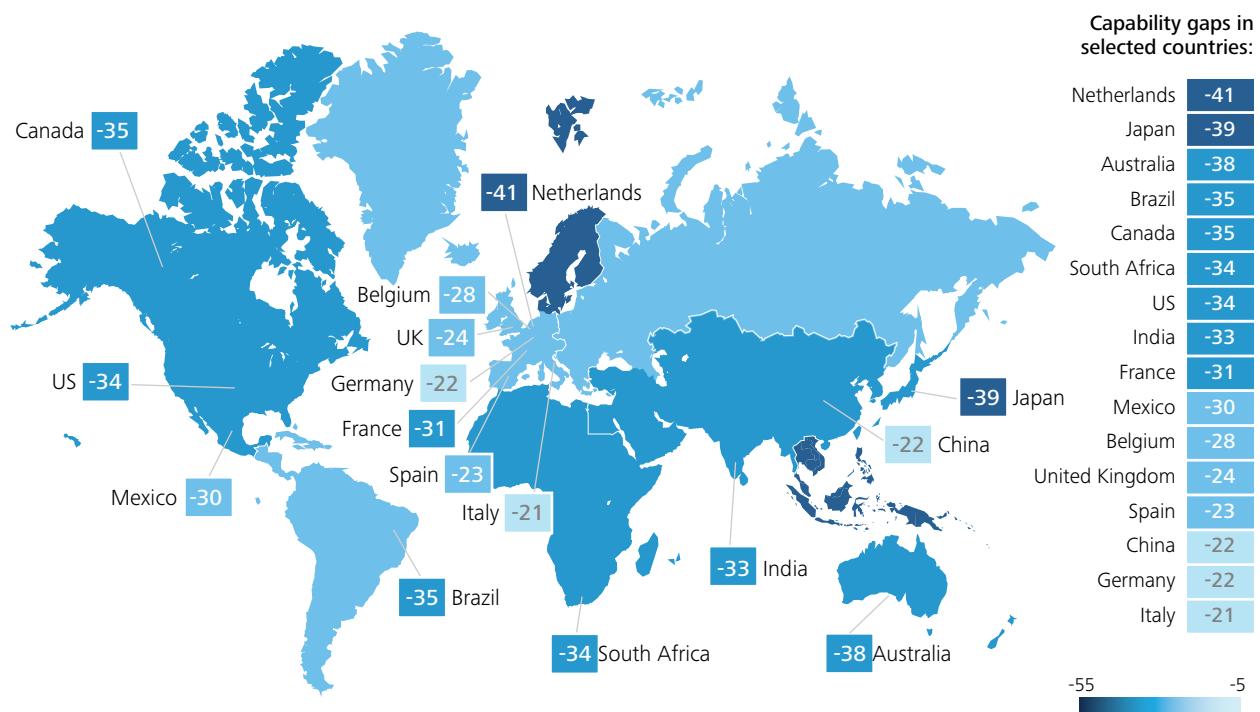
Despite these and other high-profile uses of analytics, our survey confirms that most organizations have been slow to get started. Respondents showed little change in their ratings of their analytics capabilities since last year, and more than half of our respondents

rate their organizations weak at scorecarding (figure 2).

Organizations are still new to this discipline, and many suffer from poor data quality, lack of skills, and a weak business case for change.<sup>4</sup> While people analytics programs can deliver a high ROI, HR leaders have difficulty building an integrated plan.<sup>5</sup> And more than 80 percent of HR professionals score themselves low in their ability to analyze—a troubling fact in an increasingly data-driven field.

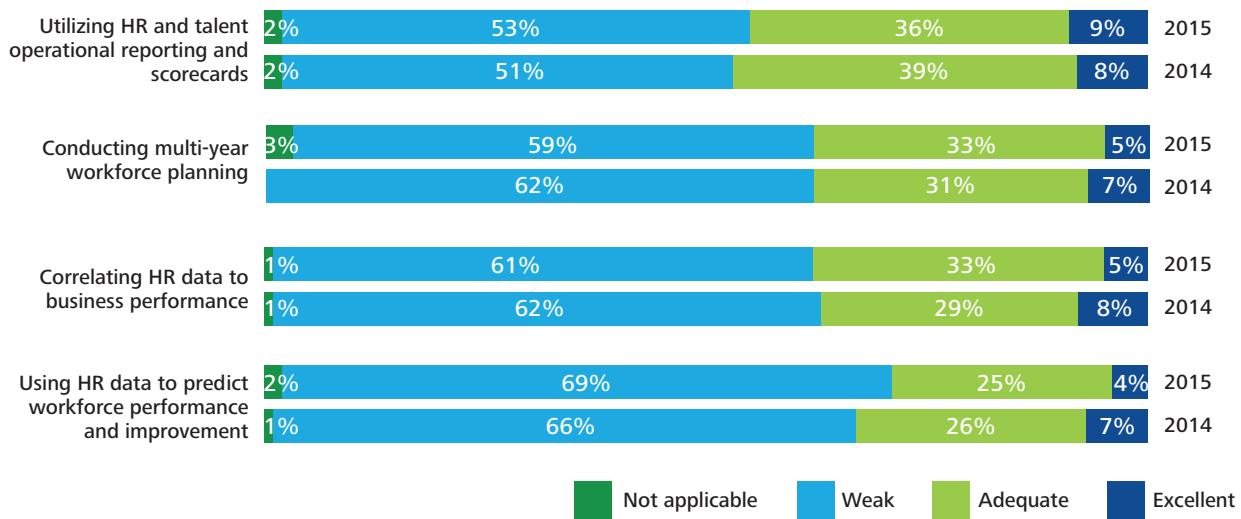
As HR analytics teams struggle to build this capability, vendors are starting to fill the gap. Today, nearly every HR software vendor is eager to sell packaged predictive analytics tools, often built right into their talent and HR management software.<sup>6</sup>

But buying more data-driven HR and talent management software is just the first step—it will take several years for businesses to fully absorb this technology. Companies with leading capabilities in HR and people analytics have been building these capabilities for three years or more.

**Figure 1. HR and people analytics: Capability gap by region****Capability gaps by region:**

The Deloitte Human Capital Capability Gap is a research-based score that shows HR's relative capability gap by looking at the difference between respondents' average "readiness" and "importance" ratings for each trend, indexed on a 0-100 scale. It is computed by taking the "readiness" index score and subtracting the "importance" index score. For example, a trend with a readiness index score of 50 and an importance index score of 80 would produce a capability gap of -30. Negative values suggest a shortfall in capability, while positive values suggest a capability surplus.

Graphic: Deloitte University Press | DUPress.com

**Figure 2. Respondents' evaluation of their HR and people analytics capabilities**

Graphic: Deloitte University Press | DUPress.com

Where can an organization best apply analytics to improve talent management? Some possible areas include:

- **Understanding and predicting retention:** With retention and engagement now becoming a CEO-level issue, understanding why people leave a company has become a top priority. One vendor we know of has become so sophisticated at this analysis that it can predict retention within weeks, simply based on data available from an individual's behavior on social media. This type of data-driven insight has become a hot commodity in Silicon Valley's new race to attract and retain top software engineers.
- **Boosting employee engagement:** While changing behavior among managers often proves harder than simply uncovering facts, many companies are using analytics to identify ways to increase engagement and/or boost retention. One company, for instance, found that its compensation was too evenly distributed, pleasing mid-level performers but leading high achievers to depart for greener pastures.
- **Expanding the sources of talent and improving the quality of hires:** After years of forcing job candidates to endure endless rounds of interviews and tests, Google used data to discover that, after the fourth interview, every following interview is largely a waste of time.<sup>7</sup> Not only did this discovery streamline recruiting, it also helped the company understand what management factors led to the best job performance. Based on insights from its "people science" work, Google wrote its manifesto on leadership.<sup>8</sup>
- **Profiling high performers in sales and customer service:** Companies such as Oracle and ADP analyze sales performance based on talent characteristics.<sup>9</sup> They

can now better decide who to hire, how to set quotas, and who should become a sales leader.

Beyond those more common applications, people analytics are beginning to be used in more advanced ways. Many financial services firms, for instance, have turned to analytics to understand and predict ethics and compliance problems. As new government regulations place greater burdens on financial institutions to prevent misconduct, a tool that accurately forecasts which employees are most at risk of committing ethical transgressions offers a critical insight.

Analytics reaches into other exciting areas as well, such as how people learn and progress in their career. Learning management systems vendors now offer new tools that use data to "recommend learning" in the same way as Amazon and Netflix recommend books and movies.

The common theme connecting all these applications is simple: They address business issues, not merely HR issues. Connecting these tools to business needs helps build the case for investment in and deployment of analytics.

Companies can move faster on analytics by considering a cross-disciplinary approach. One company created a cross-functional team called "HR Intralytics" to model ways in which the efficiency and effectiveness of its people services could be improved. This team worked with finance and business operations to visualize data across processes, defining the business benefits of improvements to various parts of HR. The output was so compelling to the board of directors that it approved funding for a major transformation—including a dedicated people analytics center of excellence.

As people analytics takes hold, data-driven decisions will become a common theme across all parts of HR. Organizations should invest aggressively in this new discipline, link it to the rest of the business, and reskill their teams to bring data to work in every major people-related decision.



## Lessons from the front lines

HR leaders at ConAgra Foods are using analytics to calculate and report the total cost of its workforce rather than leaving this important task solely to the finance function. Until recently, the company has struggled to collect accurate data about its workforce. Information was spread across the organization, making it difficult to reconcile. Analytics solutions allow the company to gain better insights into employee data, providing current and projected headcount as well as total workforce costs.

Following a major acquisition in 2012, business leadership gave HR a mandate both to acquire the best talent in the business and to understand the true cost of its talent. HR's analytics team began searching for a solution that would deliver extensive self-service analytics capabilities to stakeholders as well as provide accurate workforce costs and support future planning scenarios.

Partnering with finance, the team mapped all available data and processes. The HR system held employee-specific data on salary and

benefits, while an ERP system from finance provided aggregate cost data. Using a cloud-based system, the team aggregated all workforce cost data. To calculate the total cost of the workforce, the team developed a taxonomy of the different elements going into this figure, including direct compensation, benefits, employee costs for labor, and workforce overhead, as well as the subcategories under each.

After collecting and aggregating the data, ConAgra can now visualize these different elements in a single, interactive application displaying a wide range of metrics, including actual and planned headcount and actual versus planned workforce costs. HR and finance professionals are now able to analyze and optimize investments across a wider range of workforce costs. The company can now see the impact of spending on a minute level and understand how workforce costs impact its financial plan. For instance, the company can model workforce costs at two different locations, or better understand the cost of entering new markets. In the past, these calculations would have been highly time-consuming and error-prone to compute by hand.<sup>10</sup>

## Where companies can start

- **Build the right team and show the return on investment:** An analytics team should be multi-disciplinary, combining employees with business knowledge and those with technical skills. Since it is hard to find people with a combination of all the necessary skills, the most effective approach may be to build a highly diverse team.<sup>11</sup> Employees with physics and engineering backgrounds and industrial-organizational psychologists are often good candidates for the team. Pair them with a talent expert who understands the people dimension. Add team members with skills in communication, visualization, and consulting to help drive value, and remember to quantify the value that better decision making is bringing to the organization.<sup>12</sup>

- **Start with the tools you have:**

Organizations do not need to purchase new software to start the transformation. Using the analytics tools built into spreadsheets is a good place to start, allowing organizations to put existing capabilities to work to analyze data that are too often underused. Do not let the perfect be the enemy of the good; it is better to do analytics based on less-than-perfect data than to do no analytics whatsoever.

- **Partner with IT:** Data quality is often a problem when it comes to the people side of the business. HR teams must enlist the support of IT early to help build a program to clean up, rationalize, and continuously monitor data quality.

- **Use analytics on the HR organization to show analytics' potential:** Assimilate data on the demand and supply profile of HR services, and apply the principles of modeling, forecasting, and visualization to illustrate the dynamics of the function itself. Look for areas in the HR operating model that can be improved, quantify the potential impact, and then design embedded analytics as part of the new landscape.

- **Focus on immediate business needs:**

Analytics is a business priority, not merely an HR tool. When analytics connects directly to business issues, the argument for investment becomes more powerful to the organization as a whole. Start with a well-known problem—be it turnover, sales productivity, or customer service quality—and start studying the people factors that drive outcomes. Sophistication comes with time and investment, and showing early results will help sell the program to business leaders. More integrated tools are now available, and if early results drive value, companies can justify major investments.

- **Leverage embedded analytics by upgrading technology platforms:** More than 70 percent of our respondents are upgrading or have recently upgraded their core HR systems with new cloud platforms. The business case for these systems should include a hard look at the potential benefits from robust people analytics. Because reducing turnover, improving sales productivity, and increasing the quality of hires all have a tremendously high ROI, analytics often represents a strong business case to justify modernizing the HR infrastructure.

## BOTTOM LINE

Data and analytics are key to solving many of the problems we identify in this report: engagement, leadership, learning, and recruitment. Companies that excel in talent and HR analytics can be positioned to out-compete and outperform their peers in the coming years. Without early, substantial investments, however, it is difficult to get traction. Companies should therefore make a serious commitment to this discipline, search for robust solutions from their core system vendors, and hire people into HR who have an interest and background in analytics and statistics.

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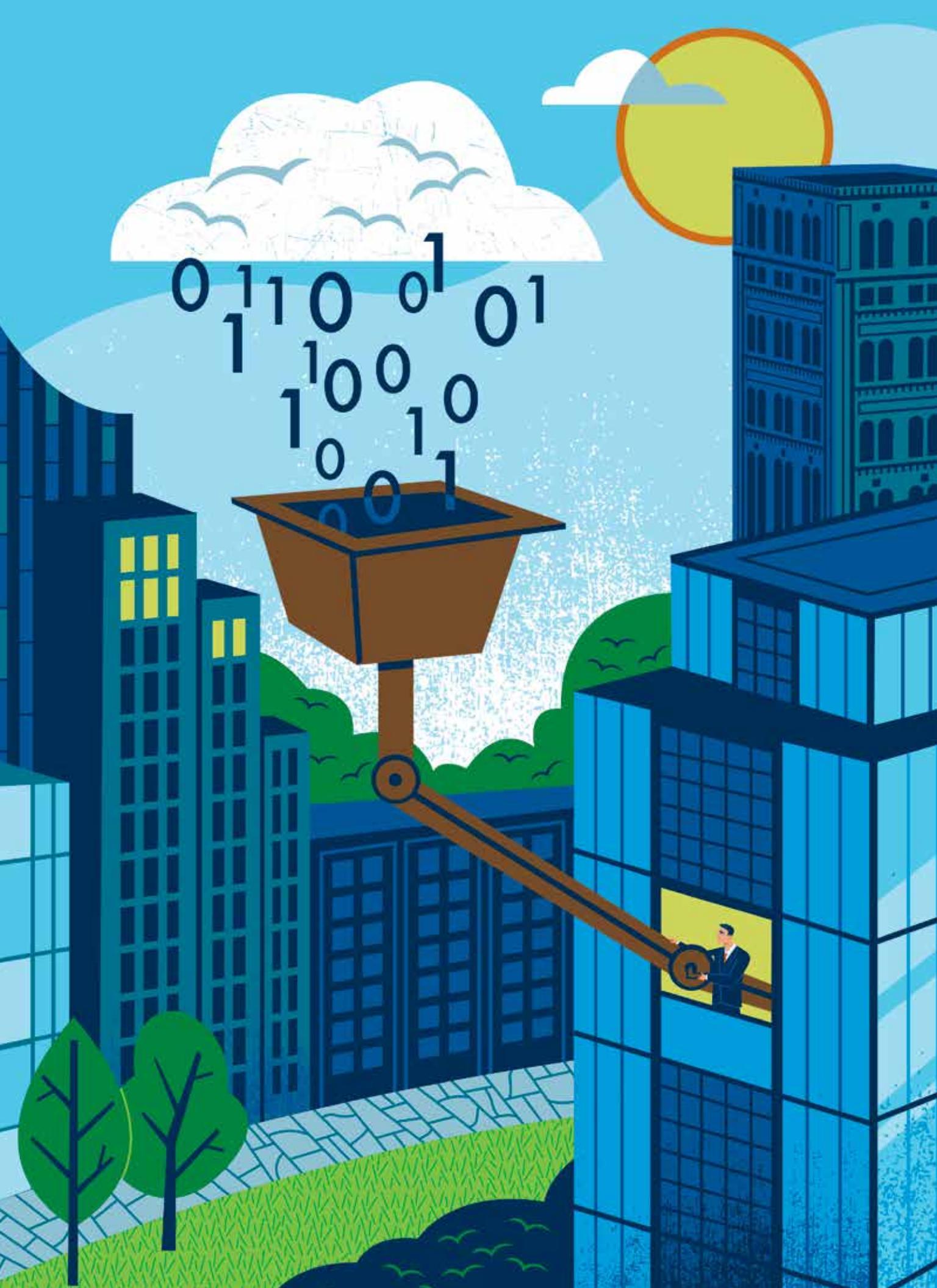
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# People data everywhere: Bringing the outside in

- HR and talent organizations are expanding their HR data strategies by harnessing and integrating external data from social media platforms and other external sources.
- This trend is accelerating as more employee data appears online. Thirty-nine percent of surveyed companies are now leveraging social data to support efforts around recruiting, engagement, and understanding employment brand.
- While analytics programs based on internal data can be tremendously valuable, the most powerful solutions will leverage external as well as internal data to inform critical talent decisions.

**L**EADING organizations routinely use both internal and external data to build their brand, find new customers, manage risk, and make investment decisions. What if HR could leverage data just as effectively? That time has come.

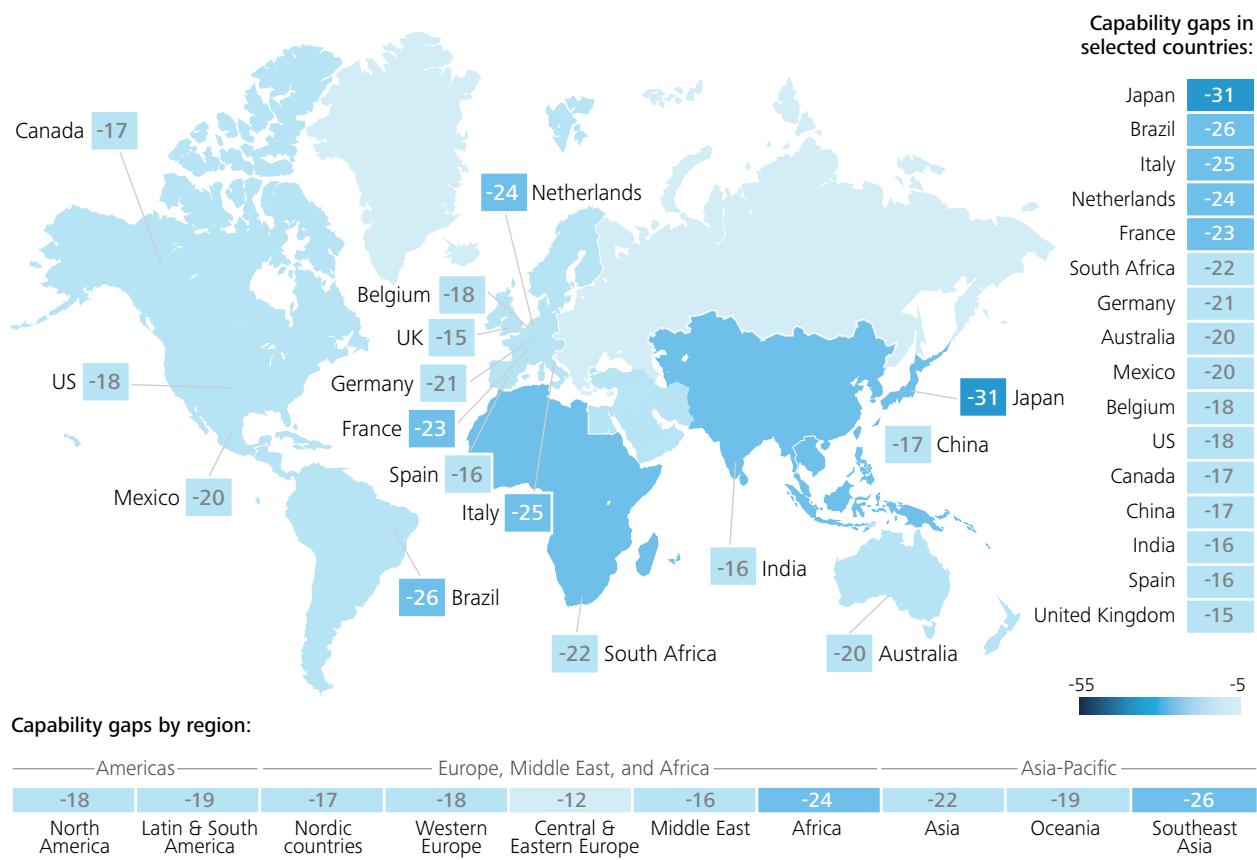
Accessing employee data outside your organization isn't just interesting—it's powerful. Despite being the lowest-ranked among this year's challenges in terms of both its importance and its capability gap, 52 percent of respondents still believe that capitalizing on "people data everywhere" is "important" or "very important." (See figure 1 for capability gaps across regions and selected countries). In 2015, we believe this trend will be more about taking advantage of available opportunities rather than about risking incurring opportunity costs through inaction. Today's forward-thinking HR organizations are well aware of the treasure trove of data available through outside sources—such as social networks—that can help monitor and build employment brand, identify and recruit talent, better understand compensation strategies, recognize flight risk, and monitor employee satisfaction and engagement. As one executive commented

to us as we conducted this research, "Why do social media sites like LinkedIn appear to know more about my employees than we do, and how can we leverage these data and insights?"

Recruiters now routinely use social tools like LinkedIn, Facebook, Twitter, and others to source and identify candidates. LinkedIn alone generates significant annual revenue by selling access to people data<sup>1</sup>—the largest customer being HR organizations using data to recruit potential hires.

An important factor driving this trend is that data volunteered by individuals on social networking sites is often far more comprehensive and accurate than the data within corporate HR systems. HR leaders report that employee profiles on LinkedIn and other social media outlets are more accurate and complete than their own internal employee records.

In addition to Facebook and LinkedIn, many other sources of outside data can provide critical insights. This has led to the rise of new companies offering tools and services that harness external "people data everywhere" to help HR organizations make better leadership, talent, hiring, and management decisions.

**Figure 1. People data everywhere: Capability gap by region**

The Deloitte Human Capital Capability Gap is a research-based score that shows HR's relative capability gap by looking at the difference between respondents' average "readiness" and "importance" ratings for each trend, indexed on a 0-100 scale. It is computed by taking the "readiness" index score and subtracting the "importance" index score. For example, a trend with a readiness index score of 50 and an importance index score of 80 would produce a capability gap of -30. Negative values suggest a shortfall in capability, while positive values suggest a capability surplus.

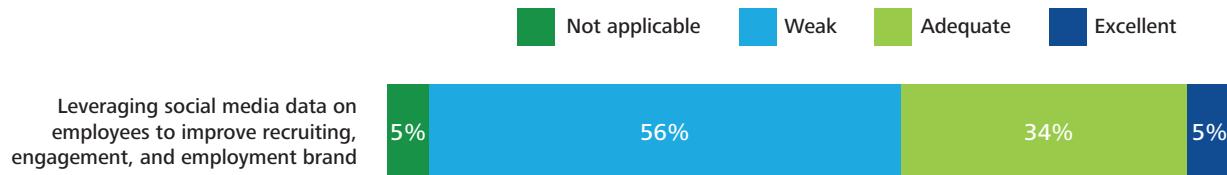
Graphic: Deloitte University Press | DUPress.com

Dozens of new startups are building additional tools to enable HR to make sense of the mountains of data now available:

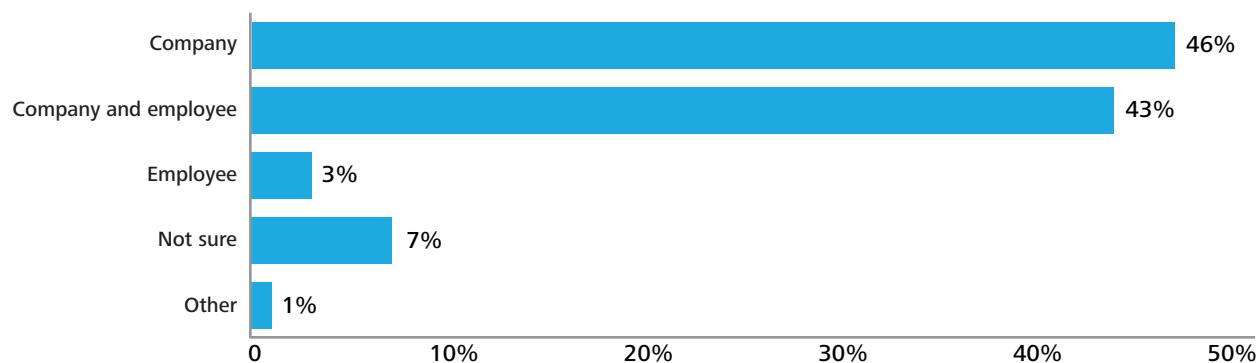
- A new startup vendor, Degreed.com, aggregates external people data about training and education with the goal of providing a complete, externally validated "transcript" of all their education during their career.<sup>2</sup>
- Several start-ups now monitor social networking data to try to predict patterns of external job-seeking behavior and retention risk. These companies claim that their data is more predictive of an employee's likelihood of leaving than any internal data available.
- The amount of external data about the workforce is growing. Companies like

Glassdoor.com, Careerbliss.com, Realref.com, Jobiness.in, Thejobcrowd.com, Indeed.com, Payscale.com, and dozens of others now crowd source company reviews, salaries, and feedback on organizations, making employer information more public every day.

Despite the wealth of publicly available data and the incredible opportunities it offers, most people analytics teams still focus on analyzing internal data.<sup>3</sup> Only 5 percent of companies participating in this year's study believe they have an "excellent" policy for leveraging social data (figure 2), and none of the US respondents to our survey consider themselves "excellent." More than half of our respondents (56 percent) rated themselves "weak" in leveraging social media data, and 81 percent report that they are

**Figure 2. Respondents' assessment of their capabilities in leveraging social media data**

Graphic: Deloitte University Press | DUPress.com

**Figure 3. Respondents' perceptions about who owns employee data at their organization**

Graphic: Deloitte University Press | DUPress.com

“not ready” or only “somewhat ready” to take advantage of this growing trend.

There are some well-defined markets where the use of personal data is likely to grow quickly. In 2015, millions of people will be streaming data about their location and perhaps even their heart rate to public websites. Just as individuals may use tools like FitBit for their personal well-being, workers could collect and share information to become what some have called “the quantified employee.”<sup>4</sup> Businesses using this information are gleaning key insights. Hitachi’s “Business Microscope” product, for instance, which uses employee ID cards to monitor location, enabled the company to discover that engineers who eat lunch in larger groups are more productive.

One stumbling block to capitalizing on externally sourced information is that many companies do not know who owns employee data, whether internal or posted publicly. In fact, 46 percent of the respondents to our survey think their company owns employee data,

while 43 percent believe data is jointly owned with the employee. More broadly, data privacy, protection, and security are a growing concern. Many companies, for example, find their internal memos leaked and posted online. As a result, HR organizations entrusted with more people data must be even more vigilant about privacy, security, and confidentiality training.

Shifting attitudes toward transparency—driven in large part by Millennials’ expectations—will also play a significant role in answering key questions around who “owns” HR data. In fact, one in four respondents to our survey said that their employers now give employees full transparency into the data they collect.

## Lessons from the front lines

AOL, one of the original brands associated with the Internet, is now a major media technology company with approximately 4,500

global employees, owning such brands as The Huffington Post, TechCrunch, Engadget, MAKERS, and Mapquest. As one might imagine, technical and creative professionals at AOL (now headquartered in New York City) are in great demand. People who come to AOL also have the opportunity to work at Google and a variety of start-ups in the New York area.

The company has invested in talent and people analytics for many years, and has recently started to focus on understanding the factors that drive people to stay with the company or leave. Leaders realized that the biggest drivers of retention are not always compensation and benefits, but a variety of intangible issues, including other job opportunities available, the brands and positions at competing companies, and the skills and experience of their people.

To understand this issue, the company has embarked on a program to leverage external, publicly available data about the demand for jobs and skills. Working with San Francisco-based start-up talent analytics firm hiQ Labs, AOL is now carefully looking at patterns among people who leave, what factors might entice people away from AOL, and what benefits and improvements the company can implement to help it attract people with top skills. The head of people analytics, John Callery, believes that this focus on “people data everywhere” is giving the company a whole new perspective on ways in which it can better attract, engage, and excite current employees and technical leaders. The company’s experience working with hiQ Labs already shows

that external data is a powerful way to predict and understand retention and to find ways to further engage the workforce.

As Darren Kaplan, CEO of hiQ Labs, states, *“For applications like predicting flight risk or understanding the drivers of retention, our experience shows that public data can be significantly more predictive than internal HR data about people.”*

## Where companies can start

- **Partner with marketing:** Marketing teams are already solving the problem of monitoring, leveraging, and managing external data. They often have tools and processes in place to find and monitor data about companies and their people.
- **Buy and access tools to tap into major social networks:** Tools that explore LinkedIn, Twitter, Facebook, Glassdoor, and other networks are mature and available today. Companies of all sizes should investigate these tools and become comfortable with the use of external data for sourcing, recruiting, and monitoring their employment brand.
- **Recognize that the drive for transparency is here to stay:** While compensation and employee engagement data, though increasingly visible through services such as Glassdoor, is not yet public, it is possible to see such data becoming available outside a company in the future.

## BOTTOM LINE

External data about candidates, employees, and potential contractors are now available throughout the Internet. These data make up a critical part of a company’s strategy to understand its employment brand, identify strong candidates, understand employee engagement, and predict and try to reduce flight risk. This year, organizations should upgrade their focus on the use of external data within HR, as it has become a fast-growing part of the HR analytics strategy.

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# Reimagining



# Simplification of work: The coming revolution

- Organizations are simplifying work in response to employees becoming overwhelmed by increasing organizational complexity, growing information overload, and a stressful 24/7 work environment.
- More than 7 out of 10 surveyed organizations rated the need to simplify work as an “important problem,” with more than 25 percent citing it as “very important.” Today, only 10 percent of companies have a major work simplification program; 44 percent are working on one.
- Design thinking, work redesign, and technology replacement are becoming critical programs for HR and business leaders seeking to simplify work practices and systems.

**L**AST year's *Global Human Capital Trends* chapter on “the overwhelmed employee” became one of the most popular articles Deloitte has ever published—a sign that the phenomenon was hitting organizations even faster and harder than we thought.<sup>1</sup> The capability gaps we observed with regard to the simplification of work (figure 1) reinforce the importance of the issue of the overwhelmed employee. In this year's research, we explored if organizations were doing anything to address this concern.

Consider some data: In one day more than 100 billion emails are exchanged, yet only one in seven is critically important.<sup>2</sup> The average employee now spends over one-quarter of the workday reading and answering emails.<sup>3</sup> People now check their mobile phones more than 150 times a day.<sup>4</sup> And a new study by the National Journal found that 40 percent of workers believe it is not possible to succeed at work, make a good living, and have enough time to contribute to family and community.<sup>5</sup>

There are many reasons for work overload: always-on technology, global 24/7 demands, and the proliferation of messaging and social

tools we have at our fingertips. But another important driver is complexity in work practices, business processes, and jobs. In this year's survey, 74 percent of all respondents (including those at small companies) rated their work environment as either “complex” or “highly complex” (figure 2).

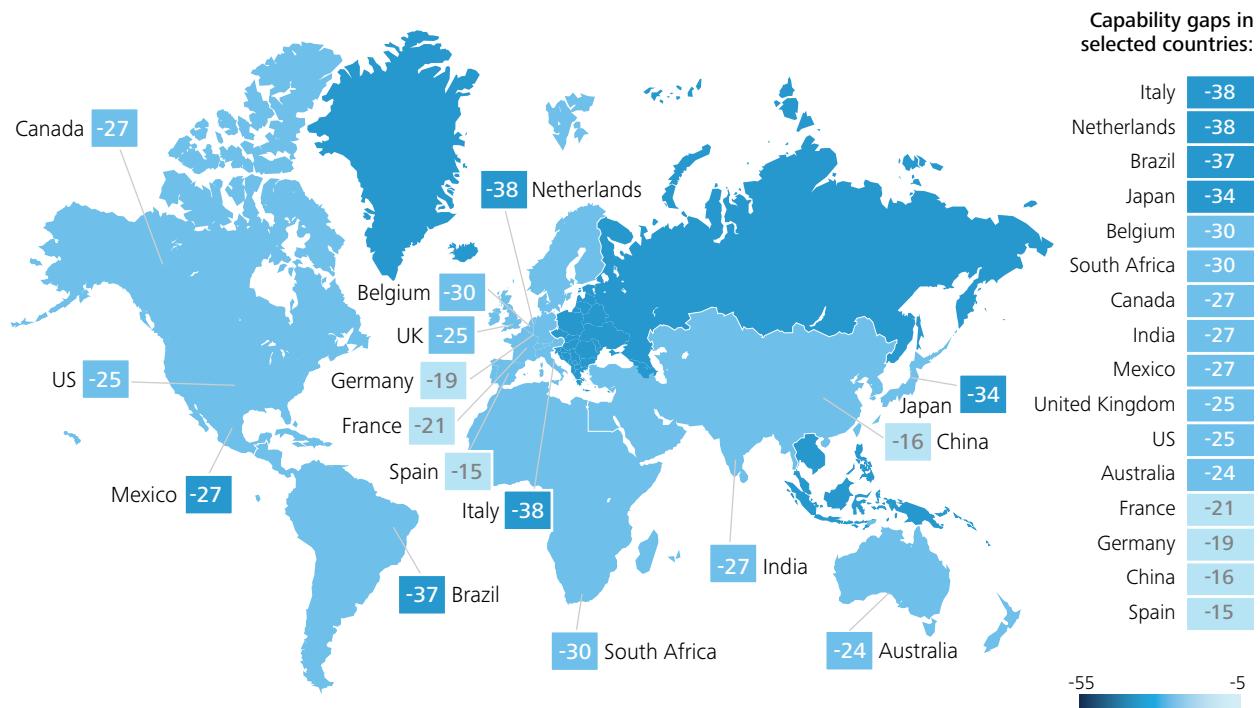
We see five primary drivers for this trend:

- **Pervasive technology and connectivity:** Life, family, and work are all blending together as our mobile devices deliver constant access to work information. While filtering and sorting tools are coming, most employees are flooded with too much random information. By nature, people become addicted to this stimulus, feeding a vicious cycle of “always feeling like we're at work.”<sup>6</sup>
- **Complexity in technology:** New technology features arrive faster than most people can learn to use them. The ever-increasing focus on technology for the sake of technology has come to an end: The simplest products are the ones now most widely

used. HR software buyers today want systems with fewer features and less complexity, not more.<sup>7</sup> Yet simplification for users

at the front end usually adds complexity at the back end when multiple systems are combined.

**Figure 1. Simplification of work: Capability gap by region**



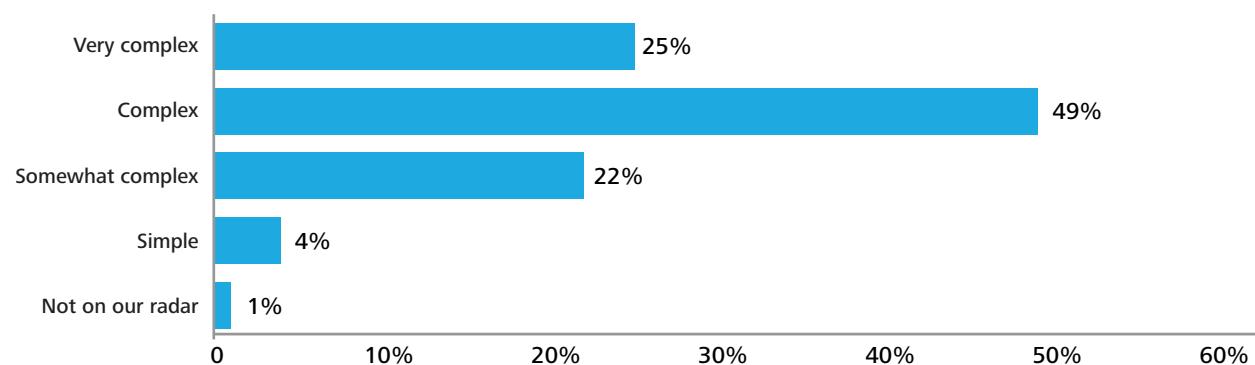
**Capability gaps by region:**

Americas		Europe, Middle East, and Africa					Asia-Pacific												
North America	-25	Latin & South America	-27	Nordic countries	-28	Western Europe	-24	Central & Eastern Europe	-31	Middle East	-29	Africa	-30	Asia	-25	Oceania	-25	Southeast Asia	-31

The Deloitte Human Capital Capability Gap is a research-based score that shows HR's relative capability gap by looking at the difference between respondents' average "readiness" and "importance" ratings for each trend, indexed on a 0–100 scale. It is computed by taking the "readiness" index score and subtracting the "importance" index score. For example, a trend with a readiness index score of 50 and an importance index score of 80 would produce a capability gap of -30. Negative values suggest a shortfall in capability, while positive values suggest a capability surplus.

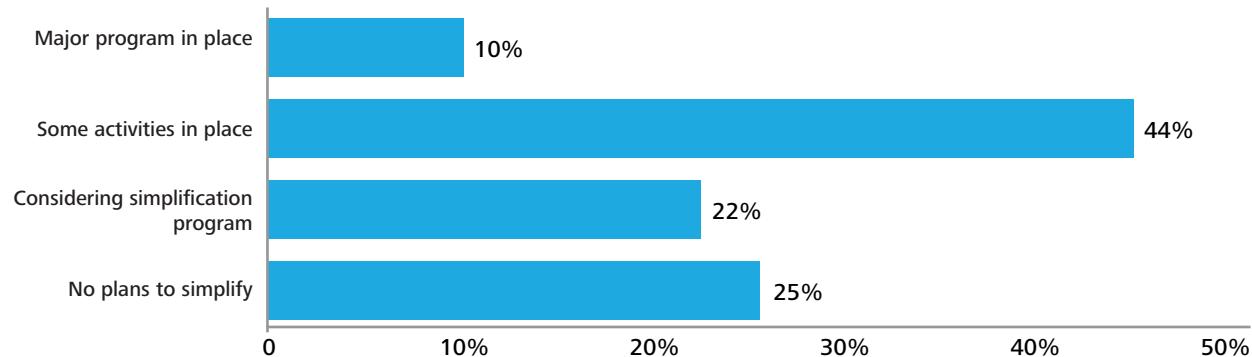
Graphic: Deloitte University Press | DUPress.com

**Figure 2. Respondents' assessment of their workplace's complexity**



Note: Percentages may not total 100 percent due to rounding.

Graphic: Deloitte University Press | DUPress.com

**Figure 3. Respondents' simplification programs and plans**

Note: Percentages may not total 100 percent due to rounding.

Graphic: Deloitte University Press | DUPress.com

- **Globalization:** Most companies, even small businesses, have clients, partners, and suppliers around the world. Projects, conference calls, meetings, and emails happen at all hours of the day and night.
- **Increased administrative and compliance demands:** Workers worldwide face increasing administrative and compliance headaches that demand time and engagement. Deloitte Australia found that 1 out of 11 people in Australia now works in a compliance role—more than are employed in the country's entire mining industry.<sup>8</sup> One bank noted that its compliance costs tripled to \$265 million in the last three years, in part due to the need to file 3,150 reports totaling 80,000 pages.
- **Overly complex business processes and systems:** Business and HR processes have become too complex. Adobe found that its performance management process was so complex it took almost 1.8 million person-hours per year to complete.<sup>9</sup> A large manufacturer reported that more than 4,000 different tasks, rules, compliance processes, and procedures were required to build one of its major products.<sup>10</sup>

Happily, change is coming. From IDEO's redesign of the shopping cart to transformations brought about by Uber, AirBnB, and

Open Table, whole industries are being rocked by dynamic technological and design innovations aimed at simplifying the way we live. To think that this trend will not happen in the workplace is likely wrong. So for many businesses, it's time to rethink the underlying model of how work gets done—before competitors do.

How can work be simplified, making systems easy to use? Some work will—and should—simply go away, like the plethora of unread, unnecessary emails. More broadly, HR should be the catalyst for the entire organization to declutter,<sup>11</sup> advising the business on how to save time and reduce the number of emails and meetings. HR's role should not simply be to implement talent management practices, but to make people more productive and enhance their level of engagement with the firm.

Some steps are already being taken. Some companies are now waking up to the need to simplify the work environment, reduce workload, eliminate steps, and engineer simpler applications that do not require a great deal of training or time to use. Our survey found that 10 percent of companies have programs to simplify work practices and 44 percent are planning to build such programs—indicating that just over 5 in 10 organizations are directly trying to address this challenge (see figure 3).

Recognizing that we can't slow the proliferation of technology, companies are now

embracing practices to stop emails on weekends, implement simpler tools, and even penalize people for sending emails while on vacation. Coca-Cola, to cite one example, recently shut down voice mail to “simplify the way we work and increase productivity.”<sup>12</sup> Company leaders are asked to model behaviors that help people slow down and think. Google, for example, has published a manifesto on “nine rules for email” to help internal teams stay productive.<sup>13</sup>

Some companies are starting to treat “time capital” with the same seriousness as financial capital.<sup>14</sup> One approach is to cut back on the seemingly endless rounds of meetings and conference calls. This serves the dual purpose of increasing efficiency and creating a calmer, more relaxed environment where employees can actually think. Recent psychological research suggests that multitasking could be changing the structure of our brains by wearing away the grey matter, which is the part of the brain that processes information.<sup>15</sup>

Flexible working conditions and extended benefit policies also reduce worker stress, as can open work environments that promote more relaxed person-to-person interactions. Research suggests that people are more productive, more relaxed, and more engaged when they personally interact with their peers.

Simplification may be one of the most important and underutilized tools in an organization’s arsenal. The opportunity can lie both in simplifying the work environment and in simplifying the work itself. In 2015, companies should continue to take steps to streamline work, reduce administrative burdens, and simplify complex processes. Companies can “simplify” without being “simplistic”—and the entire organization can benefit as a result.<sup>16</sup>

## Lessons from the front lines

GE, a company that is used to reinventing itself, has implemented a strategic focus on simplification over the last several years. The company builds complex products; yet

increasingly, employees and customers were noting that the company itself had become too complex: Customer outcomes were slowing as processes grew burdensome. A more nimble, entrepreneurial approach was needed. Led by Jeff Immelt, the CEO, simplification is now an integrated part of GE’s strategy, encompassing lean management, speed and competitiveness, commercial intensity, and digital capability. Simplification represents a cultural as well as a structural transformation.

First, GE is asking leaders to implement lean management: remove layers, increase spans of control, and reduce the number of checks and approvals needed to get things done. Wherever there is complexity and duplication, shared services are being created. The company is also making work easier by implementing new digital technologies that make employees more productive wherever possible.

Second, GE has developed a holistic program called FastWorks. FastWorks, which is based on the lean start-up methodology, involves a new way of working that begins with an intensified focus on—and understanding of—customer needs. Experimenting and iterating quickly to create solutions that add value or create value are hallmarks of the approach. FastWorks is being used throughout GE to help teams move faster, bring GE closer to customers, and to maintain a high level of customer input and involvement across the product lifecycle.

Third, GE is implementing a set of mindset, belief, and behavioral changes to help leaders and employees reduce complexity and to create a new culture within GE. The culture of simplification is coming to life through a set of new “GE Beliefs,” which are focused on delivering fast, better solutions to customers. The GE Beliefs, created through a crowdsourcing process within GE, are:

- Customers determine our success
- Stay lean to go fast
- Learn and adapt to win

- Empower and inspire each other
- Deliver results in an uncertain world

The GE Beliefs play a large role in leadership development and are also used to change how GE recruits, how it manages and leads, and how its people are evaluated and developed.

Fourth, GE has recently redesigned its performance management process, with an emphasis on agility, continuous discussions, and customer outcomes. Today, rather than targeting goals, managers emphasize priorities, helping employees continuously adapt and channel their efforts to the most important customer needs. The old world told people to “do more with less.” Today, GE tells its people to “do fewer things better.” This freedom and support to continuously focus, spend time with customers, and avoid trying to do too many things at once is core to GE’s new management process (renamed Performance Development), bringing simplification to the work life of every employee.

For GE, simplification is now part of its new culture. The focus on simplification is helping employees to focus as well as helping the company to operate faster, compete more vigorously, reduce costs, and improve quality.

## Where companies can start

- **Make simplification a business and HR priority.** Start by creating a team focused on simplifying the work environment.

Acknowledge the problem and agree on the need to simplify work. Ask employees about time-wasting and complex processes, and develop a business case to justify redesign. Ensure that HR is involved in any discussions about simplifying work.

- **Get email and unproductive meetings under control.** Reducing the number of emails, meetings, and conference calls gives people a calmer, more relaxed environment in which to work and think. Research also indicates that people who use their phones for email at night are less productive during the day.<sup>17</sup>
- **Invest in more integrated, simpler technology:** Major technology vendors now have programs to simplify their applications and tools. Both SAP and Oracle, for instance, go to market promoting the value of simplifying IT.<sup>18</sup> Rather than looking for more features, companies should evaluate software based in part on its ease of use.
- **Implement design thinking and process simplification within HR:** Design thinking is a new process that brings user interface designers, process experts, and graphics people together to make work systems more functional and easier to use. HR teams should serve as an organizational role model by removing steps and using design thinking to implement “just enough” process and technology to help people get the job done.<sup>19</sup>

## BOTTOM LINE

Technology, globalization, and compliance needs continuously add complexity to work. Left unaddressed, this can lead to an organizational environment that damages employee engagement, lowers quality, and reduces innovation and customer service. At the same time, technology and design thinking are converging in a way that offers significant opportunities to get ahead of the curve. Business and HR leaders should put “simplification” on the agenda for 2015 and focus on individual, organizational, and work-specific programs that reduce complexity and help people focus on what really matters.

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WELCOME!

# Machines as talent: Collaboration, not competition

- The increasing power of computers and software to perform cognitive tasks is challenging organizations to rethink the design of work and the capabilities their employees need to succeed.
- Nearly 6 out of 10 respondents surveyed rated this trend as “important” or “very important,” but fewer than 1 in 10 claim to have an excellent understanding of its implications.
- By staying abreast of changes in cognitive technologies and focusing on strategies to help redesign work, HR can drive productivity improvements and help people redefine their roles while maximizing the benefits of these new technologies.

**E**XCITING cognitive computing technologies are now able to perform many tasks once considered solely the domain of humans. Cognitive technologies such as speech recognition, computer vision, and machine learning are converging to produce machines that can talk, see, read, listen, and even learn by watching YouTube videos.<sup>1</sup>

Close to 60 percent of leaders in this year’s survey rated the issue of “machines as talent” “important” or “very important.” Yet, while many executives are interested, few have a strong grasp of the issue or its implications. Capability gaps around the issue are evident worldwide (figure 1). In fact, only 5 percent of executives surveyed believe they have a detailed understanding of how cognitive computing will impact their workforce (figure 2).

The impact of computing on work is not new, but it is accelerating. An Oxford University study that examined the impact of technology on hundreds of occupations in the United States found that nearly half of total US employment could potentially be automated over the next decade or two.<sup>2</sup>

The more radical changes are those brought on by cognitive computing—technologies that allow computers to replace tasks previously done by people. With these changes, work can become better, faster, and even safer.

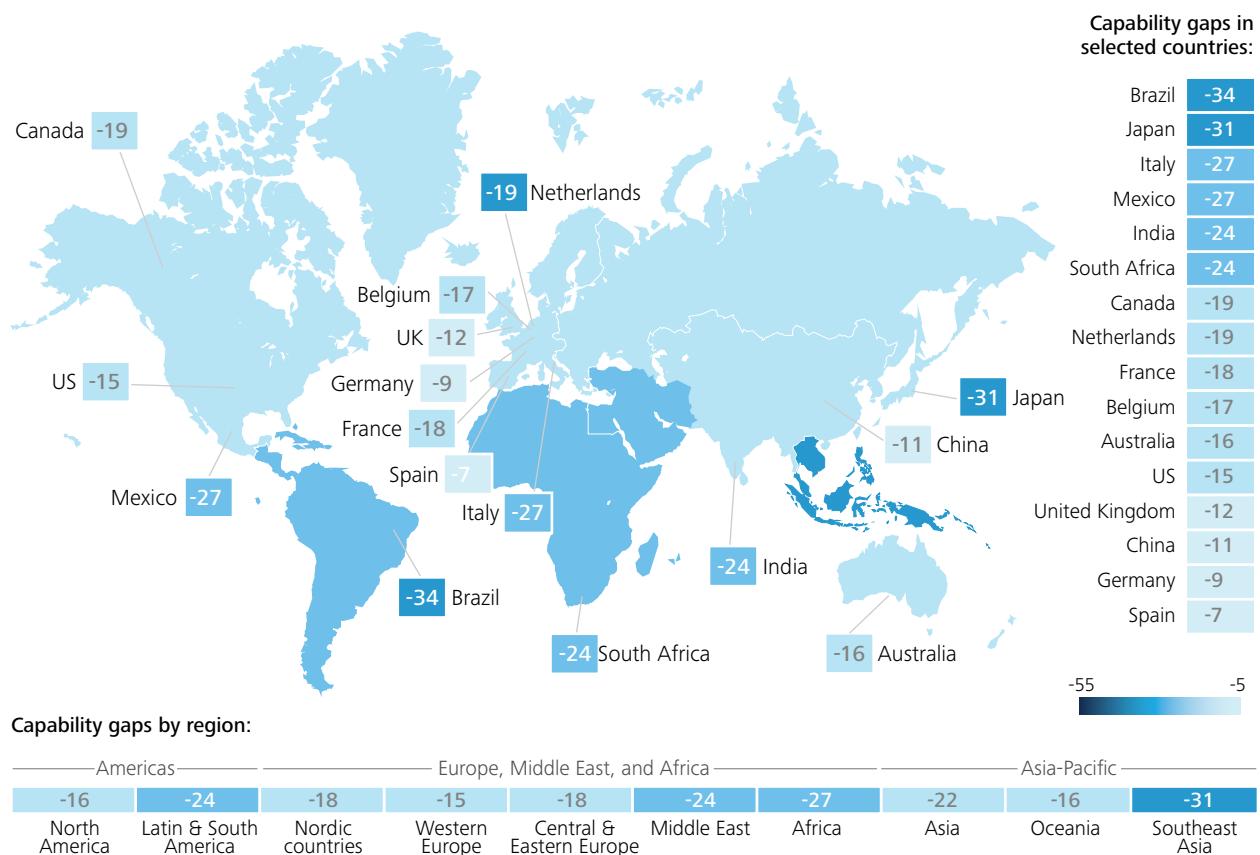
Today, health care workers, customer service agents, sales people, and even retail workers benefit from automation and cognitive technologies, helping them to diagnose and prescribe drugs more rapidly, solve problems, recommend the right product, or simply take an order. Some jobs are being eliminated and others are changing. In the coming era of human-machine collaboration, jobs, organizations, and management practices will need to be thoughtfully and deliberately redesigned. Job rotation will happen more quickly, with shorter lead times. Employees—as well as executives and managers—will need to acquire new skills.

An emerging theme in this area is the idea that machines are collaborators, not competitors, in the workplace. Consider, for instance, Associated Press (AP), which is implementing a system to automate the writing of corporate earnings reports. AP’s goal was not

to put journalists out of work but rather to increase—by a factor of over 10—the number of companies it covers, from 300 to 4,400.

In other words, AP's scale and reach has increased without increasing its need for labor. Reporters, for their part, can now concentrate

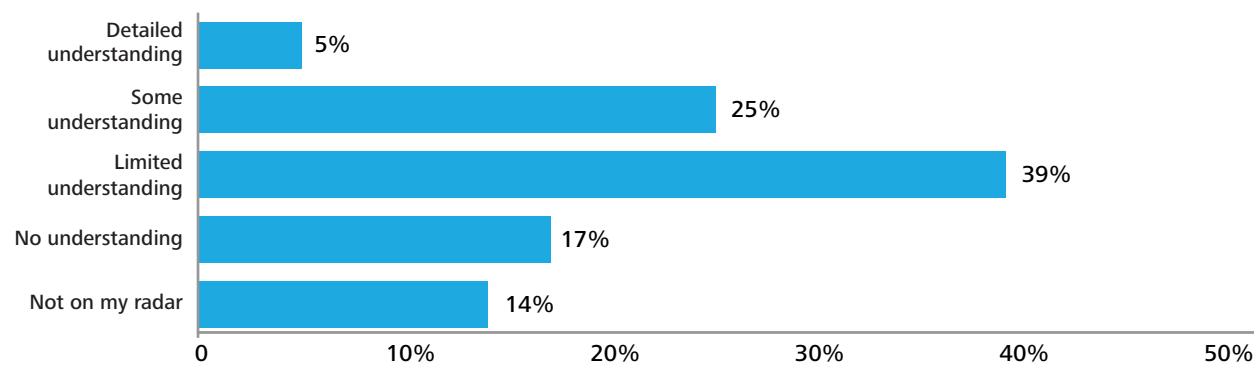
**Figure 1. Machines as talent: Capability gap by region**



The Deloitte Human Capital Capability Gap is a research-based score that shows HR's relative capability gap by looking at the difference between respondents' average "readiness" and "importance" ratings for each trend, indexed on a 0–100 scale. It is computed by taking the "readiness" index score and subtracting the "importance" index score. For example, a trend with a readiness index score of 50 and an importance index score of 80 would produce a capability gap of -30. Negative values suggest a shortfall in capability, while positive values suggest a capability surplus.

Graphic: Deloitte University Press | DUPress.com

**Figure 2. Respondents' understanding of thinking machines**



Graphic: Deloitte University Press | DUPress.com

on tasks that require more ingenuity and add more value than the routine drafting of earnings reports.<sup>3</sup> As Lou Ferrara of AP says, “This is about using technology to free journalists to do more journalism and less data processing, not about eliminating jobs.”

Similarly, as translation programs have become more efficient, the job of a translator has changed to become more like that of an editor.<sup>4</sup> E-discovery in litigation is performed with assistance from computers. Amazon is using robots more, redefining warehouse workers’ jobs.<sup>5</sup> And the list of examples goes on:

- An insurance company allows customers to take photos of their auto accidents and submit them electronically to claims software, which accelerates the claims process.
- Barclays now validates the identity of callers through voice recognition instead of by asking them questions.<sup>6</sup>
- Automated fraud detection systems help service agents make more profitable decisions with less extensive training.
- At Volkswagen, robots help manufacturing line workers do more work with fewer work-related injuries.<sup>7</sup>

As more types of knowledge and physical work continue to be displaced by technology, HR and talent leaders can play a major role in this transition.

Talent and learning teams need to understand technology and use “design thinking” as a way to integrate technology into the workplace. By leading the process of “job redesign,” developing hard-hitting training programs, and working with technologists on the implementation of new technology, talent and HR leaders can help ease the transition of these technologies into the workforce and improve productivity and engagement as a result.



## Lessons from the front lines

Recent efforts by the health benefits company Anthem, previously Wellpoint, to develop a leading integrated health care platform provide an example of how collaboration between people and machines can advance business goals. Anthem’s platform links data from a variety of sources using a cognitive computer system, allowing employees to more effectively administer customer benefits while reducing overall costs.

In the past, nurse practitioners spent hundreds of thousands of hours analyzing whether proposed treatments were consistent with Anthem’s policies. These decisions involve detailed knowledge of medical science, patient history, and the prescribing doctor’s treatment rationale. Now, the process is partially automated by a cognitive computing system that uses hypothesis generation and evidence-based learning to generate confidence-scored recommendations that help nurses make faster decisions about treatment requests. Over time, confidence ratings in the system, as well as its accuracy, have improved. For some outpatient

requests, in fact, the system can automatically approve requests. Throughout the process, Anthem “teaches” the system how to recognize the organization’s guidelines and policies. As one Anthem executive noted, “The more we taught, the faster the cognitive platform learned.”

## Where companies can start

- **Explore and learn:** Invest the time and effort to learn about how cognitive technologies can impact business, jobs, and productivity. This is a ripe area for applied research and development within HR as well as with business units and technology teams. What cognitive technologies and advanced robotics solutions are currently being used, and what is on the horizon? The speed of technological innovation means that techniques that appear to be years in the future are coming online faster than ever. The opportunity for HR and business leaders to improve their “sensing” and
- **Share experiences:** Given the scope and speed of advances in cognitive technologies and robotics, there are opportunities for business and HR teams to collaborate with universities, technology companies, and industry suppliers and partners to understand what is coming and identify ways of working beyond the enterprise.
- **Experiment with new job models:** Find opportunities to pilot cognitive technologies and present leaders with options for creating value with them.
- **Evaluate what does and does not work:** Review and analyze new combinations of technologies and robotics and their impact on job design, productivity, and worker satisfaction. Conduct analyses of how these technologies improve, or diminish, both productivity and employee engagement.

## BOTTOM LINE

As cognitive technologies truly take hold in the next decade, it is important for business and HR leaders to be proactive and get ahead of this trend. Business and HR leaders should look beyond the alarmist hype of predictions that employees are doomed to be replaced by thinking machines and advanced robotics. HR’s role is to focus on the opportunities cognitive technologies offer through collaboration between people and machines to make companies more efficient, productive, and profitable, and jobs more meaningful and engaging. Both business leaders and HR professionals should seize this opportunity to think creatively in helping their organizations take full advantage of emerging cognitive technologies.

quickly get up to speed on these advances represents potentially significant frontiers in productivity and work and job design.

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# Acknowledgements

*Global Human Capital Trends 2015* is the product of a worldwide team working over the past year, including hundreds of contributors from across the Deloitte network and the counsel and input of our clients.

## Special thanks

**Julie May** for directing the Global Human Capital trends program. You seamlessly stitched together the various threads of the project, including managing dozens of country champions and an editorial team with more than 70 authors and contributors, to deliver a truly global survey and report. We appreciate your vision for the end product, your ability to juggle the many details of a truly multifaceted project, and your tenacity and grace.

**Ben Dollar, Jen Stempel, Gregory Vert, Elizabeth Lisowski, and Hunter Wilcox** for leading the Global Human Capital Trends program management office. Thanks to **David Lee** and **Tom Atkinson** for detailed research support. We are also grateful to **Catherine Madden** and **Dan Henebery** for driving the enhancements of the human capital dashboard to facilitate deeper exploration of the survey findings.

**Junko Kaji, Matthew Lennert, Emily Koteff-Moreano**, and the incredible Deloitte University Press team, led by **Jon Warshawsky**, for their editorial and design skills. You pushed us to sharpen our thinking and to deliver (we trust) sharper messages and practical insights.

**Christy Hodgson, Alice Worsham, and Haley Pearson** for leading our integrated marketing program, developing a series of initiatives to share the global report and survey through a growing web of digital, traditional marketing, and social media channels. Thanks to **Melissa Doyle** and **Marielle Legair** for managing the public relations programs.

The 2015 partner and director Global Human Capital Trends advisory council: **Cathy Benko, Dave Foley, John Hagel, Tom Hodson, David Mallon, Jaime Valenzuela, Ardie van Berkel, Michael Stephan, Heather Stockton, and Jungle Wong**. Thank you for your input throughout the process of identifying the trends and shaping the report.

Finally, a heartfelt thank you to **Brett Walsh** and **Jason Geller**, the global and US leaders of our Human Capital practices. We are grateful for your unwavering leadership, support, and counsel throughout this journey.

# Acknowledgements (cont.)

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### Performance management: The secret ingredient

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### Reinventing HR: An extreme makeover

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### HR and people analytics: Stuck in neutral

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